

LILLY ELI & CO  
Form 10-Q  
July 26, 2013

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
Quarterly Report Under Section 13 or 15(d) of the  
Securities Exchange Act of 1934

FOR THE QUARTER ENDED JUNE 30, 2013

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

INDIANA

(State or other jurisdiction of  
incorporation or organization)

35-0470950

(I.R.S. Employer  
Identification No.)

LILLY CORPORATE CENTER, INDIANAPOLIS, INDIANA 46285

(Address of principal executive offices)

Registrant's telephone number, including area code (317) 276-2000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

The number of shares of common stock outstanding as of July 20, 2013:

Class	Number of Shares Outstanding
Common	1,126,637,846

### Forward-Looking Statements

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

In particular, information appearing under “Management's Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we (“Lilly” or the “company”) 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.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2012 and all subsequently filed Quarterly Reports on Form 10-Q, particularly under the captions “Forward-Looking Statements” and “Risk Factors.”

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

## PART I. Financial Information

## Item 1. Financial Statements

## Consolidated Condensed Statements of Operations

(Unaudited)

## ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(Dollars in millions, except per-share data)			
Revenue	\$5,929.7	\$5,600.7	\$11,531.7	\$11,202.7
Cost of sales	1,165.2	1,146.7	2,323.5	2,344.6
Research and development	1,330.4	1,320.7	2,678.5	2,472.2
Marketing, selling, and administrative	1,867.6	1,931.1	3,519.6	3,778.6
Asset impairments, restructuring, and other special charges (Note 5)	63.5	—	85.2	23.8
Other – net, (income) expense (Note 14)	(11.9	) 16.5	(541.1	) 62.5
	4,414.8	4,415.0	8,065.7	8,681.7
Income before income taxes	1,514.9	1,185.7	3,466.0	2,521.0
Income taxes (Note 10)	308.7	262.1	711.8	586.3
Net income	\$1,206.2	\$923.6	\$2,754.2	\$1,934.7
Earnings per share – basic (Note 9)	\$1.12	\$0.83	\$2.54	\$1.73
Earnings per share – diluted (Note 9)	\$1.11	\$0.83	\$2.53	\$1.73
Dividends paid per share	\$0.49	\$0.49	\$0.98	\$0.98

See Notes to Consolidated Condensed Financial Statements.

Consolidated Condensed Statements of Comprehensive Income  
(Unaudited)  
ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Net income	\$1,206.2	\$923.6	\$2,754.2	\$1,934.7
Other comprehensive income (loss), net of tax (Note 13)	65.7	(385.0)	(151.6)	(75.6)
Comprehensive income	\$1,271.9	\$538.6	\$2,602.6	\$1,859.1

See Notes to Consolidated Condensed Financial Statements.

Consolidated Condensed Balance Sheets  
ELI LILLY AND COMPANY AND SUBSIDIARIES

	June 30, 2013	December 31, 2012	
	(Dollars in millions)		
	(Unaudited)		
Assets			
Current Assets			
Cash and cash equivalents (Note 6)	\$3,786.5	\$4,018.8	
Short-term investments (Note 6)	924.5	1,665.5	
Accounts receivable, net of allowances of \$107.2 (2013) and \$108.5 (2012)	3,579.1	3,336.3	
Other receivables	634.9	552.0	
Inventories	2,725.4	2,643.8	
Prepaid expenses and other	988.9	822.3	
Total current assets	12,639.3	13,038.7	
Other Assets			
Investments (Note 6)	6,561.4	6,313.3	
Goodwill and other intangibles – net (Note 3)	4,508.5	4,752.7	
Sundry	1,880.1	2,534.0	
Total other assets	12,950.0	13,600.0	
Property and Equipment			
Land, buildings, equipment, and construction-in-progress	15,037.9	14,918.0	
Less accumulated depreciation	(7,401.2	) (7,157.8	)
Property and equipment, net	7,636.7	7,760.2	
Total assets	\$33,226.0	\$34,398.9	
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term borrowings and current maturities of long-term debt	\$1,023.2	\$11.9	
Accounts payable	1,141.0	1,188.3	
Employee compensation	671.3	940.3	
Sales rebates and discounts	1,797.5	1,777.2	
Dividends payable	527.0	541.4	
Income taxes payable	37.3	143.5	
Deferred income taxes	913.6	1,048.0	
Other current liabilities	2,297.6	2,738.9	
Total current liabilities	8,408.5	8,389.5	
Other Liabilities			
Long-term debt	4,290.8	5,519.4	
Accrued retirement benefits (Note 11)	2,621.7	3,012.4	
Long-term income taxes payable (Note 10)	1,410.6	1,334.3	
Other noncurrent liabilities	1,258.0	1,369.4	
Total other liabilities	9,581.1	11,235.5	
Shareholders' Equity (Notes 7 and 8)			
Common stock	704.7	716.6	
Additional paid-in capital	4,969.6	4,963.1	
Retained earnings	16,608.6	16,088.2	
Employee benefit trust	(3,013.2	) (3,013.2	)
Accumulated other comprehensive loss (Note 13)	(3,948.7	) (3,797.1	)
Noncontrolling interests	9.0	8.7	

