

Colts, B1: With Anthony Gonzalez out, who will step up to help Reggie Wayne? Pierre Garcon (right) is among the options.



Bob's 2-Minute Blitz: Bob Kravitz debuts his weekly video rant with his take on the Colts' opener, Serena Williams' meltdown, the crestfallen Irish and . . . Kanye? Check it out at IndyStar.com/Kravitz.

Who will help carry load?

THE INDIANAPOLIS STAR

TUESDAY, SEPTEMBER 15, 2009 ★ "Where the spirit of the Lord is, there is the glory of the Lord" ★ 75 CENTS ★ CITY EDITION



Today's weather
LOW: 58 HIGH: 83
 Warm, with plenty of sunshine.
Details, Page A12



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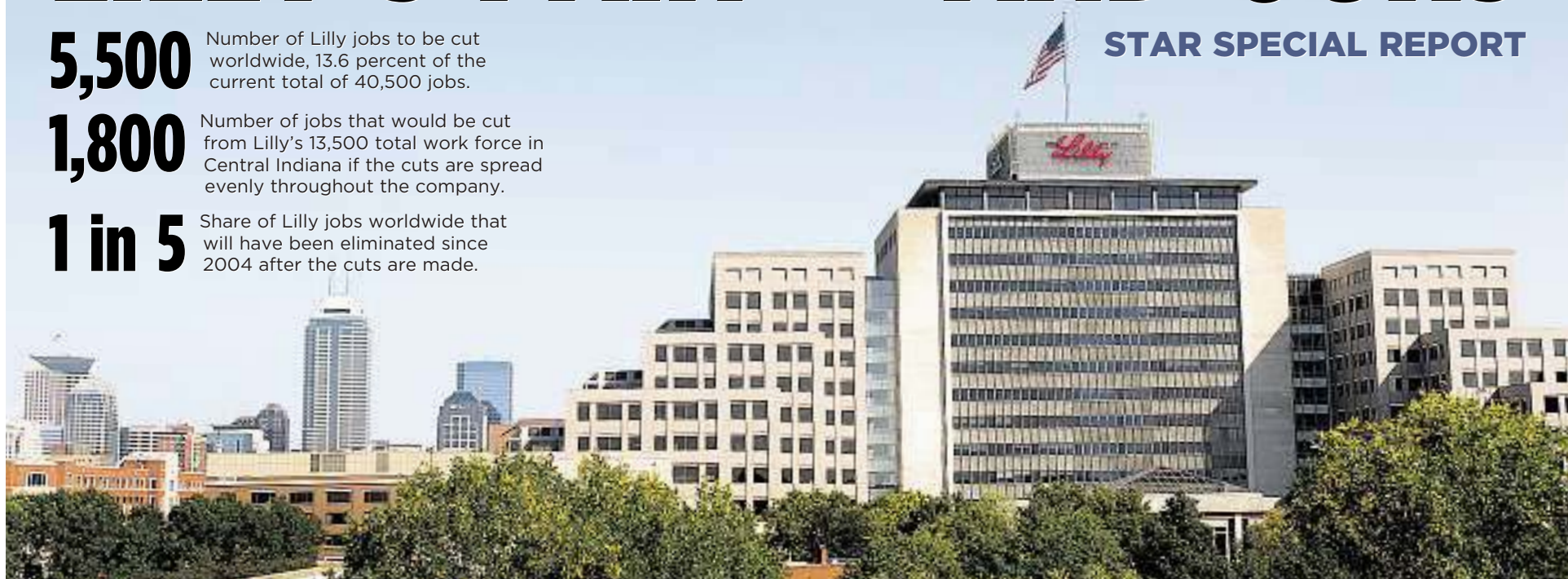
LILLY'S PAIN — AND OURS

STAR SPECIAL REPORT

5,500 Number of Lilly jobs to be cut worldwide, 13.6 percent of the current total of 40,500 jobs.

1,800 Number of jobs that would be cut from Lilly's 13,500 total work force in Central Indiana if the cuts are spread evenly throughout the company.

1 in 5 Share of Lilly jobs worldwide that will have been eliminated since 2004 after the cuts are made.



MATT KRYGER / The Star

Ripple effect: Cuts could eliminate 3,600 more jobs in wider economy
Quicker payoff: Restructuring could speed drugs from pipeline to market

By **Ted Evanoff, John Russell and Bill Ruthhart**
ted.evanoff@indy.com

Eli Lilly and Co.'s severe belt-tightening is sure to slow an Indianapolis economy that has been cushioned from the recession's full force by the drug maker's hefty payroll.

