UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11326 / November 12, 2024

SECURITIES EXCHANGE ACT OF 1934
Release No. 101574 / November 12, 2024

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4537 / November 12, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22309

In the Matter of **ELANCO ANIMAL HEALTH INC.,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted against Elanco Animal Health Inc. ("Elanco" or "Respondent") pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Section 21C of the Securities Exchange Act of 1934 ("Exchange Act").

II.

In anticipation of the institution of these proceedings, Elanco has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

SUMMARY

1. This matter concerns Elanco's failure to disclose material information concerning its sales practices that rendered statements it made about its revenue growth misleading. Following a spin-off from Eli Lilly and Company ("Lilly") in September 2018, Elanco emphasized internally the importance of meeting guidance on its revenue, core revenue growth, and earnings-per-share ("EPS") provided to investors and analysts, to prove that Elanco could succeed as a standalone entity. Alongside cost-saving efforts and new product development, it repeatedly highlighted to investors the growing demand from end-users in animal health generally and for its products in particular.

2. From the first quarter of 2019 to the first quarter of 2020, Elanco relied on quarter-end incentives to its distributors so Elanco could make sales to meet its internal quarterly revenue and core revenue growth targets (the "Quarter-End Incentivized Sales" or "Incentivized Sales"). More specifically, Elanco would entice distributors to make end-of-quarter purchases in excess of then-existing customer demand by offering them incentives such as rebates and extended payment terms. These incentives allowed Elanco to improve its revenue each quarter, but caused distributors to purchase products ahead of end-user demand. Without these Incentivized Sales, Elanco would have missed its internal revenue and core growth targets in each quarter in 2019.

3. Internally, Elanco employees raised concerns about the use of Quarter-End Incentivized Sales, including that relying on such sales could negatively impact future inventory levels at distributors (*i.e.*, "channel inventory") and consequently future revenue. Despite these concerns, Elanco failed to disclose the use of its Quarter-End Incentivized Sales publicly, rendering positive statements it made about revenue materially misleading. Indeed, Elanco publicly attributed its revenue growth to strong consumer demand. Moreover, Elanco also failed to warn investors of the impact Incentivized Sales to distributors in excess of consumer demand could have on its future revenue and core revenue growth, and that its future performance may suffer if its distributors refused the enticements.

4. Ultimately, Elanco decided to stop offering Quarter-End Incentivized Sales to distributors and to reduce channel inventory in the first quarter of 2020, which impacted Elanco's revenue and profits for the quarter. On May 7, 2020, Elanco announced an expected $160 million decline in revenue for the first and second quarters of 2020 that caused its share price to drop by over 13%. The statement cited the uncertainty of the COVID-19 pandemic and a "strategic change" in Elanco's inventory management practices – including reductions in channel inventory – as the reason for the decline. Elanco publicly stated that it had not anticipated a strategic change to reduce channel inventory levels when it started the year. However, prior to the onset of the COVID-19 pandemic, Elanco had already planned to gradually reduce channel inventory levels

each quarter and issued lower annual revenue guidance at the start of 2020 that incorporated that change. In addition, internal documents and communications from prior to the COVID-19 pandemic reflect that Elanco was planning to make a larger change to its channel inventory levels in connection with a planned merger in the second half of the year.

5. As a result of such conduct, and as described in more detail below, Elanco violated Securities Act Sections 17(a)(2) and (3) and Exchange Act Section 13(a) and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-15(a) thereunder.

RESPONDENT

6. **Elanco Animal Health Inc.** is an Indiana corporation headquartered in Greenfield, Indiana. Elanco manufactures and sells animal health products, such as flea and tick medications, livestock feed additives, and vaccines. Elanco's common stock is registered under Section 12(b) of the Exchange Act and trades on the New York Stock Exchange.

FACTS

A. Elanco's Pre-IPO Reliance on Quarter-End Incentivized Sales

7. Elanco was previously a subsidiary of Lilly, representing about 13% of Lilly's revenue. On or about September 21, 2018, Lilly spun-off Elanco through an initial public offering ("IPO") of 20% of its common stock. It divested the remaining 80% of Elanco's common stock as of March 11, 2019, through a public exchange offer.