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Cost of common stock in treasury	(93.6	) (192.4	)
Total shareholders' equity	15,236.4	14,773.9	
Total liabilities and shareholders' equity	\$33,226.0	\$34,398.9	

See Notes to Consolidated Condensed Financial Statements.

Consolidated Condensed Statements of Cash Flows  
(Unaudited)  
ELI LILLY AND COMPANY AND SUBSIDIARIES

	Six Months Ended June 30,	
	2013	2012
	(Dollars in millions)	
Cash Flows from Operating Activities		
Net income	\$2,754.2	\$1,934.7
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and amortization	745.4	747.9
Change in deferred income taxes	198.9	150.7
Stock-based compensation expense	68.8	65.8
Income related to transfer of exenatide rights (Note 4)	(495.4	) —
Other changes in operating assets and liabilities, net of acquisitions and divestitures	(1,271.5	) (759.8
Other operating activities, net	16.2	19.2
Net Cash Provided by Operating Activities	2,016.6	2,158.5
Cash Flows from Investing Activities		
Net purchases of property and equipment	(294.3	) (310.2
Proceeds from sales and maturities of short-term investments	1,981.9	1,385.3
Purchases of short-term investments	(515.6	) (776.6
Proceeds from sales and maturities of noncurrent investments	5,463.2	2,451.3
Purchases of noncurrent investments	(6,476.1	) (3,476.6
Purchase of product rights	—	(67.9
Cash paid for acquisitions, net of cash acquired	—	(199.3
Other investing activities, net	(55.7	) (43.6
Net Cash Provided by (Used for) Investing Activities	103.4	(1,037.6
Cash Flows from Financing Activities		
Dividends paid	(1,064.1	) (1,095.0
Net change in short-term borrowings	—	(6.7
Repayment of long-term debt	(1.7	) (1,508.0
Purchases of common stock	(1,198.1	) —
Net Cash Used for Financing Activities	(2,263.9	) (2,609.7
Effect of exchange rate changes on cash and cash equivalents	(88.4	) (87.9
Net decrease in cash and cash equivalents	(232.3	) (1,576.7
Cash and cash equivalents at January 1	4,018.8	5,922.5
Cash and Cash Equivalents at June 30	\$3,786.5	\$4,345.8
See Notes to Consolidated Condensed Financial Statements		

Notes to Consolidated Condensed Financial Statements

(Tables present dollars in millions, except per-share data)

Note 1: Basis of Presentation

We have prepared the accompanying unaudited consolidated condensed financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States (GAAP). In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for a fair presentation of the results of operations for the periods shown. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012. We issued our financial statements by filing with the SEC and have evaluated subsequent events up to the time of the filing.

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

Note 2: Implementation of New Financial Accounting Pronouncements

There are no new accounting pronouncements that have had or will have a material impact on our consolidated condensed financial statements.

Note 3: Acquisitions

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

Note 4: Collaborations

We often enter into collaborative arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These collaborations often require milestone and royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements or payments to the third party. Revenues related to products we sell pursuant to these arrangements are included in net product sales, while other sources of revenue (e.g., royalties and profit-share payments) are included in collaboration and other revenue. Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments made to or reimbursements received from our collaboration partners. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

The following table summarizes the composition of our total revenue recognized from all transactions, including collaboration activity:

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net product sales	\$5,759.9	\$5,455.5	\$11,208.4	\$10,869.3
Collaboration and other revenue	169.8	145.2	323.3	333.4
Total revenue	\$5,929.7	\$5,600.7	\$11,531.7	\$11,202.7

Exenatide

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

Commercial operations were transferred to Amylin in the U.S. at the end of November 2011. Outside the U.S., we transferred to Amylin exenatide commercial rights and control in all markets during the first quarter of 2013. Payments received from Amylin were allocated 65 percent to the U.S., which was treated as a contract termination, and 35 percent to the business outside the U.S., which was treated as the disposition of a business. The allocation was based upon relative fair values. The revenue-sharing income allocated to the U.S. was recognized as collaboration and other revenue, consistent with our policy for royalty revenue, while the income related to the prepayment of Amylin's obligation allocated to the U.S. was recognized in other-net, (income) expense. All income allocated to the business outside the U.S. that was transferred during the first quarter of 2013 was recognized as a gain on the disposition of a business in other-net, (income) expense, net of the goodwill allocated to the business transferred.