Even though Lilly has been trimming jobs over the past five years, its traditional reluctance to make deep job cuts kept it the region's largest private employer, providing \$1.5 billion a year to workers here. It also helped the Indianapolis area pivot to a service economy from the fading old manufacturing city.

But faced with growing financial pressure, the Indianapolis-based company said Monday it will regroup and develop medicines more quickly. It plans to cut costs by \$1 billion and reduce its worldwide work force by 5,500 jobs, or 13.6 percent, by the end of 2011.

The move represents the company's single largest cost-cutting ever — even larger than 2001, when Lilly lost its blockbuster drug, Prozac, which went ge-

» See Lilly, Page A7

WHAT LILLY'S DOING:

Eli Lilly and Co. is retrenching to meet an expected huge falloff in revenues over the next seven years. Its plan to slice costs by \$1 billion, mostly by eliminating 5,500 jobs, represents the deepest cuts in Lilly's history.

WHAT IT ISN'T DOING:

Though the cuts are deep, the sky isn't falling. Lilly is not being bought, going out of business, moving its headquarters out of Indianapolis or taking a risky move into a business line. Many other pharmaceutical companies have seen deeper cuts.

WHY NOW? TWO BIG REASONS

» From 2011 to 2016, six Lilly drugs will lose their patent protection. The drugs account for nearly 70 percent of the company's revenues. **See graphic, A7**

» Private health insurers and government programs such as Medicare are pressing down on drug costs like never before.

GET MORE AT INDYSTAR.COM/LILLY

+ **LISTEN TO AUDIO EXCERPTS** from The Star's interview with Lilly CEO John Lechleiter.

+ **IMPACT, IMPLICATIONS:** Answers to frequently asked questions.

+ **UPDATES:** Lilly stock throughout the day.

+ **A HISTORY:** The company in words and images.

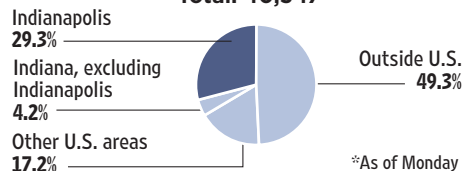
IN BUSINESS

+ **BACK TO CORE BUSINESS HOURS:** Lilly will do away with flexible work schedules amid the restructuring. **A6**

+ **TIMELINE:** A look at the past 10 years.

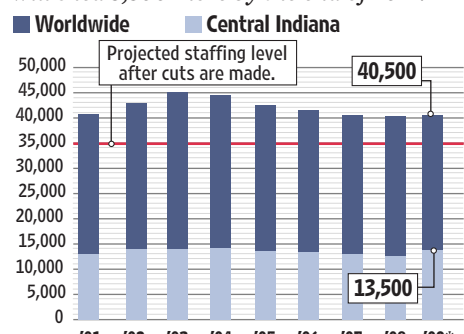
WHERE EMPLOYEES ARE

Total: 40,547*



LILLY JOBS OVER TIME

Since 2004, Lilly has shed 2,000 jobs and will shed 5,500 more by the end of 2011.



How it happened: Cuts were brought on by pipeline, patent woes

By **John Russell**

john.russell@indy.com

For years, Eli Lilly and Co. prided itself on avoiding the huge job cuts that have become common at bigger competitors, such as Pfizer, Merck and AstraZeneca.

As long as Lilly's scientists could develop new, breakthrough medicines, the company wouldn't have to chop 5,000 or 10,000 jobs at a time, like the larger companies. It was part of Lilly's Midwestern ethic.

But Lilly's pipeline has been sputtering. It has launched just one new drug since 2005, the blood-thinner Effient, which hit the market this summer after numerous delays and huge extra costs.

Meanwhile, the company has been stung by one disappointment after another in its laboratories. Late-stage, experimental drugs for brain cancer, multiple sclerosis, osteoporosis and other ailments have failed to live up to expectations and ended up on the scrap heap.

Now the company feels a need to swing a bigger ax, announcing Monday that it would cut 13.6 percent of its worldwide work force by the end of 2011.