8. Elanco has two main businesses: pet health products for dogs and cats ("Companion Animal"), and farm or food animal products for livestock ("Farm Animal"). In both businesses, from at least January 2019 through May 2020 (the "Relevant Period"), Elanco's sales model involved selling its products to third-party distributors, who then sold them onwards to end-users of the products, such as animal owners, veterinarians, and feed lots.

9. Prior to becoming a stand-alone public company, Elanco monitored channel inventory by comparing Elanco's sales to distributors with the distributors' sales to end-users, as reported to Elanco by an industry data aggregator. During this same time period, Elanco occasionally used Quarter-End Incentivized Sales to meet its internal sales targets. Over time Elanco's reliance on incentives led to a build-up of excess inventory at distributors, as consumer demand was not strong enough for distributors to sell their excess product to end-users. A significant risk of building excess inventory at distributors is a corresponding decrease in future sales to those same distributors if there is no corresponding increase in end-user demand.

10. Then, as now, when channel inventory increased there were generally only two ways Elanco could lower it, by: (i) increasing consumer demand for its products (or incentivizing distributors to do so), which increased the distributors' sales to end-users; or (ii) decreasing its sales to distributors.

11. In December 2017, to more closely match channel inventory with actual consumer demand, Elanco "flushed" excess channel inventory by decreasing sales to distributors until channel inventory averaged 45 days on hand (*i.e.*, the number of days required for a distributor to sell all of its inventory on hand), which led to an approximately $35 million decline in revenue for that quarter. By the time of its IPO, its largest distributors targeted channel inventory of 60 days on hand.

B. Elanco's Post-IPO Reliance on Quarter-End Incentivized Sales

12. After the September 2018 IPO, Elanco's senior leadership was aware of the importance of consistently meeting internal and external financial benchmarks, to demonstrate Elanco's viability as an independent entity. Elanco's employees tracked sales and forecasted revenue against its annual sales plan. They also continued to use sales reporting from Elanco's distributors to estimate and track channel inventory.

13. For example, about six weeks before the end of each quarter, Elanco commercial and financial personnel held meetings where they assessed Elanco's to-date sales performance in various businesses, forecasted the performance necessary for the remainder of the quarter to meet quarterly sales targets, and compared these figures to its annual sales plan. These routine meetings were known internally as "path to plan" or "gap to plan" meetings, and they were also used to decide what actions were needed, if any, for Elanco to meet its sales targets.

14. Elanco personnel also discussed whether "intervention" was necessary to meet sales targets. By late 2018, Elanco had resumed offering distributors incentives, such as rebates and extended payment terms, to encourage distributors to make additional purchases and allow Elanco to meet its internal sales targets.

15. Elanco's Quarter-End Incentivized Sales generally involved discounts, rebate payments, or extended payment terms. For example, in Companion Animal, Elanco offered incentives for distributors to order enough product at quarter-end to increase their inventory to 90 days on hand or more. As a result, Companion Animal distributors significantly reduced their purchases from Elanco during the first two months of the following quarter until they sold down the Elanco inventory they purchased at the end of the prior quarter.

16. These Quarter-End Incentivized Sales were discussed at monthly and quarterly financial planning meetings and summarized for senior leadership informally towards the end of each quarter. Moreover, some Elanco employees raised concerns to senior leadership about the risks of these sales practices. For example, prior to the Relevant Period, one Elanco employee wrote in an email that "inflating inventories and kicking the can down the road will end in a reset." Another Elanco employee cautioned: "Let's remember that [e]very time we pull forward or put in an ask, there are consequences. These consequences will only become more material, for every incremental dollar we ask. . . . There is only so much ask we can pull and so much inventory we can build."