Prior to termination of the collaboration, we and Amylin were co-promoting Byetta in the United States. Amylin was responsible for manufacturing and primarily utilized third-party contract manufacturers to supply Byetta. We supplied Byetta pen delivery devices for Amylin and will continue to do so for a period that will not extend beyond December 31, 2013. We were responsible for certain development costs related to certain clinical trials outside the U.S. that we were conducting as of the date of the termination agreement as well as commercialization costs outside the U.S. until the commercial rights were transferred to Amylin.

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

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net product sales	\$21.0	\$53.1	\$85.1	\$101.6
Collaboration and other revenue	—	14.1	—	65.4
Total revenue	\$21.0	\$67.2	\$85.1	\$167.0
Income related to transfer of exenatide commercial rights <sup>(1)</sup>	\$—	\$—	\$495.4	\$—

<sup>1</sup> Presented in other-net, (income) expense

#### Erbitux®

We have several collaborations with respect to Erbitux. The most significant collaborations are in the U.S., Japan, and Canada (Bristol-Myers Squibb Company); and worldwide except the U.S. and Canada (Merck KGaA). The agreements are expected to expire in 2018, upon which all of the rights with respect to Erbitux in the U.S. and Canada return to us and certain rights with respect to Erbitux outside the U.S. and Canada (excluding Japan) remain with Merck KGaA (Merck).

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net product sales	\$12.5	\$28.7	\$37.7	\$62.7
Collaboration and other revenue	79.3	81.4	148.9	160.6
Total revenue	\$91.8	\$110.1	\$186.6	\$223.3

#### Bristol-Myers Squibb Company

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

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

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

#### Merck KGaA

A development and license agreement with Merck with respect to Erbitux granted Merck exclusive rights to market Erbitux outside of the U.S. and Canada, and co-exclusive rights with BMS and us in Japan. Merck also manufactures Erbitux for supply in its territory. We receive a royalty on the sales of Erbitux outside of the U.S. and Canada, which is included in collaboration and other revenue as earned. Collaborative reimbursements received for research and development and for marketing, selling, and administrative expenses are recorded as a reduction to the respective expense line items on the consolidated condensed statement of operations. Royalty expense paid to third parties, net of any royalty reimbursements received, is recorded as a reduction of collaboration and other revenue.



#### Effient®

We are in a collaborative arrangement with Daiichi Sankyo Company, Limited (Daiichi Sankyo) to develop, market, and promote Effient. We and Daiichi Sankyo have agreed to co-promote in certain territories (including the U.S. and five major European markets), while we have exclusive marketing rights in certain other territories. Daiichi Sankyo has exclusive marketing rights in Japan and certain other territories. The parties share approximately 50/50 in the profits, as well as in the costs of development and marketing in the co-promotion territories. A third party manufactures bulk product, and we produce the finished product for our exclusive and co-promotion territories. We record product sales in our exclusive and co-promotion territories. In our exclusive territories, we pay Daiichi Sankyo a royalty specific to these territories. Profit-share payments made to Daiichi Sankyo are recorded as marketing, selling, and administrative expenses. All royalties paid to Daiichi Sankyo and the third-party manufacturer are recorded in cost of sales. Effient sales were \$137.4 million and \$111.0 million for the quarters ended June 30, 2013 and 2012, respectively, and \$253.2 million and \$226.9 million for the six months ended June 30, 2013 and 2012, respectively.

#### Diabetes Collaboration

In January 2011, we and Boehringer Ingelheim entered into a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Included are Boehringer Ingelheim's two oral diabetes agents, linagliptin and empagliflozin. Subsequently in 2011, linagliptin was approved and launched in the U.S. (trade name Tradjenta®), Japan (trade name Trazenta™), Europe (trade name Trajenta®), and other countries. Empagliflozin is currently under regulatory review in the U.S. and Europe. Also included in the agreement is our new insulin glargine product, which was submitted for regulatory review in Europe in June 2013, and an option granted to Boehringer Ingelheim to co-develop and co-commercialize our anti-TGF-beta monoclonal antibody, which is currently in Phase II clinical testing. Under the terms of the global agreement, we made an initial one-time payment to Boehringer Ingelheim of \$388.0 million and recorded an acquired in-process research and development (IPR&D) charge, which was included as expense in the first quarter of 2011 and was deductible for tax purposes.