"Lilly's pipeline just hasn't progressed as much as everyone had hoped," said Linda Bannister, a drug analyst at Edward Jones & Co. in St. Louis. "Now they're doing what they need to do to navigate these challenges."

The financial pressures on Lilly are enormous. Starting in 2011, its biggest-selling drugs lose their patent protection, and those revenues will fall off a cliff. Lilly must find replacements for nearly

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LOOKING TO THE FUTURE: "We're betting on ourselves. We're really going to try and enhance our R&D," CEO John Lechleiter told The Star, referring to research and development.

MATT KRYGER / The Star 2008 file photo

business

LILLY RESTRUCTURING | Star special report

Lilly

» Companies' salaries pack punch in region's economy.

From A1

neric sooner than expected and cut revenues by about one-third.

The company said the upcoming cuts could include layoffs but didn't specify which jobs or locations would be affected.

About one-third of Lilly's employees, about 13,500 people, work at the company's headquarters, laboratories and manufacturing plants in Indiana. If the cuts are spread proportionately throughout the company, Indiana stands to lose 1,800 jobs.

Economists say Lilly's cuts could ripple out and eliminate up to 3,600 other jobs in Central Indiana's wider economy — at grocery stores, restaurants and other businesses that depend on spending by Lilly workers.

The layoffs and the ripple effect likely will slow the region's recovery from a recession that drove the jobless rate to 8.7 percent in the metropolitan area in July. Indiana's jobless rate was 10.6 percent in July.

At the same time, larger job cuts, or even a takeover, are possible in the next few years if the restructuring fails to shore up Lilly's revenue base, some local officials said.

Lilly said it is taking bold steps to speed up its development of new drugs and prepare for the disappearance of numerous blockbusters, which lose their patent protection beginning in 2011.

"We're betting on ourselves," John Lechleiter, Lilly's chairman and chief executive, told The Star. "We're really going to try and enhance our R&D," he said, referring to research and development, the heart of a pharmaceutical company.

In Indianapolis, the retrenching could result in fewer administrative jobs, while the technical center gains research positions, he said.

The company's emerging markets such as China will not experience job cuts, while the research centers in Indianapolis, New York, San Diego, Great Britain, Singapore and Spain, which now employ a total of 7,000, will accelerate efforts to bring out drugs from the 60 molecules in the medicine pipeline, Lechleiter said.

Analysts figure that taking hundreds or thousands of jobs out of this area is sure to slow the economy.

"I think it'll be a pretty substantial job loss for the Indianapolis area," said economist Sean Maher, who tracks the Midwest for Moody's Economy.com of West Chester, Pa. The pharmaceutical industry accounts for 3.5 percent of the region's wages and salaries but only 1.5 percent of the jobs, Maher said.

"The industry has a lot of well-paying jobs, and the loss is going to hurt consumer industries," Maher said.

This would keep the local economy from powering ahead just as the region tries to climb out of a recession that's showing signs of easing nationally.

Before the recession began in December 2007, employers in the metro area were adding about 8,000 to 10,000 new jobs each month. It could be well into the next decade before that pace is resumed.

Cutting back now is in sharp contrast to the Lilly of just a few years ago. Flush with profits on the success of its largest drugs, Lilly sharply upgraded its hometown technical and production facilities. Two years ago, it opened a \$1 billion biotech center south of Downtown. It spent hundreds of millions of dollars upgrading other buildings.

From 1999 to 2004, the expansion added about 9,000 new Lilly jobs in Indianapolis and secured



MATT KRYGER / The Star

THE BIG PICTURE: CEO John Lechleiter said Lilly would keep its headquarters in Indianapolis, with the goal of becoming financially stronger.

NEW LILLY UNITS, LEADERSHIP

In an effort to speed up drug development and reduce costs, Eli Lilly and Co. is setting up what it is calling the Development Center of Excellence within the Lilly Research Laboratories.

As part of that, Lilly is reorganizing its development efforts around five global business units: oncology, diabetes, established markets, emerging markets and animal health.

The new units will become effective Nov. 1. The leaders are:

- » Development Center of Excellence: Tim Garnett and Tom Verhoeven.
- » Oncology: John H. Johnson, currently chief executive of ImClone Systems, a wholly-owned subsidiary of Lilly.
- » Diabetes: Enrique A. Conterno, currently president of Lilly USA, the company's U.S. business operations.
- » Established markets: Bryce D. Carmine, currently executive vice president of global marketing and sales.
- » Emerging markets: Jacques Tapiero, currently president of Lilly's intercontinental region.
- » Elanco animal health: Jeffrey N. Simmons, currently serves as Elanco president.

more work for the company's 7,000 vendors in the state.