17. Nevertheless, Elanco continued to make Incentivized Sales and used them to meet its internal sales and core revenue growth targets for each quarter during the Relevant Period. These sales practices also contributed to channel inventory increasing by over $100 million in gross value (*i.e.*, the value of the goods in the channel before considering rebates, discounts, and returns) during 2019, creating a build-up of excess inventory at distributors and a reasonably likely risk of a decrease in revenue and revenue growth in future periods. But, for each quarter during the Relevant Period, Elanco failed to disclose the significant impact of its Quarter-End Incentivized Sales and the reasonably likely risk that these sales practices could have a negative impact on revenue in future quarters.

First Quarter 2019

18. As of February 2019, Elanco was not on track to meet its internal sales plan. Nor was it on track to meet the annual external guidance it provided to investors because the external guidance was derived from its sales plan. To avoid this, Elanco decided to incentivize its Companion Animal product distributors to purchase additional inventory to close the gap to its internal sales targets by offering them 90-day payment terms. Elanco also offered its Companion Animal product distributors rebate payments on all their purchases for the quarter if they ended the quarter with inventory of 90 days (or more) on hand. It also offered rebates and other incentives to its Farm Animal distributors to entice them to purchase additional product worth 30 days (or more) on hand. Internally, Elanco senior leadership discussed these sales practices, describing them in one email as "mak[ing] some trade-offs with our distribution partners."

19. The Quarter-End Incentivized Sales contributed to Elanco's revenue and core revenue growth for the quarter, allowing it to meet its internal targets for both metrics. Elanco experienced a $14 million decrease in consumer purchases from the distributors for the quarter, which together with the Incentivized Sales caused channel inventory to grow by $37 million in gross value during the first quarter of 2019.

20. In its first quarter 2019 earnings release (furnished with the Commission on Form 8-K on May 9, 2019), its earnings call on May 9, 2019, and its Form 10-Q filed with the Commission on May 14, 2019, Elanco announced global quarterly revenue of $731.1 million. In making these announcements, Elanco attributed its revenue growth in certain businesses to its sales of key products based on customer needs. During its earnings call, for example, Elanco highlighted the strength of the fundamentals of its business and the importance of vet-clinic demand as a lead indicator of its performance. These statements were materially misleading, however, because Elanco failed to disclose that a significant portion of its quarterly revenue numbers were attributable to Incentivized Sales, and the reasonably likely risk that such sales practices could have a negative impact on revenue in future quarters.

Second Quarter 2019

21. Distributor orders for Elanco's Companion Animal business fell dramatically in April 2019, only recovering in May after distributors finished selling the extra inventory purchased late in the prior quarter. An internal report described April as a "challenging sales month given [the] strong finish in Q1 and subsequent channel inventory depletion in April" even though "underlying market demand remain[ed] in line with [] expectations."

22. By mid-May 2019, during Elanco's routine path-to-plan process, Elanco employees anticipated they may miss internal revenue and sales targets. They also recognized that the elevated channel inventory in its Companion Animal business could be a potential risk because, unless Elanco continued to offer incentives, its distributors would likely only purchase the minimum level of contractually-required product which, in turn, could result in missing internal second quarter sales targets by up to $40 million. Accordingly, Elanco offered Incentivized Sales to distributors in the second quarter to meet internal sales and core revenue growth targets.

23. During the second quarter, Elanco succeeded in growing end-user sales by $62 million compared to the prior quarter and $54 million year-over-year – a record level of consumer demand. Despite the record end-user demand, as a result of its continued use of Incentivized Sales, Elanco's channel inventory levels fell by only $2 million in gross value in the quarter. If Elanco had not used Incentivized Sales, the significant increase in sales to end-users would have led to a more significant reduction in channel inventory.

24. In its second quarter 2019 earnings release (furnished with the Commission on Form 8-K on August 13, 2019), its earnings call on August 13, 2019, and its Form 10-Q filed with the Commission on August 13, 2019, Elanco reported global quarterly revenue of $781.6 million, an increase of 1% compared to the second quarter of 2018. As it did in the first quarter, Elanco again cited underlying consumer demand in describing how it achieved its revenue. For example, in its 10-Q and earnings release, Elanco stated that its Companion Animal revenue growth was "driven by increased demand for products across the therapeutics portfolio." Additionally, in the earnings call for the same period, Elanco stated that its "top line results represent[ed] a solid underlying demand for our products" and highlighted the importance of vet clinic demand to Elanco's quarterly results. These statements were materially misleading because Elanco failed to disclose that a significant portion of its quarterly revenue and growth numbers were attributable to Incentivized Sales, and the reasonably likely risk that such sales practices could have a negative impact on revenue in future quarters.

