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October 23, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Comments on Proposed Rule for Executive Compensation Disclosure – File No. S7-03-06 (Aug. 29, 2006)

Dear Ms. Morris:

On behalf of Eli Lilly and Company, I am writing to provide our comments on the above-referenced revised proposal to require compensation disclosure for up to three non-executive employees. We appreciate the opportunity to comment on the revised proposal. For the reasons stated below, we remain opposed to the provision and urge the Commission not to adopt it.

Lilly is a global research-based pharmaceutical company with over 40,000 employees and operations in over 120 countries. Our long-term success depends to a great extent on our ability to discover, develop and market innovative pharmaceuticals that meet important medical needs. This, in turn, depends on our ability to attract, retain and motivate highly talented scientific, technical, professional and managerial employees.

We believe the proposal, even as revised, would be harmful to public companies, their shareholders, and to the affected employees. Specifically, we believe the proposal:

- Would not provide material information to investors;
- Would invade employee privacy;
- Would undermine public companies' efforts to retain and motivate key employees; and
- Is unclear and would be difficult to implement.

Further, we do not believe that the additional modifications suggested in the reproposal would adequately address these problems.

The Proposed Rule Would Not Elicit Material Information

Because disclosure of individual compensation amounts is contrary to privacy rights and may cause other harms to the employer, any rule requiring its disclosure should be based on important public benefits. It is not enough that some investors may find the information interesting or even informative; it should only be disclosed if it is clearly material. For several reasons, we believe the proposed rule would not provide information that is material to investors.

1. *The information is not material to proxy solicitation, board of directors or corporate governance matters.* At Lilly and in public companies generally, the compensation of employees who are not executive officers is not determined by the board of directors or its compensation committee, but rather by management as a part of the company's normal business operations. Therefore, it implicates no corporate governance issues or other matters that are material to a vote on the election of directors (the underpinning for Regulation S-K Item 402 disclosures). The Commission suggests that the disclosures of specific non-executive compensation amounts may "assist in placing in context and permit a better understanding of the compensation structure of named executive officers and directors." We believe this is unnecessary in light of the extensive tabular and narrative disclosures that are called for under the new rules, and especially the Compensation Discussion and Analysis – the express purpose of which is to put into context the compensation of the named executive officers.

2. *The information is not material to operations.* It is extremely unlikely that the amounts of compensation involved could be material from a financial point of view. For example, the 2005 total compensation of the lowest-paid Lilly named executive officer (the threshold for disclosure under the proposed rule) was 0.01% of revenues and 0.1% of net income. This is obviously far below any materially threshold for management's discussion and analysis of results of operations and financial condition under S-K Item 303.

The Proposed Rule Would Invade Employee Privacy

Compensation information of private individuals is generally considered personal and highly confidential, and government regulations should respect personal privacy unless there is a compelling public interest in disclosure that outweighs individual privacy rights. As discussed above, compensation disclosure of non-executive employees will not elicit material information; any hypothetical value it may provide by supplying "additional context" to the material disclosures is outweighed by the by the very real harm to employees from disclosure of sensitive compensation information.

The Proposed Rule Would Undermine Employers' Efforts to Attract, Retain and Motivate Key Employees

As we stated in our initial comment letter, we are concerned about the competitive harm that this proposal could cause, and we do not believe the reproposal addresses our concerns. The reproposal calls for a specific disclosure of the job positions of the three individuals. Knowledgeable competitors or headhunters will often be able to quickly determine the identity of the individuals, and will use the compensation disclosures to formulate competitive offers. While the narrowing of covered employees in the reproposal may help entertainment companies, sports teams and financial service firms protect certain of their "talent," it will not help industrial companies protect their mid-level executives because of the breadth and uncertainty of the reach of the rule to all employees who "exert significant policy influence" within the company, a significant subsidiary, or principal business unit or function.

We are also concerned about the potential for the proposed rule to disrupt morale and motivation within companies. It is well known that employees are among the most careful readers of compensation disclosures in proxy statements. Because compensation of non-executive officers is not normally disseminated within an organization, these disclosures could create morale and retention problems among co-workers.

The Proposed Rule is Unclear and Would be Difficult to Implement

The proposed rule is very unclear in its attempt to define a group of employees who are not quite executive officers but who "exert significant policy influence by having responsibility for significant policy decisions." We share the concerns expressed by Jeffrey Katzenberg of DreamWorks Animation SKG in his letter of October 5, 2006, regarding the difficulty of interpreting and implementing the proposed rule in light of this confusing standard.

Conclusion

We believe the real harms that the proposed rule would cause – to employers and the affected employees – outweigh the speculative public benefits of the additional disclosures, and would distract investors from the important compensation disclosures called for under the new rules. We urge that the Commission not adopt this proposed rule. Thank you for the opportunity to comment.

Sincerely,

s/ James B. Lootens

James B. Lootens
Secretary and Deputy General Counsel
Eli Lilly and Company