Since 2004, Lilly has shed 2,000 jobs and never reached the target of adding 9,500 new jobs in Indianapolis by 2009. That target was set in 2004 when Lilly applied for tax breaks and incentives totaling \$1.6 billion in exchange for its expansion.

Scaling back now has little to do with the recession. Lechleiter said the restructuring would have happened anyway, to speed up the pipeline, which has sputtered in recent years.

It's an argument that Indianapolis-area officials understand.

"They've got to do these things to prepare for the future," said Roland Dorson, president of the Greater Indianapolis Chamber of Commerce.

It is better that Lilly endure self-inflicted pain now rather than invite a takeover or merger that would be possible if the company's sales lag, he said.

"It's difficult, but we want Lilly making the decisions and not someone making the decisions for them," he said. "No one wants to see Lilly on the wrong side of a hyphen (in a merger). These are the kind of decisions that keep that from happening."

Lilly is not only the largest nongovernment employer in the metro area, but one of the most prized. The company has retained the good neighbor style of its founders, donating lavishly to charitable causes. Moreover, it regularly ranks among the best places in America to work.

"They are just the best employer in town, and when the best employer in town lays off people, you worry," said William Reiber, business professor at But-

ler University.

Despite the retrenching, Lechleiter said the company would not back off its commitment to United Way and other community causes, or cut benefits.

Although the option of four 10-hour work days is being canceled in 2010, Lechleiter said the company remains committed to having its employees active in the community as volunteers.

Lechleiter said the company would keep its headquarters in Indianapolis, with the goal of becoming financially stronger.

"This is our headquarters," he said. "This will strengthen Lilly for the long term here."

Robert Vane, deputy chief of staff for Mayor Greg Ballard, said Lilly's job cuts disappointed city leaders. But they saw the moves as appropriate to keep the company competitive.

"Clearly, from our perspective, Lilly is in for the long haul. These are decisions the company is making to become more competitive in a strategic way," Vane said.

Efforts to develop a broader biotech industry here, fostered by Lilly over the past decade, already have created jobs in the metro area, as dozens of new companies have sprouted up to make medical devices and specialty drugs.

"It's fair to say the region and the community are in a better position today to replenish those jobs (that will be lost at Lilly)," said Tim Monger, former head of economic development for then-Gov. Joe Kernan and now an executive at the Indianapolis commercial real estate company Colliers Turley Martin Tucker.

★ Call Star reporter Ted Evanoff at (317) 444-6019

How

» Cost-control pressures from insurers, White House.

From A1

70 percent of its revenue in the next seven years.

In the meantime, private insurers are demanding that drug makers hold down prices, and so are public payers. Drug costs have turned into a cornerstone of President Barack Obama's health-care reform initiative.

Lilly faces other challenges as well. Last month, it said it could face generic competition sooner than expected for its fourth-best-selling product, the cancer drug Gemzar.

And the company is weighed down by nearly \$7 billion in debt, after buying biotech drug maker ImClone Systems last year, the biggest deal in its 133-year history. Lilly also has less cash than many of its competitors, giving it less flexibility to restock its pipeline through more acquisitions.

That's why everyone has kept their eyes on Lilly's pipeline. It just might save the day.

For years, Lilly has poured money into its research and development, even during the recession. For the first six months of this year, Lilly spent \$1.9 billion on R&D, an increase of 8.7 percent from the same period a year ago. That put it ahead of such high-tech companies as Microsoft, Boeing and Apple in terms of R&D increase this year, according to a recent analysis by Business Week.