Third Quarter 2019

25. In August 2019, a manager in Elanco's U.S. Companion Animal business informed Elanco's senior leadership that distributor orders and channel inventory fell significantly in July in the absence of incentive offers. By late August, during Elanco's routine path-to-plan process, Elanco identified a $30 million gap between its projected sales for the quarter and its annual sales plan, meaning that Elanco was not likely to meet its internal sales targets.

26. Accordingly, at the end of the third quarter of 2019, Elanco repeated its incentives to distributors. It also increased its payment term incentive for its two largest Companion Animal distributors to 120 days – 30 days more than in the first two quarters in 2019 and double Elanco's standard terms. These incentives contributed to Elanco's efforts to meet internal sales and core revenue growth targets for the quarter. Elanco also experienced, however, a $19 million decrease in consumer purchases from its distributors. Accordingly, Elanco's channel inventory grew by $15 million in gross value in the third quarter of 2019.

27. In its third quarter 2019 earnings release (furnished with the Commission on Form 8-K on November 6, 2019), its earnings call on November 6, 2019, and its Form 10-Q filed with the Commission on November 8, 2019, Elanco reported global quarterly revenue of $771.3 million, an increase of 1% compared to the third quarter of 2018. As in the first two quarters of the year, Elanco attributed its revenue to strong underlying consumer demand. Its 10-Q for the quarter, for example, identified "increased demand for products" and "favorable purchasing patterns" as key positive drivers of revenue. Similarly, on the earnings call, Elanco stated that "our top line results showed a solid underlying demand for our products and the strength of our fundamentals." These statements were materially misleading, however, because Elanco failed to disclose that a significant portion of its quarterly revenue numbers were attributable to Incentivized Sales, and the reasonably likely risk that such sales practices could have a negative impact on revenue in future quarters.

28. Although Elanco added language to its Form 10-Q regarding certain risks associated with its channel inventory and revenue, Elanco's statements nevertheless remained misleading. More specifically, Elanco warned its investors that increases or decreases in inventory levels at its channel distributors can positively or negatively impact its quarterly and annual revenue results, leading to variations in quarterly revenues. Elanco also disclosed that it had extended payment terms in the past and may do so in the future due to "competitive pressures" and the need for certain inventory levels to avoid supply disruptions. These statements all described potential risks while failing to disclose the Incentivized Sales that actually occurred and the existing reasonably likely risks they created for future sales.

Fourth Quarter 2019

29. In November 2019, Elanco continued offering incentives to its Companion Animal distributors. This time, however, one of its largest distributors declined Elanco's offer. Internally, a member of Elanco's management raised a concern that Elanco's sales practices seemed to default to loading the sales channel rather than increasing consumer demand, and that underlying demand from end users of Elanco's products was not strong enough to reduce channel inventory.

30. During the last two weeks of December 2019, Elanco reduced the number of U.S. Companion Animal distributors, eliminating four regional distributors that would have represented about $61 million in fourth quarter sales. To recoup these sales, Elanco offered the four remaining Companion Animal distributors incentives such as rebates and 90-day payment terms to entice them to order more products that quarter. In its Farm Animal business, Elanco offered distributors

incentives, including distributors with a much smaller level of business with Elanco. Elanco's Farm Animal team expressed concern that it sold these smaller distributors an average of 2-3 months' additional inventory in December 2019. By offering these incentives, Elanco was able to meet internal sales and core revenue growth targets for the quarter and achieve annual EPS within its revised annual EPS guidance range. Elanco also experienced a $36 million decrease in consumer purchases from the distributors during the quarter, which together with the Incentivized Sales caused channel inventory to grow by $44 million in gross value in the fourth quarter of 2019.