In connection with the approval of linagliptin in the U.S., Japan, and Europe, in 2011 we paid \$478.7 million in success-based regulatory milestones, all of which were capitalized as intangible assets and are being amortized to cost of sales. We incurred milestone-related expenses of \$92.2 million in connection with regulatory submissions for empagliflozin in the U.S. and Europe during the first quarter of 2013. These regulatory submission milestones were recorded as research and development expenses. We may also pay up to 228.8 million euro in additional regulatory milestones for empagliflozin. In the future, we will be eligible to receive \$290.0 million in success-based regulatory milestones on our new insulin glargine product. Should Boehringer Ingelheim elect to opt in to the Phase III development and potential commercialization of the anti-TGF-beta monoclonal antibody, we would be eligible for up to \$525.0 million in opt-in and success-based regulatory milestone payments. The companies share ongoing development costs equally. The companies also share in the commercialization costs and gross margin for any product resulting from the collaboration that receives regulatory approval. We record our portion of the gross margin as collaboration and other revenue, and we record our portion of the commercialization costs as marketing, selling, and administrative expense. Each company will also be entitled to potential performance payments on sales of the molecules they contribute to the collaboration. Revenue related to this collaboration was \$54.8 million and \$13.1 million for the quarters ended June 30, 2013 and 2012, respectively, and \$97.4 million and \$25.9 million for the six months ended June 30, 2013 and 2012, respectively.

#### Solanezumab

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

#### Baricitinib

In December 2009, we entered into a worldwide license and collaboration agreement with Incyte Corporation (Incyte) to acquire development and commercialization rights to its JAK inhibitor compound, now known as baricitinib, and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. The agreement calls for payments of up to \$515.0 million associated with certain development and regulatory milestones as well as an additional \$150.0 million of potential sales-based milestones. Incyte also has the right to receive tiered, double-digit royalty payments on future global sales with rates ranging up to 20 percent if the product

is successfully commercialized. The agreement provides Incyte with options to co-develop these compounds on an indication-by-indication basis by funding 30 percent of the associated development costs from the initiation of a Phase IIb trial through regulatory approval in exchange for increased tiered royalties ranging up to percentages in the high twenties. The agreement also provides Incyte with an option to co-promote in the United States. In 2010, Incyte exercised its option to co-develop baricitinib in rheumatoid arthritis. We made development milestone payments of \$49.0 million in 2010 related to Phase II trials of baricitinib. Upon initiation of Phase III trials for the treatment of rheumatoid arthritis in the fourth quarter of 2012, we incurred an additional milestone-related expense of \$50.0 million. These milestone payments were recorded as research and development expenses.

#### Summary of Collaboration-Related Commission and Profit-Share Payments

The aggregate amount of commission and profit-share payments included in marketing, selling, and administrative expense pursuant to the collaborations described above was \$55.2 million and \$45.9 million for the quarters ended June 30, 2013 and 2012, respectively, and \$100.4 million and \$92.7 million for the six months ended June 30, 2013 and 2012, respectively.

#### Amortization of Intangible Assets

We record, as finite-lived intangible assets, the cost of milestone payments associated with products approved for marketing, as well as the cost of rights to assets approved for marketing that were acquired in business combinations. We also record finite-lived intangible assets for the cost of licensed platform technologies that have alternative future uses in research and development; manufacturing technologies; and customer relationships from business combinations. Amortization expense related to these finite-lived intangibles was \$145.2 million and \$133.1 million for the quarters ended June 30, 2013 and 2012, respectively, and \$291.3 million and \$280.8 million for the six months ended June 30, 2013 and 2012, respectively.

#### Note 5: Asset Impairments, Restructuring, and Other Special Charges

We recognized asset impairments, restructuring, and other special charges of \$63.5 million and no charges for the quarters ended June 30, 2013 and 2012, respectively, and \$85.2 million and \$23.8 million for the six months ended June 30, 2013 and 2012, respectively. The 2013 charges related primarily to costs associated with the anticipated closure of a packaging and distribution facility in Germany and to severance costs for actions the company is taking, primarily outside the U.S., to reduce its cost structure and global workforce. The 2012 charges primarily relate to a change in our estimates of returned product related to the withdrawal of Xigris<sup>TM</sup> from the market during the fourth quarter of 2011.

#### Note 6: Financial Instruments

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

#### Accounting Policy for Risk-Management Instruments

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

For derivative contracts that are designated and qualify as fair value hedges, the derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative contracts that are designated and qualify as cash flow hedges, the effective

portion of gains and losses on these contracts is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings.

Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized currently in earnings during the period of change.

We may enter into foreign currency forward contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, the British pound, and the Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other — net, (income) expense. We may enter into foreign currency forward contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months. At June 30, 2013, we had outstanding foreign currency forward commitments to purchase 895.3 million U.S. dollars and sell 680.1 million euro, commitments to purchase 192.7 million euro and sell 253.9 million U.S. dollars, commitments to purchase 323.0 million U.S. dollars and sell 31.21 billion Japanese yen, commitments to purchase 251.6 million British pounds and sell 293.4 million euro, and commitments to purchase 170.0 million euro and sell 145.1 million British pounds, which will all settle within 30 days.

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

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements. At June 30, 2013, substantially all of our total debt is at a fixed rate. We have converted approximately 60 percent of our fixed-rate debt to floating rates through the use of interest rate swaps.

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

#### The Effect of Risk-Management Instruments on the Consolidated Condensed Statement of Operations

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Fair value hedges:				
Effect from hedged fixed-rate debt	\$ 144.3	\$ 97.6	\$ 213.3	\$ 31.7
Effect from interest rate contracts	(144.3	) (97.6	) (213.3	) (31.7
Cash flow hedges:				
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	2.2	2.2	4.4	4.4
Net (gains) losses on foreign currency exchange contracts not designated as hedging instruments	(7.6	) 18.0	(7.5	) (14.8

The effective portion of net losses on equity contracts in designated cash flow hedging relationships recorded in other comprehensive income (loss) was \$10.1 million and \$8.9 million for the three and six months ended June 30, 2013, respectively. There were no equity contracts in designated cash flow hedging relationships in 2012.

During the next 12 months, we expect to reclassify from accumulated other comprehensive loss to earnings \$8.9 million of pretax net losses on cash flow hedges of the variability in expected future interest payments on our floating rate debt.

During the three and six months ended June 30, 2013 and 2012, net losses related to ineffectiveness, as well as net losses related to the portion of our risk-management hedging instruments, fair value hedges, and cash flow hedges that were excluded from the assessment of effectiveness, were not material.

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Fair Value of Financial Instruments

The following tables summarize certain fair value information at June 30, 2013 and December 31, 2012 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount and amortized cost of certain other investments:

Description	Carrying Amount	Amortized Cost	Fair Value Measurements Using			Fair Value
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2013						
Cash and cash equivalents	\$3,786.5	\$3,786.5	\$3,724.7	\$61.8	\$	\$3,786.5
Short-term investments:						
U.S. government and agencies	\$84.5	\$84.5	\$84.5	\$	\$	\$84.5
Corporate debt securities	838.3	836.3		838.3		838.3
Other securities	1.7	1.7		1.7		1.7
Short-term investments	\$924.5	\$922.5				
Noncurrent investments:						
U.S. government and agencies	\$1,083.7	\$1,090.9	\$1,001.2	\$82.5	\$	\$1,083.7
Corporate debt securities	3,948.4	3,978.1		3,948.4		3,948.4
Mortgage-backed	629.3	646.0		629.3		629.3
Asset-backed	353.5	358.8		353.5		353.5
Other securities	7.8	8.1		7.8		7.8
Marketable equity	262.4	100.9	262.4			262.4
Equity method and other investments <sup>(1)</sup>	276.3	276.3				
Noncurrent investments	\$6,561.4	\$6,459.1				
December 31, 2012						
Cash and cash equivalents	\$4,018.8	\$4,018.8	\$3,964.4	\$54.4	\$	\$4,018.8
Short-term investments:						
U.S. government and agencies	\$150.2	\$150.2	\$150.2	\$	\$	\$150.2
Corporate debt securities	1,503.5	1,501.5		1,503.5		1,503.5
Other securities	11.8	11.8		11.8		11.8
Short-term investments	\$1,665.5	\$1,663.5				
Noncurrent investments:						
U.S. government and agencies	\$1,362.7	\$1,360.3	\$1,122.4	\$240.3	\$	\$1,362.7
Corporate debt securities	3,351.3	3,322.9		3,351.3		3,351.3
Mortgage-backed	668.1	677.7		668.1		668.1
Asset-backed	519.0	523.5		519.0		519.0
Other securities	3.3	3.3		3.3		3.3
Marketable equity	175.8	83.0	175.8			175.8
	233.1	233.1				

Equity method and other  
investments<sup>(1)</sup>

Noncurrent investments	\$6,313.3	\$6,203.8
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<sup>1</sup> Fair value not applicable

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Description	Carrying Amount	Fair Value Measurements Using			Fair Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term debt, including current portion					
June 30, 2013	\$ (5,314.0 )	\$	\$ (5,638.1 )	\$	\$ (5,638.1 )
December 31, 2012	(5,531.3 )	)	(5,996.6 )	)	(5,996.6 )

Description	Carrying Amount	Fair Value Measurements Using			Fair Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2013					
Risk-management instruments					
Interest rate contracts designated as hedging instruments:					
Other receivables	\$ 12.4	\$	\$ 12.4	\$	\$ 12.4
Sundry	363.7		363.7		363.7
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	22.8		22.8		22.8
Other current liabilities	(5.4 )	)	(5.4 )	)	(5.4 )
Equity contracts designated as hedging instruments:					
Sundry	0.6		0.6		0.6
Other current liabilities	(7.3 )	)	(7.3 )	)	(7.3 )
Other noncurrent liabilities	(2.2 )	)	(2.2 )	)	(2.2 )

December 31, 2012

Risk-management instruments

Interest rate contracts designated as hedging instruments:

Sundry \$ 589.4 \$ 589.4 \$ 589.4

Foreign exchange contracts not designated as hedging instruments:

Other receivables 11.0 11.0  
 Other current liabilities (17.5 ) (17.5 ) (17.5 )

Risk-management instruments above are disclosed on a gross basis. There are various rights of setoff associated with certain of the risk-management instruments above that are subject to an enforceable master netting arrangement or similar agreements. Although various rights of setoff and master netting arrangements or similar agreements may exist with the individual counterparties to the risk-management instruments above, individually, these financial rights are

not material.

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

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The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of June 30, 2013:

	Maturities by Period				
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	\$ 6,942.8	\$ 924.5	\$ 4,836.0	\$ 448.8	\$ 733.5

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

	June 30, 2013	December 31, 2012
Unrealized gross gains	\$ 182.1	\$ 140.5
Unrealized gross losses	77.8	29.0
Fair value of securities in an unrealized gain position	2,768.3	5,246.0
Fair value of securities in an unrealized loss position	4,295.5	2,102.0

Other-than-temporary impairment losses on investment securities of \$5.2 million were recognized in the statement of operations for the six months ended June 30, 2013. No charges were recognized during the second quarter of 2013. Other-than-temporary impairment losses on investment securities of \$3.7 million and \$7.4 million were recognized in the statement of operations for the second quarter and first six months of 2012, respectively. For fixed-income securities, the amount of credit losses represents the difference between the present value of cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing the credit loss were the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration.

The securities in an unrealized loss position include fixed-rate debt securities of varying maturities. The value of fixed-income securities is sensitive to changes in the yield curve and other market conditions. Approximately 80 percent of the securities in a loss position are investment-grade debt securities. At this time, there is no indication of default on interest or principal payments for debt securities other than those for which an other-than-temporary impairment charge has been recorded. We do not intend to sell and it is not more likely than not we will be required to sell the securities in a loss position before the market values recover or the underlying cash flows have been received, and we have concluded that no additional other-than-temporary loss is required to be charged to earnings as of June 30, 2013.

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Proceeds from sales	\$ 3,587.6	\$ 1,251.9	\$ 6,939.7	\$ 3,635.3
Realized gross gains on sales	28.2	13.2	38.2	26.9
Realized gross losses on sales	5.4	2.5	7.9	5.2

Realized gains and losses on sales of investments are computed based upon specific identification of the initial cost adjusted for any other-than-temporary declines in fair value that were recorded in earnings.

#### Note 7: Stock-Based Compensation

Our stock-based compensation expense consists primarily of performance awards (PAs), shareholder value awards (SVAs), and restricted stock units (RSUs). We recognized pretax stock-based compensation cost of \$33.7 million and \$34.8 million for the quarters ended June 30, 2013 and 2012, respectively. During the first six months of 2013 and 2012, we recognized pretax stock-based compensation expense of \$68.8 million and \$65.8 million, respectively. PAs are granted to officers and management and are payable in shares of our common stock. The number of PA shares actually issued, if any, varies depending on the achievement of certain earnings per share targets over a



two-year period. PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the measurement period. As of June 30, 2013, the total remaining unrecognized compensation cost related to nonvested PAs amounted to \$36.7 million, which will be amortized over the weighted-average remaining requisite service period of approximately 15 months.

SVAs are granted to officers and management and are payable in shares of common stock at the end of a three-year period. The number of shares actually issued varies depending on our stock price at the end of the three-year vesting period compared to pre-established target prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. As of June 30, 2013, the total remaining unrecognized compensation cost related to nonvested SVAs amounted to \$76.8 million, which will be amortized over the weighted-average remaining requisite service period of approximately 24 months.

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically three years. As of June 30, 2013, the total remaining unrecognized compensation cost related to nonvested RSUs amounted to \$83.3 million, which will be amortized over the weighted-average remaining requisite service period of 25 months.

#### Note 8: Shareholders' Equity

During the first quarter of 2013, we purchased the remaining \$1.10 billion of shares associated with our previously announced \$1.50 billion share repurchase program.

#### Note 9: Earnings Per Share

Unless otherwise noted in the footnotes, all per-share amounts are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of all potentially dilutive common shares (primarily contingently issuable shares and unexercised stock options).

#### Note 10: Income Taxes

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

The U.S. examination of certain matters related to tax years 2008–2009 that were not settled as part of previous examinations remains in progress. Management believes it is reasonably possible the remaining 2008–2009 tax matters could be concluded within the next 12 months. However, resolution of these matters is still dependent upon a number of factors, including the potential for formal administrative and legal proceedings. As a result, it is not possible to estimate the range of the reasonably possible changes in unrecognized tax benefits that could occur within the next 12 months related to these years, nor is it possible to estimate reliably the total future cash flows related to these unrecognized tax benefits.

## Note 11: Retirement Benefits

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

	Defined Benefit Pension Plans			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	\$71.1	\$64.1	\$140.8	\$127.1
Interest cost	108.9	112.7	218.3	225.7
Expected return on plan assets	(174.8 )	(170.3 )	(349.7 )	(341.4 )
Amortization of prior service cost	2.6	0.8	5.2	1.7
Recognized actuarial loss	99.2	71.0	195.2	141.9
Net periodic benefit cost	\$107.0	\$78.3	\$209.8	\$155.0
	Retiree Health Benefit Plans			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	\$15.1	\$15.9	\$30.2	\$32.3
Interest cost	23.3	28.5	46.7	57.0
Expected return on plan assets	(32.7 )	(31.8 )	(65.5 )	(63.6 )
Amortization of prior service cost	(5.9 )	(8.8 )	(12.8 )	(17.5 )
Recognized actuarial loss	23.2	24.6	46.2	48.3
Net periodic benefit cost	\$23.0	\$28.4	\$44.8	\$56.5

On a global basis, we have contributed approximately \$50 million required to satisfy minimum funding requirements to our defined benefit pension plans in 2013. In addition, we have contributed approximately \$300 million of discretionary funding to our global post-retirement benefit plans in 2013. During the remainder of 2013, we expect to make contributions to our defined benefit pension plans of approximately \$10 million to satisfy minimum funding requirements. We do not anticipate making any additional discretionary contributions in 2013.

## Note 12: Contingencies

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

## Alimta Patent Litigation and Administrative Proceedings

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

In October 2010, we filed a lawsuit in the U.S. District Court for the Southern District of Indiana against Teva, APP, Pliva, and Barr seeking rulings that the patent is valid and infringed. Trial in this case is scheduled to begin in August 2013. In January 2012 and April 2012, we filed similar lawsuits in the same court against Accord and Apotex, respectively. A second lawsuit against Accord was filed in February 2013. The Accord and Apotex cases



have been consolidated by the court, with a trial scheduled in July 2014. In June 2013, Accord filed a petition requesting review of the patent by the U.S. Patent and Trademark Office, seeking a ruling that the claims in the patent are invalid. In addition, generic manufacturers have opposed the European Patent Office's decision to grant a vitamin dosage regimen patent, and are seeking revocation of that patent.

We believe the challenges to these patents are without merit and expect to prevail. However, it is not possible to determine the outcome of the challenges, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect that a loss of exclusivity for Alimta would result in a rapid and severe decline in future revenues in the relevant market.

#### Byetta Product Liability Litigation

We have been named as a defendant in approximately 170 Byetta product liability lawsuits involving approximately 550 plaintiffs. Approximately 85 of these lawsuits, covering about 465 plaintiffs, are filed in California and coordinated in a Los Angeles Superior Court. We are aware of approximately 460 additional claimants who have not yet filed suit. The majority of the claims allege damages for pancreatitis. A smaller number of claimants allege that Byetta caused or contributed to their pancreatic cancer. We believe these claims are without merit and are prepared to defend against them vigorously.

#### Diethylstilbestrol Product Liability Litigation

In approximately 80 U.S. lawsuits against us involving approximately 80 claimants, plaintiffs seek to recover damages on behalf of children or grandchildren of women who were prescribed diethylstilbestrol (DES) during pregnancy in the 1950s and 1960s. Approximately 75 of these claimants allege that they were indirectly exposed in utero to the medicine and later developed breast cancer as a consequence. We believe these claims are without merit and are prepared to defend against them vigorously.

#### Prozac® Product Liability Litigation

We have been named as a defendant in 10 U.S. lawsuits primarily related to allegations that the antidepressant Prozac caused or contributed to birth defects in the children of women who ingested the drug during pregnancy. We are aware of approximately 380 additional claims related to birth defects, which have not yet been filed. We believe these claims are without merit and are prepared to defend against them vigorously.

#### Brazil–Employee Litigation

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

#### Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability and related claims in the future. In the past several years, we have been unable to obtain product liability insurance due to a very restrictive insurance market. Therefore, for substantially all of our currently marketed products, we have been and expect that we will continue to be completely self-insured for product liability losses. The DES claims are covered by insurance, subject to deductibles and coverage limits. There is no assurance that we will be able to fully collect from our insurance carriers in the future.

Note 13: Other Comprehensive Income (Loss)

The following table summarizes the activity related to each component of other comprehensive income (loss) during the three months ended June 30, 2013:

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at April 1, 2013	\$ 80.8	\$ 90.5	\$ (4,086.7 )	\$ (99.0 )	\$ (4,014.4 )
Other comprehensive income (loss) before reclassifications	12.1	(23.0 )	5.3	(5.8 )	(11.4 )
Net amount reclassified from accumulated other comprehensive loss	—	(0.5 )	76.2	1.4	77.1
Net other comprehensive income (loss)	12.1	(23.5 )	81.5	(4.4 )	65.7
Balance at June 30, 2013	\$ 92.9	\$ 67.0	\$ (4,005.2 )	\$ (103.4 )	\$ (3,948.7 )

The following table summarizes the activity related to each component of other comprehensive income (loss) during the six months ended June 30, 2013:

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2013	\$ 426.8	\$ 72.5	\$ (4,195.2 )	\$ (101.2 )	\$ (3,797.1 )
Other comprehensive income (loss) before reclassifications	(333.9 )	(1.7 )	37.7	(5.1 )	(303.0 )
Net amount reclassified from accumulated other comprehensive loss	—	(3.8 )	152.3	2.9	151.4
Net other comprehensive income (loss)	(333.9 )	(5.5 )	190.0	(2.2 )	(151.6 )
Balance at June 30, 2013	\$ 92.9	\$ 67.0	\$ (4,005.2 )	\$ (103.4 )	\$ (3,948.7 )

The tax effect on the unrealized net losses on securities was a benefit of \$11.6 million and \$1.8 million for the second quarter and first six months of 2013, respectively. The tax effect related to our defined benefit pension and retiree health benefit plans was an expense of \$42.1 million and \$89.1 million for the second quarter and first six months of 2013, respectively. The tax effect on the effective portion of cash flow hedges was not significant for the second quarter and first six months of 2013. Income taxes were not provided for foreign currency translation.

Reclassifications Out of Accumulated  
Other Comprehensive Loss

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Affected Line Item in the Consolidated Condensed Statements of Operations
Amortization of defined pension benefit items:			
Prior service costs	\$ 3.3	\$ 7.6	(1)
Actuarial gains (losses)	(122.4)	(241.4)	(1)

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Total before tax	(119.1	)	(233.8	)
Tax benefit	42.9		81.5	
Net of tax	(76.2	)	(152.3	)
Other, net of tax	(0.9	)	0.9	Other—net, (income) expense
Total reclassifications for the period (net of tax)	\$(77.1	)	\$(151.4	)

<sup>1</sup> These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 11).

## Note 14: Other—Net, (Income) Expense

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Income related to transfer of exenatide commercial rights (Note 4)	\$—	\$—	\$(495.4)	\$—
Interest expense	40.3	43.0	80.6	88.3
Interest income	(29.7)	(27.2)	(53.3)	(53.3)
Other	(22.5)	0.7	(73.0)	27.5
Other—net, (income) expense	\$(11.9)	\$16.5	\$(541.1)	\$62.5

The increase in other—net, (income) expense for the first six months is primarily related to income recognized from the transfer to Amylin of exenatide commercial rights in all markets outside the United States during the first quarter of 2013. See Note 4 for additional information.

## Note 15: Segment Information

We operate in two business segments—human pharmaceutical products and animal health. Our business segments are distinguished by the ultimate end user of the product—humans or animals. Performance is evaluated based on profit or loss from operations before income taxes.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Segment revenue — to unaffiliated customers:				
Human pharmaceutical products:				
Neuroscience	\$2,004.5	\$1,824.5	\$3,853.4	\$3,728.2
Endocrinology	1,784.3	1,704.1	3,509.2	3,395.1
Oncology	808.1	846.8	1,572.3	1,650.6
Cardiovascular	731.3	646.9	1,425.3	1,284.9
Other pharmaceuticals	58.0	66.2	129.1	140.9
Total human pharmaceutical products	5,386.2	5,088.5	10,489.3	10,199.7
Animal health	543.5	512.2	1,042.4	1,003.0