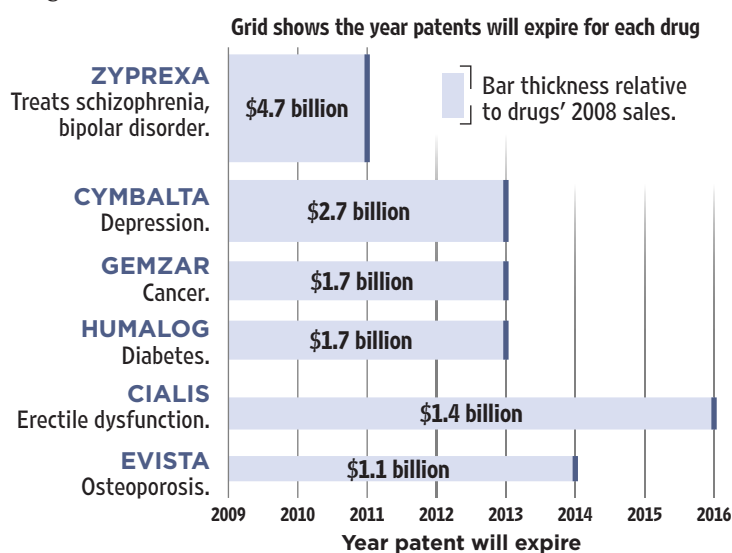
In the process, Lilly has a record 60 drugs under development. But most of them are in early-stage trials, still many years away from the market.

The company said the cuts and restructuring will help it speed medicines from its pipeline to patients.

"It's clear we need to accelerate the flow of new products," said John Lechleiter, Lilly's chairman and chief executive. "We really need to make some significant changes."

TIME REMAINING ON LILLY DRUG PATENTS

Listed below are the expiration dates on patents for Lilly's blockbuster drugs and their total sales in 2008:



Sources: Star archives; Eli Lilly and Co.

STEPHEN J. BEARD / The Star

A STRUGGLING PIPELINE

Eli Lilly and Co. has launched only one new drug in the past four years, the blood-thinner Effient. Meanwhile, Lilly's late-stage pipeline has suffered one setback after another.

» **AUGUST 2006:** The Food and Drug Administration fails to approve Arxant, Lilly's experimental drug for diabetes-related eye problems, and asks Lilly to conduct more clinical trials. Lilly shelves the drug.

» **DECEMBER 2006:** Lilly ends a clinical study of enzastaurin for treatment of brain cancer after an outside analysis concluded it probably wouldn't help patients any more than chemotherapy.

» **FEBRUARY 2008:** The FDA rejects Lilly's application to sell a once-a-month injectable version of Zyprexa, which treats schizophrenia and bipolar disorder.

» **MARCH 2008:** Lilly pulls the plug on AIR inhaled insulin, a late-stage

The restructuring organizes the company around five global business units and continues belt-tightening. In recent years, Lilly has cut about 10 percent of its work force, from its peak in 2004, mostly by not filling jobs as employees retire or leave for other jobs.

The cuts put Lilly more in line with its expected size, several analysts said.

"This is necessary across the industry," said Les Funtleyder, a drug analyst at Miller Tabak & Co. in New York. "The reality is, you have to do something if you're going to have a lot less revenue after all these patents expire."

In recent months, other drug makers have been aggressively cutting. Through August, the drug industry has announced 53,004 job cuts, nearly double the number — 24,880 — during the same period a year ago, according to Challenger, Gray & Christmas, a Chicago-based outplacement company.

Lilly's deep cuts, which the company has worked so hard to avoid, now make it look more like the bigger players.

"The cuts are roughly in line with the magnitude of cost-savings plans we have seen across the industry," said Chris Schott, a drug analyst at JP Morgan in New York, in a note to clients Monday.

But it could keep Lilly independent, some analysts say. The Indianapolis drug maker has long resisted mega-mergers, saying they destroy shareholder value. Lechleiter reiterated that Monday, even as other drug makers have gone down that road this year. Among them: Merck's acquisition of Schering-Plough, and Pfizer's acquisition of Wyeth.

Will these cuts be enough? Some analysts say they wouldn't be surprised to see another round in the next year or two.

"If the current business doesn't have a significant uptick, if the pipeline doesn't really start to deliver, there will be another layer of restructuring that will be necessary," said Seamus Fernandez, a drug analyst at Leerink Swann in Boston. "So this gives them a few years to get the pipeline working again."

» **AUGUST 2009:** Lilly says that one of its experimental drugs for schizophrenia, which had shown huge promise in an early study two years ago, failed its latest test to show that it works better than existing medicines.

» **JULY 2009:** Lilly and partner BioMS Medical Corp. halt trials on an experimental drug for multiple sclerosis, saying it didn't delay disease progression in a final-stage study.

» **AUGUST 2009:** Lilly pulls plug on arzosifene, a new treatment for osteoporosis, saying it didn't perform better than a placebo in preventing nonspine fractures and increased the risk of blood clots.