31. On January 10, 2020, Elanco published annual revenue guidance for 2020 in a press release furnished with the Commission on Form 8-K, and hosted a public call later that same day to discuss it. During this call, Elanco stated that its growth was "[D]urable and resilient, driven by our new products that offer solutions to key health challenges and target growth categories. . . . Most importantly, we're well-positioned to sustain and build on this 2020 growth over the long term." These statements were materially misleading, however, because Elanco failed to disclose that a significant portion of its quarterly revenue numbers were attributable to Incentivized Sales, the reasonably likely risk that such sales practices could have a negative impact on revenue in future quarters throughout 2020, and the fact that those sales practices led to $100 million in gross channel inventory growth during 2019. Moreover, by the time these statements were made, Elanco had already determined to issue lower annual revenue guidance and take steps to gradually reduce channel inventory because of the risk it posed to future revenue growth, but that material information was not disclosed.

32. In its fourth quarter 2019 earnings release (furnished with the Commission on Form 8-K on February 19, 2020), its earnings call on February 19, 2020, and its Form 10-K filed with the Commission on February 28, 2020, Elanco reported global quarterly revenue of $787.0 million, a decrease of 2% compared to the fourth quarter of 2018. Elanco continued to describe its revenue as driven by consumer demand. For example, in its earnings release and during its earnings call, Elanco attributed growth in its Companion Animal business to "continued uptake" of certain key products. Similarly, during its earnings call, Elanco stated that it had grown its core revenue and met its expectations in each of its six quarters as an independent public company. These statements were materially misleading, however, because Elanco failed to disclose that a significant portion of its revenue was attributable to Incentivized Sales in each of the six quarters, and the reasonably likely risk that such sales practices could have a negative impact on future revenue. They were also materially misleading because, while end-user demand grew in 2019 as compared to the prior year, Elanco did not disclose that its channel inventory had increased by over $100 million in gross value in 2019, which created a significant risk that Elanco would not be able to achieve future revenue growth.

First Quarter 2020

33. Elanco's sales to distributors declined in January and February 2020. Accordingly, in March 2020, Elanco began offering distributors Quarter-End Incentives to entice them to make additional purchases before the end of the quarter.

34. During the same quarter, Elanco personnel discussed concerns with senior leadership about these sales practices and channel inventory, including the use of Incentivized Sales. In a March 9, 2020 meeting, a senior executive acknowledged the concerns and explained that Elanco's leadership team had discussed decreasing channel inventory and, in addition to gradual reductions already planned at the start of the year, was considering a more aggressive plan to change its sales model and target channel inventories of 60 days on hand and 60-day payment terms.

35. Ultimately, after the onset of the COVID-19 pandemic, Elanco decided to stop offering Quarter End Incentivized Sales to its distributors and to reduce channel inventory to 60 days on hand with 60-day payment terms. In connection with this decision, Elanco considered how they would explain the changes to investors. For example, in March 2020, Elanco senior leaders discussed whether the company could cite the onset of the COVID-19 pandemic to explain the planned inventory shift, and analyzed what would happen if it stopped offering Quarter-End Incentivized Sales.

36. As a consequence of Elanco's decision to stop offering Incentivized Sales in March 2020, Elanco experienced a $62 million decrease in net sales to distributors and a significant decrease in revenue compared to the fourth quarter of 2019. Consumer purchases from the distributors increased by $22 million during the quarter, which together with the decreased sales to distributors caused channel inventory to decrease by $55 million in gross value in the first quarter of 2020.

37. In its first quarter 2020 earnings release (furnished with the Commission on Form 8-K on May 7, 2020), its earnings call on May 7, 2020, and its Form 10-Q filed with the Commission on May 7, 2020, Elanco announced global quarterly revenue of $657.7 million, down 10% compared to the first quarter of 2019. Elanco stated that nine percent of the revenue decline was due to a $60 million reduction in channel inventory and that it expected an additional $80-100 million revenue decline in the second quarter of 2020. To explain these decreases, Elanco stated that its "distributors [were] managing their inventory more tightly" and that the distributors' "ability to generate demand is much less effective than [Elanco's] own." Elanco also said that "[t]he COVID-19 virus and ensuing pandemic are impacting our lives and our industry[, f]rom declining vet clinic visits and revenue to pressures in protein production and logistics," and that "[t]he COVID pandemic created significant working capital and liquidity pressures and uncertainty on near-term end customer demand for our distributors, prompting reductions in the amount of inventory they hold." This, it said, had a "triggering effect to accelerate an important commercial change" for Elanco that included a reduction in channel inventory. These statements were materially misleading because Elanco did not disclose that (i) its decision to stop offering Quarter-End Incentivized Sales was a materially significant contributing factor to the decrease in its revenue; (ii) its use of Quarter-End Incentivized Sales in 2019 caused channel inventory to increase by over $100 million in gross value; and (iii) it had already planned before the onset of the COVID-19 pandemic to reduce channel inventory during 2020.

38. During the Relevant Period, Elanco offered and sold securities, including through a follow-on offering of common stock and convertible debt in January 2020 and the grant of

incentive compensation to certain employees through a stock plan for which a registration statement on Form S-8 was filed with the Commission on September 20, 2018.

C. Elanco Acted Negligently in Making its Public Disclosures

39. From May 2019 through May 2020, Elanco's public disclosures misled investors by attributing its revenue and revenue growth to strong consumer demand for its products while failing to disclose the material impact of its Quarter-End Incentivized Sales and the reasonably likely risk that such sales practices could have a negative impact on revenue in future quarters. These failures occurred because Elanco did not act reasonably or implement disclosure controls and procedures designed to ensure that all material factors contributing to revenue and revenue growth were disclosed.

VIOLATIONS

40. As a result of the conduct described above, Elanco violated Sections 17(a)(2) and (3) of the Securities Act, which proscribes the receipt of "money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading" and engaging "in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser." A violation of these provisions does not require scienter and may rest on a finding of negligence. *See Aaron v. SEC*, 446 U.S. 680, 685, 701-02 (1980).

41. Also as a result of the conduct described above, Elanco violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-11, and 13a-13 thereunder, which require issuers to file accurate annual, current, and quarterly reports with the Commission, respectively. Elanco also violated Rule 12b-20 of the Exchange Act, which requires issuers to add such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.

42. Section 13(a) of the Exchange Act also requires issuers to file periodic reports with the Commission containing such information as the Commission prescribes by rule. Form 10-K and Form 10-Q require registrants to comply with Regulation S-K Item 303, which, in turn, requires (among other things) that reports describe "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations" in its annual report on Form 10-K. This item further requires that reports describe "any other significant components of revenues or expenses that, in the registrant's judgment, should be described in order to understand the registrant's results of operations." Instruction 3 to Item 303(a) of Regulation S-K requires that the "discussion and analysis shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition." Item 303(b) of Regulation S-K requires discussion of material changes in such known trends or uncertainties in quarterly reports

on Form 10-Q. Elanco's use of Quarter-End Incentivized Sales created an uncertainty or event that was known to Elanco's senior management and reasonably expected to have a material effect on its future revenues. Accordingly, Elanco also violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-13, and 12b-20 thereunder because its failure to attribute revenue growth to its use of Quarter-End Incentivized Sales deprived investors of material information about its revenue necessary to understand the results of its operations.

43. Finally, Elanco also violated Exchange Act Rule 13a-15(a), which requires issuers such as Elanco to maintain disclosure controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms.

ELANCO'S REMEDIAL EFFORTS

44. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent, including new controls concerning its channel inventory levels and amendments to its disclosure processes.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Elanco's Offer.

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Elanco cease and desist from committing or causing any violations and any future violations of Securities Act Sections 17(a)(2) and (3) and Exchange Act Section 13(a) as well as Exchange Act Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-15(a) thereunder.

B. Elanco shall, within 14 days of the entry of this Order, pay a civil money penalty of $15,000,000.00 to the Securities and Exchange Commission. If timely payment of the civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Elanco as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Stacy L. Bogert, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

C. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the penalties referenced in paragraph B above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Elanco agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Elanco's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Elanco agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Elanco by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary