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As filed with the Securities and Exchange Commission on March 11, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(**MARK ONE**)

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2004

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____to _____

Commission File No. 1-3305

Merck & Co., Inc.

One Merck Drive
Whitehouse Station, N. J. 08889-0100
(908) 423-1000

Incorporated in New Jersey — *I.R.S. Employer Identification No. 22-1109110*

Securities Registered pursuant to Section 12(b) of the Act:

Title of Each Class	*Name of Each Exchange on which Registered*
Common Stock ($0.01 par value)	New York and Philadelphia Stock Exchanges

Number of shares of Common Stock ($0.01 par value) outstanding as of February 28, 2005: 2,208,052,404.

Aggregate market value of Common Stock ($0.01 par value) held by non-affiliates on June 30, 2004 based on closing price on June 30, 2004: $105,392,000,000.

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☑ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). **Yes** ☑ **No** ☐

Documents Incorporated by Reference:

Document	*Part of Form 10-K*
Annual Report to stockholders for the fiscal year ended December 31, 2004	Parts I and II
Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005	Part III

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PART I

Item 1. Business.

Merck & Co., Inc. ("Merck" or the "Company") is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. The Company sells its products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Company's professional representatives communicate the effectiveness, safety and value of its products to health care professionals in private practice, group practices and managed care organizations.

Product Sales

Sales [1] by category of the Company's products were as follows:

($ in millions)	2004	2003	2002
Atherosclerosis	$ 5,223.0	$ 5,077.9	$ 5,552.1
Hypertension/heart failure	3,646.7	3,421.6	3,477.8
Osteoporosis	3,159.6	2,676.6	2,243.1
Respiratory	2,622.0	2,009.4	1,489.8
Anti-inflammatory/analgesics	1,779.6	2,677.3	2,587.2
Anti-bacterial/anti-fungal	1,200.9	1,028.5	821.0
Vaccines/biologicals	1,036.1	1,056.1	1,028.3
Urology	733.1	605.5	547.3
Ophthalmologicals	726.5	675.1	621.5
Human immunodeficiency virus ("HIV")	255.5	290.6	294.3
Other	2,555.6	2,967.3	2,783.4
Total	$22,938.6	$22,485.9	$21,445.8

[1] Presented net of discounts and returns.

The Company's products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are atherosclerosis products, of which *Zocor* (simvastatin) is the largest-selling; hypertension/heart failure products, the most significant of which are *Cozaar* (losartan potassium), *Hyzaar* (losartan potassium and hydrochlorothiazide), and *Vasotec* (enalapril maleate); an osteoporosis product, *Fosamax* (alendronate sodium), for treatment and prevention of osteoporosis; a respiratory product, *Singulair* (montelukast sodium), a leukotriene receptor antagonist for treatment of asthma and for relief of symptoms of seasonal allergic rhinitis; anti-inflammatory/analgesics, which include *Vioxx* (rofecoxib), which was voluntarily withdrawn from the market worldwide on September 30, 2004, and *Arcoxia* (etoricoxib), agents that specifically inhibit the COX-2 enzyme, which is responsible for pain and inflammation ("coxib"); anti-bacterial/anti-fungal products, which includes *Primaxin* (imipenem and cilastatin sodium), *Cancidas* (caspofungin acetate) and *Invanz* (ertapenem sodium); vaccines/biologicals, of which *Varivax* (varicella virus vaccine live), a live virus vaccine for the prevention of chickenpox, *M-M-R* II (measles, mumps and rubella virus vaccine live), a pediatric vaccine for measles, mumps and rubella, *Pneumovax* (pneumococcal vaccine polyvalent), a vaccine for the prevention of pneumococcal disease and *Recombivax HB* (hepatitis B vaccine [recombinant]) are the largest-selling; a urology product, *Proscar* (finasteride), for treatment of symptomatic benign prostate enlargement; ophthalmologicals, of which *Cosopt* (dorzolamide hydrochloride and timolol maleate ophthalmic solution) and *Trusopt* (dorzolamide hydrochloride ophthalmic solution) are the largest-selling; and HIV products, which include *Stocrin* (efavirenz) and *Crixivan* (indinavir sulfate) for the treatment of human immunodeficiency viral infection in adults.

Other primarily includes sales of other human pharmaceuticals, pharmaceutical and animal health supply sales to the Company's joint ventures and revenue from the Company's relationship with AstraZeneca LP, primarily relating to sales of *Nexium* (esomeprazole magnesium) and *Prilosec* (omeprazole).

In August 2004, the Company announced that the U.S. Food and Drug Administration ("FDA") granted a new indication for *Hyzaar* for initial use in appropriate patients with severe hypertension.

In October 2004, the indications for *Cancidas* were expanded with FDA approval for empirical therapy for presumed fungal infections in febrile neutropenic patients.

Voluntary Withdrawal of Vioxx — On September 30, 2004, Merck announced a voluntary worldwide withdrawal of *Vioxx* , its arthritis and acute pain medication. The Company's decision, which was effective immediately, was based on new three-year data from a prospective, randomized, placebo-controlled clinical trial, APPROVe (Adenomatous Polyp Prevention on *Vioxx*).

The trial, which was stopped, was designed to evaluate the efficacy of *Vioxx* 25 mg in preventing the recurrence of colorectal polyps in patients with a history of colorectal adenomas and to further assess the cardiovascular safety of *Vioxx* . In this study, there was an increased relative risk for confirmed cardiovascular events, such as heart attack and stroke, beginning after 18 months of treatment in the patients taking *Vioxx* compared to those taking placebo. The results for the first 18 months of the APPROVe study did not show any increased risk of confirmed cardiovascular events on *Vioxx* , and in this respect, were similar to the results of two placebo-controlled studies described in the most recent U.S. labeling for *Vioxx* .

Merck presented data from APPROVe at the American College of Rheumatology ("ACR") Annual Scientific Meeting in San Antonio on October 18, 2004. The Company had requested the opportunity to present the data at the ACR meeting.

The Company estimates that there were 105 million U.S. prescriptions written for *Vioxx* from May 1999 through August 2004. Based on this estimate, the Company estimates that the number of patients who have taken *Vioxx* in the United States since its 1999 launch is approximately 20 million. The number of patients outside the United States who have taken *Vioxx* is undetermined at this time.

In October 2004, the Company received a letter from Senator Charles Grassley, Chairman of the Senate Committee on Finance, requesting certain documents and information related to *Vioxx* . The Company also received requests for information from other Congressional committees. The Company intends to cooperate with these inquiries so that the Company can continue to describe the reasons for the Company's voluntary withdrawal of *Vioxx* and to answer any questions related to the Company's development and extensive testing of the medicine and its disclosures of the results of its studies.

Also, in October 2004, the Company received a letter from a group of five state Attorneys General raising concerns that the Company's return and refund program for unused *Vioxx* will not provide consumers with adequate notice and will be unduly burdensome. The Company is cooperating with the Attorneys General to respond to their concerns.

On February 16-18, 2005, the FDA held a joint meeting of the Arthritis Advisory Committee and the Drug Safety and Risk Management Advisory Committee. The committees discussed the overall benefit to risk considerations (including cardiovascular and gastrointestinal safety concerns) for COX-2 selective nonsteroidal anti-inflammatory drugs and related agents. On February 18, 2005, the members of the committees were asked to vote on whether the overall risk versus benefit profile for *Vioxx* supports marketing in the United States. The members of the committees voted 17 to 15 in support of the marketing of *Vioxx* in the United States. The Company looks forward to discussions with the FDA and other regulatory authorities about *Vioxx.*

As previously announced, the Board of Directors of the Company appointed a Special Committee to review the Company's actions prior to its voluntary withdrawal of *Vioxx,* to act for the Board in responding to shareholder litigation matters related to the withdrawal of *Vioxx* and to advise the Board with respect to any action that should be taken as a result of the review.

Arcoxia - *Arcoxia* has been launched in 51 countries in Europe, Latin America and Asia. On October 29, 2004, the Company confirmed that it had received an "approvable" letter from the FDA for the Company's New Drug Application ("NDA") for *Arcoxia* . The FDA informed Merck in the letter that before approval of the NDA can be issued, additional safety and efficacy data for *Arcoxia* are required. On October 22, 2004, the European Medicines Evaluation Agency ("EMEA") announced that it would conduct a review of all COX-2 inhibitors, including *Arcoxia* , in light of the worldwide withdrawal of *Vioxx* . The EMEA said that it had been asked to conduct the review by the European Commission as a "precautionary measure" and that it would look at all aspects of the cardiovascular safety of COX-2 inhibitors, including thrombotic and cardio-renal events. On January 18, 2005, the EMEA's Committee on Medicinal Products for Human Use ("CHMP") held hearings in connection with its review. Additional meetings were held by the CHMP in mid-February to continue its review to determine whether there is a need to make European Union ("EU")-wide changes to the products' marketing authorizations, including labeling, and to determine whether additional studies are needed. On February 17, 2005, CHMP announced that it had concluded that the available data show an increased risk of cardiovascular adverse events for COX-2 inhibitors as a class relative to placebo and some NSAIDS. According to CHMP, the data also suggested an association between duration of use and dose and the probability of suffering a cardiovascular event and therefore recommended use of the lowest effective dose of COX-2 inhibitors for the shortest possible duration of treatment. Further, CHMP introduced a contra-indication for all COX-2 inhibitors in patients with ischemic heart disease or stroke, and expanded the contra-indication for certain patients having higher classes of congestive heart failure. Specifically with respect to *Arcoxia,* CHMP also introduced a contra-indication in patients with hypertension whose blood pressure is not under control, and advised that *Arcoxia* may be associated with more frequent and severe effects on blood pressure, particularly at higher doses, than some other COX-2 inhibitors, and recommended monitoring of blood pressure for all patients taking *Arcoxia.* CHMP stated that these are interim measures pending the finalization of the class review which is expected in April 2005. Finally, CHMP concluded that more research is needed in the field to evaluate the cardiovascular safety of COX-2 inhibitors, and that ongoing cardiovascular trials should continue as planned.

Merck is working with other regulatory agencies in the countries where *Arcoxia* is approved to assess whether changes to the prescribing information for the coxib class of drugs, including *Arcoxia,* are warranted.

Acquisitions — In March 2004, the Company acquired Aton Pharma, Inc. ("Aton"), a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Aton's clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. The lead product candidate, suberoylanilide hydroxamic acid (SAHA), is currently in Phase II clinical trials for the treatment of cutaneous T-cell lymphoma.

In 2003, the Company, through its wholly owned subsidiary, MSD (Japan) Co., Ltd., completed tender offers to acquire the remaining 49% of the common shares of Banyu Pharmaceutical Co., Ltd. ("Banyu") that it did not already own for an aggregate purchase price of approximately $1.5 billion. On March 30, 2004, Merck completed its acquisition of Banyu. Full ownership of Banyu enhances Merck's position in Japan, the world's second-largest pharmaceutical market.

Joint Ventures — In 2000, the Company and Schering-Plough Corporation ("Schering-Plough") entered into agreements to create separate equally-owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In December 2001, the cholesterol-management partnership agreements were expanded to include all the countries of the world, excluding Japan. In October 2002, *Zetia (* ezetimibe) (branded *Ezetrol* outside the United States), the first in a new class of cholesterol-lowering agents, was launched in the United States. As of December 31, 2004, *Ezetrol* has been launched in more than 50 countries outside the United States. In July 2004, *Vytorin* (ezetimibe/simvastatin) (marketed as *Inegy* in many countries outside the United States), a combination product containing the active ingredients of both *Zetia* and *Zocor,* was approved in the United States. As of December 31, 2004, in addition to the United States, *Vytorin* had been approved in 15 countries.

In November 2004, Merck and Schering-Plough announced a new clinical trial for *Vytorin*, IMPROVE IT (Improved Reduction of Outcomes: *Vytorin* Efficacy International Trial). This trial will evaluate *Vytorin* in reducing major cardiovascular events through intensive lipid lowering of LDL cholesterol in 10,000 patients with acute coronary syndrome. IMPROVE IT is the fourth large-scale outcomes trial being conducted on *Vytorin.*

In 1982, the Company entered into an agreement with Astra AB ("Astra") to develop and market Astra products in the United States. In 1994, the Company and Astra formed an equally owned joint venture that developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec* , the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, the Company and Astra restructured the joint venture whereby the Company acquired Astra's interest in the joint venture, renamed KBI Inc. ("KBI"), and contributed KBI's operating assets to a new U.S. limited partnership named Astra Pharmaceuticals, L.P. (the "Partnership"), in which the Company maintains a limited partner interest. The Partnership, renamed AstraZeneca LP, became the exclusive distributor of the products for which KBI retained rights. The Company earns certain Partnership returns as well as ongoing revenue based on sales of current and future KBI products. The Partnership returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing the Company's share of undistributed Partnership GAAP earnings. In conjunction with the 1998 restructuring, for a payment of $443.0 million, Astra purchased an option to buy the Company's interest in the KBI products, excluding the Company's interest in the gastrointestinal medicines *Nexium* and *Prilosec* . The Company also granted Astra an option (the "Shares Option") to buy the Company's common stock interest in KBI, at an exercise price based on the net present value of estimated future net sales of *Nexium* and *Prilosec* .

In April 1999, Astra merged with Zeneca Group Plc, forming AstraZeneca AB ("AstraZeneca"). As a result of the merger, in exchange for the Company's relinquishment of rights to future Astra products with no existing or pending U.S. patents at the time of the merger, Astra paid $967.4 million, which is subject to a true-up calculation in 2008 that may require repayment of all or a portion of this amount. The merger also triggers a partial redemption of the Company's limited partner interest in 2008. Furthermore, as a result of the merger, AstraZeneca's option to buy the Company's interest in the KBI products is exercisable in 2010 and the Company has the right to require AstraZeneca to purchase such interest in 2008. In addition, the Shares Option is exercisable two years after Astra's purchase of the Company's interest in the KBI products.

In 1989, the Company formed a joint venture with Johnson & Johnson to develop, market and manufacture consumer health care products in the United States. This 50% owned joint venture was expanded into Europe in 1993, and into Canada in 1996. Significant joint venture products are *Pepcid AC* (famotidine), an over-the-counter form of the Company's ulcer medication *Pepcid* (famotidine), as well as *Pepcid Complete*, an over-the-counter product which combines the Company's ulcer medication with antacids (calcium carbonate and magnesium hydroxide). In March 2004, the Company sold to Johnson & Johnson its interest in the European joint venture which is discussed further on page 9 under *Divestitures* .

Effective April 1992, the Company, through the Merck Vaccine Division, and Connaught Laboratories, Inc. (now Sanofi Pasteur S.A.), agreed to collaborate on the development and marketing of combination pediatric vaccines and to promote selected vaccines in the United States. The research and marketing collaboration enables the companies to pool their resources to expedite the development of vaccines combining several different antigens to protect children against a variety of diseases, including Haemophilus influenzae type b, hepatitis B, diphtheria, tetanus, pertussis and poliomyelitis. While combination vaccine development efforts continue under this agreement, no vaccines are currently being promoted.

In 1994, the Company, through the Merck Vaccine Division, and Pasteur Mérieux Connaught (now Sanofi Pasteur S.A.) formed a joint venture to market human vaccines in Europe and to collaborate in the development of combination vaccines for distribution in the then existing EU and the European Free Trade Association. The

Company and Sanofi Pasteur contributed, among other things, their European vaccine businesses for equal shares in the joint venture, known as Pasteur Mérieux MSD, S.N.C. (now Sanofi Pasteur MSD, S.N.C.). The joint venture is subject to monitoring by the EU, to which the partners made certain undertakings in return for an exemption from European Competition Law, effective until December 2006. The joint venture maintains a presence, directly or through affiliates or branches in Belgium, Italy, Germany, Spain, France, Austria, Ireland, Sweden and the United Kingdom, and through distributors in the rest of its territory.

In 1997, the Company and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their respective animal health and poultry genetics businesses to form Merial Limited ("Merial"), a fully integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species.

Competition — The markets in which the Company's pharmaceutical business is conducted are highly competitive and often highly regulated. Global efforts toward health care cost containment continue to exert pressure on product pricing and access.

Such competition involves an intensive search for technological innovations and the ability to market these innovations effectively. With its long-standing emphasis on research and development, the Company is well prepared to compete in the search for technological innovations. Additional resources to meet competition include quality control, flexibility to meet customer specifications, an efficient distribution system and a strong technical information service. The Company is active in acquiring and marketing products through joint ventures and licenses and has been refining its sales and marketing efforts to further address changing industry conditions. To enhance its product portfolio, the Company continues to pursue external alliances, from early-stage to late-stage product opportunities, including joint ventures and targeted acquisitions. However, the introduction of new products and processes by competitors may result in price reductions and product replacements, even for products protected by patents. For example, the number of compounds available to treat diseases typically increases over time and has resulted in slowing the growth in sales of certain of the Company's products.

Legislation enacted in all states in the United States, particularly in the area of human pharmaceutical products, allows, encourages or, in a few instances, in the absence of specific instructions from the prescribing physician, mandates the use of "generic" products (those containing the same active chemical as an innovator's product) rather than "brand-name" products. Governmental and other pressures toward the dispensing of generic products have significantly reduced the sales of certain of the Company's products no longer protected by patents, such as *Vasotec* and *Vaseretic* (enalapril maleate in combination with hydrochlorothiazide) , the U.S. rights to which have been sold. In addition, *Zocor* has lost patent protection in certain countries outside the United States and the Company has experienced a decline in *Zocor* sales in those countries.

Distribution — The Company sells its human health products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. Vaccines are also sold directly to physicians. The Company's professional representatives communicate the effectiveness, safety and value of the Company's products to health care professionals in private practice, group practices and managed care organizations.

In the fourth quarter of 2003, the Company implemented a new distribution program for U.S. wholesalers to moderate the fluctuations in sales caused by wholesaler investment buying and improve efficiencies in the distribution of Company pharmaceutical products. The new program lowered previous limits on average monthly purchases of Company pharmaceutical products by U.S. customers. Following the implementation of the program, fluctuations in 2004 sales caused by wholesaler investment buying have significantly moderated.

Raw Materials — Raw materials and supplies, which are generally available from multiple sources, are purchased worldwide and are normally available in quantities adequate to meet the needs of the Company's business.

Government Regulation and Investigation — The pharmaceutical industry is subject to global regulation by regional, country, state and local agencies. Of particular importance is the FDA in the United States, which administers requirements covering the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of prescription pharmaceuticals. In many cases, the FDA requirements have increased the amount of time and money necessary to develop new products and bring them to market in the United States. In 1997, the Food and Drug Administration Modernization Act (the "FDA Modernization Act") was passed and was the culmination of a comprehensive legislative reform effort designed to streamline regulatory procedures within the FDA and to improve the regulation of drugs, medical devices and food. The legislation was principally designed to ensure the timely availability of safe and effective drugs and biologics by expediting the premarket review process for new products. A key provision of the legislation is the re-authorization of the Prescription Drug User Fee Act of 1992, which permits the continued collection of user fees from prescription drug manufacturers to augment FDA resources earmarked for the review of human drug applications. This helps provide the resources necessary to ensure the prompt approval of safe and effective new drugs.

In the United States, the government made significant progress in expanding health care access by enacting the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was signed into law in December 2003. This statute added a voluntary drug discount card for Medicare beneficiaries in June 2004 and will add prescription drug coverage on January 1, 2006. Implementation of the new benefit will support the Company's goal of improving access to medicines by expanding insurance coverage, while preserving market-based incentives for pharmaceutical innovation. At the same time, the benefit is designed to assure that prescription drug costs will be controlled by competitive pressures and by encouraging the appropriate use of medicines. The Company has taken a leadership role in contributing to the success of the new Medicare-endorsed discount cards by providing its medicines free for low-income Medicare beneficiaries who exhaust their $600 transitional assistance allowance in Medicare-endorsed drug discount cards. This action is consistent with the Company's long-standing Patient Assistance Program, which provides free medicines to patients in the United States who lack drug coverage and cannot afford their medicines. During 2005, the Company will be negotiating with prescription drug plans under the new Medicare drug benefit to offer Merck products to Medicare beneficiaries beginning January 1, 2006 under the terms of the new benefit.

In addressing cost containment outside of Medicare, the Company has made a continuing effort to demonstrate that its medicines can help save costs in overall patient health care. In addition, pricing flexibility across the Company's product portfolio has encouraged growing use of its medicines and mitigated the effects of increasing cost pressures.

For many years, the pharmaceutical industry has been under federal and state oversight with the approval process for new drugs, drug safety, advertising and promotion, drug purchasing and reimbursement programs and formularies variously under review. The Company believes that it will continue to be able to conduct its operations, including the introduction of new drugs to the market, in this regulatory environment. One type of federal initiative to contain federal health care spending is the prospective or "capitated" payment system, first implemented to reduce the rate of growth in Medicare reimbursement to hospitals. Such a system establishes in advance a flat rate for reimbursement for health care for those patients for whom the payor is fiscally responsible. This type of payment system and other cost containment systems are now widely used by public and private payors and have caused hospitals, health maintenance organizations and other customers of the Company to be more cost-conscious in their treatment decisions, including decisions regarding the medicines to be made available to their patients. The Company continues to work with private and federal employers to slow increases in health care costs. Further, the Company's efforts to demonstrate that its medicines can help save costs in other areas, and pricing flexibility across its product portfolio, have encouraged the use of the Company's medicines and have helped offset the effects of increasing cost pressures.

Also, federal and state governments have pursued methods to directly reduce the cost of drugs and vaccines for which they pay. For example, federal laws require the Company to pay specified rebates for medicines reimbursed by Medicaid, to provide discounts for outpatient medicines purchased by certain Public Health Service entities and "disproportionate share" hospitals (hospitals meeting certain criteria), and to provide minimum

discounts of 24% off of a defined “non-federal average manufacturer price” for purchases by certain components of the federal government such as the Department of Veterans Affairs and the Department of Defense.

Initiatives in some states seek rebates beyond the minimum required by Medicaid legislation, in some cases for patients beyond those who are eligible for Medicaid. Under the Federal Vaccines for Children entitlement program, the U.S. Centers for Disease Control and Prevention (“CDC”) funds and purchases recommended pediatric vaccines at a public sector price for the immunization of Medicaid-eligible, uninsured, native American and certain underinsured children. The Company was awarded a CDC contract in 2004 for the supply of $322 million of pediatric vaccines for the Vaccines for Children program. As of January 1, 2006, patients previously eligible for Medicaid who are also Medicare beneficiaries (65 years and older or disabled) will leave the state-administered Medicaid system to be covered by the new Medicare prescription drug benefit.

Outside the United States, the Company encounters similar regulatory and legislative issues in most of the countries where it does business. There, too, the primary thrust of governmental inquiry and action is toward determining drug safety and effectiveness, often with mechanisms for controlling the prices of prescription drugs and the profits of prescription drug companies. The EU has adopted directives concerning the classification, labeling, advertising, wholesale distribution and approval for marketing of medicinal products for human use. The Company’s policies and procedures are already consistent with the substance of these directives; consequently, it is believed that they will not have any material effect on the Company’s business.

The Company is subject to the jurisdiction of various regulatory agencies and is, therefore, subject to potential administrative actions. Such actions may include seizures of products and other civil and criminal sanctions. Under certain circumstances, the Company on its own may deem it advisable to initiate product recalls. The Company believes that it should be able to compete effectively within this environment.

In addition, certain countries within the EU, recognizing the economic importance of the research-based pharmaceutical industry and the value of innovative medicines to society, are working with industry representatives and the European Commission on proposals to complete the “Single Market” in pharmaceuticals and improve the competitive climate through a variety of means including market deregulation.

There has been an increasing amount of focus on privacy issues in countries around the world, including the United States and the EU. In the United States and the EU, governments have pursued legislative and regulatory initiatives regarding privacy, including federal privacy regulations and recently enacted state privacy laws concerning health and other personal information, which have affected the Company’s operations.

Patents, Trademarks and Licenses — Patent protection is considered, in the aggregate, to be of material importance in the Company’s marketing of human health products in the United States and in most major foreign markets. Patents may cover products *per se* , pharmaceutical formulations, processes for or intermediates useful in the manufacture of products or the uses of products. Protection for individual products extends for varying periods in accordance with the date of grant and the legal life of patents in the various countries. The protection afforded, which may also vary from country to country, depends upon the type of patent and its scope of coverage.

Patent portfolios developed for products introduced by the Company normally provide market exclusivity. Basic patents are in effect for the following major products in the United States: *Arcoxia, Cancidas, Comvax* (Haemophilus b conjugate and hepatitis B [recombinant] vaccine) , *Cosopt, Cozaar, Crixivan* , *Emend* (aprepitant) , *Fosamax, Hyzaar* , *Invanz, Maxalt* (rizatriptan benzoate) , *PedvaxHIB* (Haemophilus b conjugate vaccine) , *Primaxin, Propecia* (finasteride) , *Proscar, Recombivax HB, Singulair, Timoptic-XE* (timolol maleate ophthalmic gel forming solution), *Trusopt, Vioxx and Zocor* . Basic patents are also in effect in the United States for *Zetia* and *Vytorin* , which were developed by the Merck/Schering-Plough partnership. A basic patent is also in effect for *Sustiva/Stocrin* . Bristol-Myers Squibb, under an exclusive license from the Company, sells *Sustiva* in the United States, Canada and certain European countries. The Company markets *Stocrin* in other countries throughout the world. The basic patent for *Aggrastat* (tirofiban hydrochloride) in the United States was divested with the product in 2003. The Company retains basic patents for *Aggrastat* outside the United States.

In 2003, *Zocor* lost its basic patent protection in Canada and certain countries in Europe, including the United Kingdom and Germany, and the Company experienced a decline in *Zocor* sales in those countries. In June 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in U.S. *Zocor* sales.

The FDA Modernization Act includes a Pediatric Exclusivity Provision that may provide an additional six months of market exclusivity in the United States for indications of new or currently marketed drugs if certain agreed upon pediatric studies are completed by the applicant. These exclusivity provisions were re-authorized until October 1, 2007 by the "Best Pharmaceuticals for Children Act" passed in January 2002. In 2004, the FDA granted an additional six months of market exclusivity in the United States to *Trusopt* until October 2008. In 2003, the FDA granted an additional six months of market exclusivity in the United States to *Fosamax* until February 2008, and *Fosamax* Once Weekly until January 2019. However, on January 28, 2005, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. found the Company's patent claims for once-weekly administration of *Fosamax* to be invalid. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008 and the Company expects a decline in U.S. *Fosamax* sales at that time. Prior to the decision, Merck's patent for once-weekly administration of *Fosamax* was set to expire in July 2018. Merck disagrees with the decision of the Court of Appeals and has requested reconsideration by the Court of Appeals. For further information with respect to the Company's patents, see "Patent Litigation" on page 22.

While the expiration of a product patent normally results in a loss of market exclusivity for the covered pharmaceutical product, commercial benefits may continue to be derived from: (i) later-granted patents on processes and intermediates related to the most economical method of manufacture of the active ingredient of such product; (ii) patents relating to the use of such product; (iii) patents relating to novel compositions and formulations; and (iv) in the United States, market exclusivity that may be available under federal law. The effect of product patent expiration on pharmaceutical products also depends upon many other factors such as the nature of the market and the position of the product in it, the growth of the market, the complexities and economics of the process for manufacture of the active ingredient of the product and the requirements of new drug provisions of the Federal Food, Drug and Cosmetic Act or similar laws and regulations in other countries.

Additions to market exclusivity are sought in the United States and other countries through all relevant laws, including laws increasing patent life. Some of the benefits of increases in patent life have been partially offset by a general increase in the number of, incentives for and use of generic products. Additionally, improvements in intellectual property laws are sought in the United States and other countries through reform of patent and other relevant laws and implementation of international treaties.

Worldwide, all of the Company's important products are sold under trademarks that are considered in the aggregate to be of material importance. Trademark protection continues in some countries as long as used; in other countries, as long as registered. Registration is for fixed terms and can be renewed indefinitely.

Royalties received during 2004 on patent and know-how licenses and other rights amounted to $113.9 million. The Company also paid royalties amounting to $734.1 million in 2004 under patent and know-how licenses it holds.

Discontinued Operations — On August 19, 2003, the Company completed the spin-off of Medco Health Solutions, Inc. ("Medco Health") as a separate, publicly-traded company. The spin-off was effected by way of a pro rata dividend to Company stockholders of all the outstanding shares of common stock of Medco Health. Based on a letter ruling the Company received from the U.S. Internal Revenue Service, receipt of Medco Health shares in the distribution was tax-free for U.S. federal income tax purposes, but any cash received in lieu of fractional shares was taxable.

Divestitures — In March 2004, the Company completed the sale to Johnson & Johnson of the Company's 50% equity stake in its European non-prescription pharmaceuticals joint venture with Johnson & Johnson.

In 2003, the Company sold its U.S. rights in *Aggrastat* (tirofiban hydrochloride injection) to Guilford Pharmaceuticals Inc., including the basic U.S. product patents (but not process patents) for the product.

In 2002, the Company sold its U.S. rights in *Vasotec*, *Vaseretic* and *Vasotec I.V. Injection* (enalaprilat) to Biovail Laboratories Incorporated ("Biovail"), a subsidiary of Biovail Corporation. At the same time, the Company's Canadian subsidiary, Merck Frosst Canada & Co. ("Merck Frosst") and Biovail entered into a supply agreement under which Merck Frosst agreed to supply Biovail for a minimum of five years with bulk tablets of formulated enalapril maleate and enalapril maleate in combination with hydrochlorothiazide for distribution by Biovail in the United States as *Vasotec* and *Vaseretic* . The basic product patents on *Vasotec* and *Vaseretic* had expired in the United States prior to these transactions.

Research and Development

The Company's business is characterized by the introduction of new products or new uses for existing products through a strong research and development program. Approximately 13,100 people are employed in the Company's research activities. Expenditures for the Company's research and development programs were $4.0 billion in 2004, $3.2 billion in 2003 and $2.7 billion in 2002 and are estimated to continue at the same level as the full-year 2004 expense in 2005. The Company maintains its ongoing commitment to research over a broad range of therapeutic areas and clinical development in support of new products. Total expenditures for the period 1995 through 2004 exceeded $23.1 billion with a compound annual growth rate of 13%.

The Company maintains a number of long-term exploratory and fundamental research programs in biology and chemistry as well as research programs directed toward product development. Projects related to human health are being carried on in various fields such as bacterial, fungal, and viral infections, cardiovascular disease and atherosclerosis, cancer, depression, diabetes, obesity, neurodegenerative disease, psychiatric disease, pain and inflammation, immunology, respiratory diseases, ophthalmology, respiratory diseases, osteoporosis and men/women health programs, endoparasitic and ectoparasitic diseases, companion animal diseases, and production improvement.

In the development of human health products, industry practice and government regulations in the United States and most foreign countries provide for the determination of effectiveness and safety of new chemical compounds through preclinical tests and controlled clinical evaluation. Before a new drug may be marketed in the United States, recorded data on preclinical and clinical experience are included in the NDA or the biological Product License Application ("PLA") to the FDA for the required approval. The development of certain other products is also subject to government regulations covering safety and efficacy in the United States and many foreign countries. There can be no assurance that a compound that is the result of any particular program will obtain the regulatory approvals necessary for it to be marketed.

As stated above, the Company maintains basic research programs in a number of areas directed toward product development. Once the Company's scientists discover a new compound that they believe has promise to treat a medical condition, the Company commences preclinical testing with that compound. Preclinical testing includes laboratory testing and animal safety studies to gather data on chemistry, pharmacology and toxicology. Compounds that are selected for study in humans then must undergo further testing to determine how they are metabolized and excreted in animals and then prepared in a stable dose form that is bioavailable. The preclinical testing phase takes about six years on average. If the compound continues to show promise, the Company will initiate clinical testing in accordance with established regulatory requirements. The three phases of clinical testing take a total of six years on average to complete. The clinical testing begins with Phase I studies which are used to determine that the compound is safe in humans, usually using healthy volunteers. Phase I studies are concerned with detecting adverse effects and usually do not provide data on the efficacy of the compound to treat the targeted medical condition. If Phase I studies do not identify human tolerability problems, the compound then enters Phase II which is the first time the compound is studied in patients with the disease that the compound is being studied to treat. Phase II dose and efficacy trials are commenced to determine the appropriate dosing for the compound, to confirm the compound's efficacy and to determine whether any adverse effects will limit the compound's usefulness. If the results from the Phase II trials are satisfactory, the Company commences large-scale Phase III trials to confirm the compound's efficacy and safety. Upon completion of those trials, if satisfactory, the

Company submits regulatory filings with the appropriate regulatory agencies around the world to have the product candidate approved for marketing. In the United States, the FDA approval process begins once a complete NDA is submitted and received by the FDA. Pursuant to the Prescription Drug User Fee Act, the FDA review period targets for efficacy NDAs or supplemental NDAs is either six months, for priority review, or ten months, for a standard review. Within 60 days after receipt of an NDA, the FDA determines if the application is sufficiently complete to permit a substantive review. The FDA also assesses, at that time, whether the application will be granted a priority review or standard review. According to FDA guidelines, a priority review is granted if the compound is considered to constitute a "significant improvement, compared to marketed products, including non-drug products/therapies in the treatment, diagnosis, or prevention of a disease." The determination of whether the application is "filable" and type of review (i.e., standard or priority) are then communicated to the Company. Once the review timelines are defined, it is generally assumed that the FDA will act upon the application within those timelines, unless a major amendment has been submitted (either at the Company's own initiative or the FDA's request) to the pending application. If this occurs, the FDA may extend the review period to allow for review of the new information, but by no more than 180 days. Extensions to the review period are communicated to the Company. The average time period from the start of preclinical testing to FDA approval is approximately 14 years.

In November 2004, the Company announced it had filed a Biologics License Application for *ProQuad* (measles, mumps, rubella and varicella (Oka/Merck) virus vaccine live) with the FDA. *ProQuad* is an investigational vaccine for simultaneous vaccination against measles, mumps, rubella and varicella in children 12 months to 12 years of age. *ProQuad* combines two established Merck vaccines, *M-M-R* II and *Varivax* .

The Company's late-stage pipeline includes three Phase III vaccines which are expected to be submitted for FDA approval in 2005. The three vaccines are *Gardasil*, a vaccine to prevent human papillomavirus ("HPV") infection and the associated development of cervical cancer and genital warts; a vaccine for the prevention of zoster (shingles) and the reduction of pain associated with it; and *RotaTeq* , a vaccine to protect against rotavirus, a highly contagious virus that is the most common cause of severe gastroenteritis in infants and young children. The Company expects to file PLAs with the FDA for the zoster vaccine and *RotaTeq* in the second quarter of 2005 and for *Gardasil* in the second half of 2005.

On February 2, 2005, the Company announced that it and GlaxoSmithKline plc ("GSK") entered into a cross-license and settlement agreement for certain patent rights related to HPV vaccines. Pursuant to the agreement, GSK will receive an upfront payment and royalties from the Company based on sales of *Gardasil*, upon development and launch. The agreement resolves competing intellectual property claims related to the Company's and GSK's vaccine candidates. The Company will continue with its research, development and, after appropriate regulatory reviews, commercialization activities, if approved, for *Gardasil* .

The Company is also studying a DPP-IV inhibitor, a glucose-lowering mechanism, used alone and in combination for the treatment of Type 2 diabetes. The compound is currently in Phase III clinical studies and the Company expects to submit an NDA to the FDA in 2006.

The Company's early-stage pipeline includes candidates in each of the following areas: Alzheimer's disease, arthritis, atherosclerosis, cancer, diabetes, endocrine disorders, glaucoma, infectious diseases, obesity, osteoporosis, psychiatric disease, neurodegenerative disease, pain, respiratory disease, urogenital disorders and vaccines. The Company supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as new technologies. In 2004, the Company completed 50 transactions, including research collaborations, preclinical and clinical compounds, and technology transactions. Transactions completed in 2004 include agreements with the following companies: H. Lundbeck A/S ("Lundbeck") for the treatment of sleep disorders, Bristol-Myers Squibb ("BMS") for the treatment of Type 2 diabetes, Vertex Pharmaceuticals Incorporated ("Vertex") for the treatment of cancer; DOV Pharmaceutical, Inc. ("DOV") for the treatment of depression and related psychiatric disorders, Nastech Pharmaceutical Inc. ("Nastech") for the treatment of obesity and Ono Pharmaceutical Co., Ltd. ("Ono") for the treatment of acute stroke.

In February 2004, the Company announced that it entered into an agreement with Lundbeck for the exclusive development and commercialization in the United States of gaboxadol, a compound licensed to Lundbeck by a third party that is currently in Phase III development for the treatment of sleep disorders. Merck and Lundbeck will jointly complete the ongoing Phase III clinical program. The companies anticipate that Merck will file an NDA with the FDA between late 2006 and early 2007. Following FDA approval, the companies plan to co-promote gaboxadol in the United States. In June 2004, Merck and Lundbeck announced an extension of their agreement for the exclusive development and commercialization of gaboxadol to Japan.

In March 2004, the Company acquired Aton, a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Aton's clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. Aton's lead product candidate, suberoylanilide hydroxamic acid (SAHA), is currently in Phase II clinical trials for the treatment of cutaneous T-cell lymphoma.

In April 2004, Merck and BMS entered into a worldwide collaborative agreement for muraglitazar, BMS's product for use in treating patients with Type 2 diabetes. Merck and BMS will globally develop and market muraglitazar. In December 2004, BMS submitted an NDA to the FDA for muraglitazar. Muraglitazar has the potential to be the first in a novel class of drugs known as glitazars. This class of dual alpha/gamma PPAR agonists, including muraglitazar, is thought to control blood sugar. In clinical trials, muraglitazar has reduced blood glucose levels, decreased triglyceride levels and increased high-density lipoprotein (HDL) cholesterol levels in Type 2 diabetes patients and has been generally well tolerated.

In June 2004, Merck and Vertex entered into a global collaboration to develop and commercialize VX-680, Vertex's lead Aurora kinase inhibitor that is in Phase I clinical development for the treatment of cancer. Aurora kinases are implicated in the onset and progression of many different human cancers and novel Aurora kinase inhibitors, such as VX-680, have the potential to play an important future role in the treatment and management of a wide range of tumor types.

In August 2004, Merck and DOV announced an agreement for the development and commercialization of DOV's novel triple-uptake inhibitors being developed for depression and related psychiatric disorders. Merck has licensed exclusive worldwide rights to DOV 21,947, which is in Phase I, for all therapeutic indications.

In September 2004, Merck and Nastech announced a global alliance to develop and commercialize Peptide YY (PYY) 3-36 Nasal Spray, Nastech's product for the treatment of obesity, which is currently in Phase I development. The investigational PYY 3-36 Nasal Spray is designed to deliver the natural, appetite-regulating hormone PYY directly to the bloodstream.

In November 2004, Merck and Ono announced that they signed an agreement granting Merck the worldwide license for ONO-2506 ((2R)-2-propyloctanoic acid), a novel intravenous compound currently in Phase II development for the treatment of acute stroke. In addition, Ono received exclusive rights in Japan to develop and market *Emend* (aprepitant), Merck's drug for use in combination with other antiemetic agents for prevention of acute and delayed nausea and vomiting associated with initial and repeat courses of highly emetogenic cancer chemotherapy, including cisplatin. Ono also received rights in Japan to co-market a second brand of MK-431, Merck's investigational oral compound for the treatment of diabetes, under a yet to be determined trademark.

The chart below reflects the Company's research pipeline as of February 15, 2005. Candidates shown in Phase III include specific products. Candidates shown in Phase I and II include the most advanced compound with a specific mechanism in a given therapeutic area. Back-up compounds, regardless of their phase of development, additional indications in the same therapeutic areas and additional line extensions or formulations for in-line products are not shown. Preclinical areas shown are those where the Company has initiated Good Laboratory Practices studies in compounds with mechanisms distinct from those in Phase I and II. The Company's programs are generally designed to focus on the development of novel medicines to address large, unmet medical needs.

Preclinical
Alzheimer's Disease
Antibacterials
Antiviral
Arthritis
Atherosclerosis
Cancer
Cardiovascular Disease
Diabetes
Glaucoma
Immunology
Insomnia
Osteoporosis
Pain
Respiratory Disease
Vaccines

Phase I
Alzheimer's Disease
c-7617
Arthritis
c-7198
c-9101
Cancer
c-8585
VX-680*
CINV
c-9280
Diabetes
c-0730
Endocrine
c-0239
c-0302
c-7717
Glaucoma
c-3859
Obesity
Nastech PYY3-36*
Osteoporosis
c-3578
Pain
c-8928
c-6740
c-1246
Parkinson's Disease
c-6161
Psychiatric Disease
DOV*
Urinary Incontinence
c-4699
c-0172

Phase II
AIDS
c-1605
Alzheimer's Disease
c-9136
Arthritis
c-4462
c-9787
Atherosclerosis
c-8834
c-1602
Cancer (CTCL)
SAHA*
Diabetes
c-3347
HIV Vaccine
Multiple Sclerosis
c-6448
Obesity
c-2624
c-2735
c-5093
Pediatric Vaccine
Psychiatric Disease
c-9054
Respiratory Disease
c-3193
c-3885
Stroke
ONO 2506*

Phase III
HPV and Related Cervical Cancer and Genital Warts
Gardasil
Diabetes
MK-431
Rotavirus Gastroenteritis
RotaTeq
Insomnia
Gaboxadol *
Shingles
Zoster Vaccine

2004 U.S. Submissions	
Osteoporosis	**Diabetes**
Fosamax Plus Vitamin D	Muraglitazar*
Pediatric Vaccine	
ProQuad	

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Employees

At the end of 2004, the Company had approximately 63,000 employees worldwide, with approximately 32,700 employed in the United States, including Puerto Rico. Approximately 22% of worldwide employees of the Company are represented by various collective bargaining groups.

In 2003, the Company announced plans to eliminate 4,400 positions as part of a cost-reduction initiative that was completed at the end of 2004. As of December 31, 2004, the Company had eliminated 5,100 positions, as the Company identified additional opportunities to eliminate positions and reduce costs. Most of the additional eliminations came from contractor positions. This action is expected to result in approximately $300 million in savings in 2005 without impacting either key productivity initiatives or the Company's ability to meet its business objectives.

Environmental Matters

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations. In 2004, the Company incurred capital expenditures of approximately $50.2 million for environmental protection facilities. The Company is also remediating environmental contamination resulting from

past industrial activity at certain of its sites. Expenditures for remediation and environmental liabilities were $24.5 million in 2004, and are estimated at $65.6 million for the years 2005 through 2009. These amounts do not consider potential recoveries from insurers or other parties. The Company has taken an active role in identifying and providing for these costs, and in management's opinion, the liabilities for all environmental matters which are probable and reasonably estimable have been accrued. Although it is not possible to predict with certainty the outcome of these environmental matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of those provided should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources.

Cautionary Factors that May Affect Future Results
(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

This report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, product approvals and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ materially from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially. Although it is not possible to predict or identify all such factors, they may include the following:

- On September 30, 2004, Merck voluntarily withdrew *Vioxx* from the market. Numerous product liability lawsuits as well as a number of putative class actions have been filed against the Company in state and federal courts relating to the sale and use of *Vioxx* . In addition to these lawsuits, a number of purported class actions have been brought against the Company and several current and former officers and directors of the Company alleging that the Company made false and misleading statements regarding *Vioxx* in violation of the federal securities laws and the Employee Retirement Income Security Act ("ERISA"). In addition, a number of shareholders have filed derivative suits asserting claims against the Board members and Company officers. The Company has also been named as a defendant in actions in various countries outside the United States. The Company anticipates that additional lawsuits relating to *Vioxx* will be filed against it. The Company is also being investigated by the Securities and Exchange Commission ("SEC"), the U.S. Department of Justice, certain Congressional committees and the District Attorney's Office in Munich, Germany. The Company has stated that it is reasonably possible that its insurance coverage will not be adequate to cover its defensive costs and any losses. Unfavorable outcomes in the *Vioxx* Lawsuits (as defined on page 18) or resulting from the *Vioxx* Investigations (as defined on page 19) could have a material adverse effect on the Company's financial position, liquidity and results of operations.

- As noted above, *Arcoxia* is currently marketed in 51 countries outside the United States and it has received an "approvable" letter from the FDA. The Company is currently unable at this time to predict any future action that the FDA will take with respect to *Arcoxia* . The FDA held a hearing on February 16-18 to discuss safety issues related to COX-2 inhibitors. In addition, the CHMP in Europe is conducting a review of all aspects of the cardiovascular safety of COX-2 inhibitors. In connection with that review, as interim measures, the summary of product characteristics for COX-2 inhibitors was revised, including adding new contra-indications for COX-2 inhibitors generally and for *Arcoxia* specifically. The Company is unable at this time to predict the final outcome of CHMP's review. The outcomes of each of these reviews could materially, negatively affect the market potential of *Arcoxia.*

- Generic competition as product patents for several products have recently expired in the United States and other countries. In 2003, *Zocor* lost its basic patent protection in Canada and certain countries in Europe, including the United Kingdom and Germany, and the Company experienced a decline in *Zocor* sales in those countries. In June 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in

U.S. *Zocor* sales. In 2003, the FDA granted an additional six months of market exclusivity in the United States to *Fosamax* until February 2008, and *Fosamax* Once Weekly until January 2019. However, on January 28, 2005, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. found the Company's patent claims for once-weekly administration of *Fosamax* to be invalid. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008 and the Company expects a decline in U.S. *Fosamax* sales at that time. Prior to the decision, Merck's patent for once-weekly administration of *Fosamax* was set to expire in July 2018. Merck disagrees with the decision of the Court of Appeals and has requested reconsideration by the Court of Appeals.

- In July 2004, the Opposition Division of the European Patent Office rendered an oral decision to revoke the Company's patent in Europe that covers the weekly administration of alendronate. The Company has appealed this decision; however, based on that decision, *Fosamax* will lose its market exclusivity in most major European markets after 2007.

- Increased "brand" competition in therapeutic areas important to the Company's long-term business performance.

- The difficulties and uncertainties inherent in new product development. The outcome of the lengthy and complex process of new product development is inherently uncertain. A candidate can fail at any stage of the process and one or more late-stage product candidates could fail to receive regulatory approval. New product candidates may appear promising in development but fail to reach the market because of efficacy or safety concerns, the inability to obtain necessary regulatory approvals, the difficulty or excessive cost to manufacture and/or the infringement of patents or intellectual property rights of others. Furthermore, the sales of new products may prove to be disappointing and fail to reach anticipated levels.

- Pricing pressures, both in the United States and abroad, including rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and health care reform, pharmaceutical reimbursement and pricing in general.

- Changes in government laws and regulations and the enforcement thereof affecting the Company's business.

- Efficacy or safety concerns with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.

- Legal factors, including product liability claims, antitrust litigation and governmental investigations, environmental concerns and patent disputes with branded and generic competitors, any of which could preclude commercialization of products or negatively affect the profitability of existing products.

- Lost market opportunity resulting from delays and uncertainties in the approval process of the FDA and foreign regulatory authorities.

- Increased focus on privacy issues in countries around the world, including the United States and the EU. In the United States, federal and state governments have pursued legislative and regulatory initiatives regarding patient privacy, including federal and recently issued state privacy regulations concerning health information, which have affected the Company's operations.

- Changes in tax laws including changes related to the taxation of foreign earnings, as well as the impact of legislation capping and ultimately repealing Section 936 of the Internal Revenue Code (relating to earnings from the Company's Puerto Rican operations).

- Changes in accounting pronouncements promulgated by standard-setting or regulatory bodies, including the Financial Accounting Standards Board and the SEC, that are adverse to the Company.

- Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates.

This list should not be considered an exhaustive statement of all potential risks and uncertainties.

Geographic Area and Segment Information

The Company's operations are principally managed on a products basis with one reportable segment: The Merck Pharmaceutical segment which includes products marketed either directly or through joint ventures. Merck Pharmaceutical products consist of therapeutic and preventive agents, sold by prescription, for the treatment and prevention of human disorders.

The Company's operations outside the United States are conducted primarily through subsidiaries. Sales worldwide by subsidiaries outside the United States were 41% of sales in 2004, 41% of sales in 2003 and 39% in 2002.

The Company's worldwide business is subject to risks of currency fluctuations, governmental actions and other governmental proceedings abroad. The Company does not regard these risks as a deterrent to further expansion of its operations abroad. However, the Company closely reviews its methods of operations and adopts strategies responsive to changing economic and political conditions.

In recent years, the Company has been expanding its operations in countries located in Latin America, the Middle East, Africa, Eastern Europe and Asia Pacific where changes in government policies and economic conditions are making it possible for the Company to earn fair returns. Business in these developing areas, while sometimes less stable, offers important opportunities for growth over time.

Financial information about geographic areas and operating segments of the Company's business is incorporated by reference to pages 56 (beginning with the caption "Segment Reporting") and 57 of the Company's 2004 Annual Report to stockholders.

Available Information

The Company's Internet website address is *www.merck.com* . The Company will make available, free of charge at the "Investor Information" portion of its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC.

The Company's corporate governance guidelines and the charters of the Board of Directors' seven standing committees are available on the Company's website at *www.merck.com/about/corporategovernance* and all such information is available in print to any stockholder who requests it from the Company.

Item 2. Properties.

The Company's corporate headquarters is located in Whitehouse Station, New Jersey. The Company's U.S. pharmaceutical business is conducted through divisional headquarters located in Upper Gwynedd and West Point, Pennsylvania. The Company's vaccines business is conducted through divisional headquarters located in West Point. Principal research facilities for human health products are located in Rahway, New Jersey and West Point. The Company also has production facilities for human health products at nine locations in the United States and Puerto Rico. Branch warehouses provide services throughout the country. Outside the United States, through subsidiaries, the Company owns or has an interest in manufacturing plants or other properties in Australia, Canada, Japan, Singapore, South Africa, and other countries in Western Europe, Central and South America, and Asia.

Capital expenditures for 2004 were $1,726.1 million compared with $1,915.9 million for 2003. In the United States, these amounted to $1,143.6 million for 2004 and $1,307.8 million for 2003. Abroad, such expenditures amounted to $582.5 million for 2004 and $608.1 million for 2003.

The Company and its subsidiaries own their principal facilities and manufacturing plants under titles which they consider to be satisfactory. The Company considers that its properties are in good operating condition and that its machinery and equipment have been well maintained. Plants for the manufacture of products are suitable for their intended purposes and have capacities and projected capacities adequate for current and projected needs for existing Company products. Some capacity of the plants is being converted, with any needed modification, to the requirements of newly introduced and future products.

Item 3. Legal Proceedings.

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property, and commercial litigation, as well as additional matters such as antitrust actions.

Vioxx Litigation

Product Liability Lawsuits

As previously disclosed, federal and state product liability lawsuits involving individual claims, as well as several putative class actions have been filed against the Company with respect to *Vioxx* . As of January 31, 2005, the Company has been served or is aware that it has been named as a defendant in approximately 850 lawsuits, which include approximately 2,425 plaintiff groups alleging personal injuries resulting from the use of *Vioxx* . Certain of these lawsuits include allegations regarding gastrointestinal bleeding, cardiovascular events, thrombotic events or kidney damage. The Company has also been named as a defendant in approximately 90 putative class actions alleging personal injuries or seeking (i) medical monitoring as a result of the putative class members' use of *Vioxx* , (ii) disgorgement of certain profits under common law unjust enrichment theories, and/or (iii) various remedies under state consumer fraud and fair business practice statutes, including recovering the cost of *Vioxx* purchased by individuals and third-party payors such as union health plans (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Product Liability Lawsuits"). The actions filed in the state courts of California and New Jersey, respectively, have been transferred to a single judge in each state for coordinated proceedings. In addition, the Company filed a motion with the Judicial Panel on Multidistrict Litigation (the "JPML") seeking to transfer to a single federal judge and coordinate for pretrial purposes all federal cases alleging personal injury and/or economic loss relating to the purchase or use of *Vioxx* ; several plaintiffs in certain *Vioxx* Product Liability Lawsuits pending in federal court have made similar requests. On February 16, 2005, the JPML granted the motions to transfer all *Vioxx* Product Liability Lawsuits pending in federal courts nationwide into one Multidistrict Litigation ("MDL") for coordinated pre-trial proceedings. The MDL has been transferred to the United States District Court for the Eastern District of Louisiana before District Judge Eldon E. Fallon.

Shareholder Lawsuits

As previously disclosed, in addition to the *Vioxx* Product Liability Lawsuits, a number of purported class action lawsuits were filed in late 2003 and early 2004 by several shareholders in the United States District Court for the Eastern District of Louisiana naming as defendants the Company and several current or former officers and directors of the Company. These cases have been consolidated. After the announcement of the withdrawal of *Vioxx* , the Company was named as a defendant in additional purported securities class action lawsuits filed in federal courts in New Jersey, Pennsylvania and Louisiana. These actions allege that the defendants made false and misleading statements regarding *Vioxx* in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, including with respect to the withdrawal of *Vioxx,* and seek unspecified compensatory damages and the costs of suit, including attorneys' fees. Plaintiffs request certification of a class of purchasers of Company stock during various periods between May 21, 1999 and October 29, 2004. In addition, two shareholders filed an individual securities action in the United States District Court for the Central District of Illinois seeking compensatory damages and costs. Certain complaints include allegations under Sections 11, 12 and 15 of the Securities Act of 1933 that certain officers and directors made incomplete and misleading statements in a registration statement and certain prospectuses filed in connection with the Merck Stock Investment Plan, a dividend reinvestment plan (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Securities Lawsuits"). Several plaintiffs have dismissed their complaints without prejudice. As of January 31, 2005, a total of 14 *Vioxx* Securities Lawsuits were pending in various federal courts.

As previously disclosed, in March 2004, two shareholder derivative actions were filed in the United States District Court for the Eastern District of Louisiana naming the Company as a nominal defendant and certain members of the Board (past and present), together with certain executive officers, as defendants. The complaints arise out of substantially the same factual allegations that are made in the *Vioxx* Securities Lawsuits. The derivative suits, which are purportedly brought to assert rights of the Company, assert claims against the Board members and officers for breach of fiduciary duty, waste of corporate assets, unjust enrichment, abuse of control and gross mismanagement. After the withdrawal of *Vioxx*, additional shareholder derivative actions were filed in the New Jersey Superior Court for Hunterdon County and in the United States District Court for the District of New Jersey against the Company and certain officers and members of the Board (past and present) (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Derivative Lawsuits"). Two of the *Vioxx* Derivative Lawsuits include allegations that certain directors made false and misleading statements in connection with certain Proxy Statements filed with the SEC in violation of Section 14(a) of the Securities Act of 1933. As of January 31, 2005, a total of seven *Vioxx* Derivative Lawsuits were pending.

On October 29, 2004, two individual shareholders made a demand on the Board to take legal action against Mr. Raymond Gilmartin, Chairman, President and Chief Executive Officer and other individuals for allegedly causing damage to the Company with respect to the allegedly improper marketing of *Vioxx*. In response to that demand letter, the Board of Directors determined at its November 23, 2004 meeting that the Board would take the shareholders' request under consideration and it remains under consideration.

In addition to these shareholder actions, since the announcement of the withdrawal of *Vioxx* , putative class actions have been filed against the Company in the United States District Court for the Eastern District of Louisiana and in the United States District Court for the District of New Jersey (the " *Vioxx* ERISA Lawsuits" and, together with the *Vioxx* Securities Lawsuits and the *Vioxx* Derivative Lawsuits, the " *Vioxx* Shareholder Lawsuits") on behalf of certain of the Company's current and former employees who are participants in certain of the Company's retirement plans asserting claims under the Employee Retirement Income Security Act ("ERISA"). The lawsuits make similar allegations to the allegations contained in the *Vioxx* Securities Lawsuits. As of January 31, 2005, a total of 11 *Vioxx* ERISA Lawsuits were pending.

In October 2004, the plaintiff in one of the *Vioxx* ERISA Lawsuits filed a motion with the JPML to transfer to a single federal judge and coordinate for pretrial purposes all of the *Vioxx* ERISA Lawsuits. In November 2004, the Company responded to that motion and filed its own motion seeking coordination of all of the *Vioxx* Shareholder Lawsuits. On February 23, 2005, the JPML granted the motions to transfer all *Vioxx* Shareholder Lawsuits pending in federal courts nationwide into one MDL for coordinated pre-trial proceedings. The MDL has been transferred to the United States District Court for the District of New Jersey before District Judge Stanley R. Chesler.

International Lawsuits

In addition to the lawsuits discussed above, the Company has been named as a defendant in actions in various countries in Europe, Australia, Canada, Brazil and Israel related to *Vioxx* .

Additional Lawsuits

Based on media reports and other sources, the Company anticipates that additional *Vioxx* Product Liability Lawsuits and *Vioxx* Shareholder Lawsuits (collectively, the " *Vioxx* Lawsuits") will be filed against it and/or certain of its current and former officers and directors in the future.

Insurance

The Company has product liability insurance for claims brought in the *Vioxx* Product Liability Lawsuits of up to approximately $630 million after deductibles and co-insurance. This insurance provides coverage for legal defense costs and potential damage amounts that have been or will be incurred in connection with the *Vioxx* Product Liability Lawsuits. The Company believes that this insurance coverage extends to additional *Vioxx* Product Liability Lawsuits that may be filed in the future. The Company currently believes that it has at least approximately $190 million of Directors' and Officers' insurance coverage for the *Vioxx* Securities Lawsuits and

Vioxx Derivative Lawsuits. The Company has fiduciary and other insurance for the *Vioxx* ERISA Lawsuits with stated upper limits of $275 million. Additional insurance coverage for these claims may also be available under upper level excess policies that provide coverage for a variety of risks. There are likely to be disputes with insurers about the availability of some or all of this insurance coverage. At this time, the Company believes it is reasonably possible its insurance coverage with respect to the *Vioxx* Lawsuits will not be adequate to cover its defense costs and any losses.

Recently, Merck received notice that the Company's upper level excess insurers (which provide excess insurance potentially applicable to all of the *Vioxx* Lawsuits) commenced an arbitration seeking, among other things, to cancel those policies and to void all of their obligations under those policies with respect to the *Vioxx* Lawsuits, and also to void their coverage obligations with respect to certain other types of losses covered by those policies. The notice also purports to reserve the right of the insurers to raise other coverage defenses, including with respect to the application of exclusions, the definition of loss, compliance with policy conditions, exhaustion of applicable underlying and upper coverage limits, and satisfactory proof of loss. As most of those insurers also issued lower level excess policies to Merck, it is likely that such insurers will also dispute their obligation to provide coverage under other policies. Merck intends to contest vigorously the insurers' claims and will attempt to enforce its rights under applicable insurance policies. The amounts actually recovered under the policies discussed in this section may be less than the amounts specified in the preceding paragraph.

The Company notes that the discussion contained in this section updates the disclosure entitled "Contingencies and Environmental Liabilities — *Vioxx* Litigation — Insurance" in Note 11 to the Company's Consolidated Financial Statements filed with the SEC on February 28, 2005 on Form 8-K and contained in the Company's 2004 Annual Report to stockholders which is incorporated by reference in this Form 10-K.

Investigations

In November 2004, the Company was advised by the staff of the SEC that it was commencing an informal inquiry concerning *Vioxx* . On January 28, 2005, the Company announced that it received notice that the SEC issued a formal notice of investigation. Also, the Company received a subpoena from the U.S. Department of Justice requesting information related to the Company's research, marketing and selling activities with respect to *Vioxx* in a federal health care investigation under criminal statutes. There are also ongoing investigations by certain Congressional committees. Also, the District Attorney's Office in Munich, Germany notified the Company's subsidiary in Germany that it received complaints and commenced an investigation in order to determine whether any criminal charges should be brought in Germany concerning *Vioxx* (together with the previously mentioned investigations, the " *Vioxx* Investigations"). The Company will cooperate with all of the *Vioxx* Investigations. The Company cannot predict the outcome of these inquiries; however, they could result in a potential civil disposition from the SEC and/or potential civil or criminal dispositions from the Justice Department.

Reserves

The Company currently anticipates that one or more of the *Vioxx* Product Liability Lawsuits may go to trial in the first half of 2005. The Company cannot predict the timing of any trials with respect to the *Vioxx* Shareholder Lawsuits. The Company believes that it has meritorious defenses to the *Vioxx* Lawsuits and will vigorously defend against them. In view of the inherent difficulty of predicting the outcome of litigation, particularly where there are many claimants and the claimants seek indeterminate damages, the Company is unable to predict the outcome of these matters, and at this time cannot reasonably estimate the possible loss or range of loss with respect to the *Vioxx* Lawsuits. The Company has not established any reserves for any potential liability relating to the *Vioxx* Lawsuits or the *Vioxx* Investigations (collectively, the " *Vioxx* Litigation"). The Company has established a reserve of $675 million solely for its future legal defense costs related to the *Vioxx* Litigation. This reserve is based on certain assumptions and is the minimum amount that the Company believes at this time it can reasonably estimate will be spent over a multi-year period. The Company significantly increased the reserve when it had the ability to reasonably estimate its future legal defense costs for the *Vioxx* Litigation. Some of the significant factors that were considered in the establishment of the reserve for the *Vioxx* Litigation were as follows: the actual costs incurred by the Company up to that time; the development of the Company's legal defense strategy and structure in light of the expanded scope of the *Vioxx* Litigation; the number of cases being brought against the Company; and the anticipated timing, progression and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. Unfavorable outcomes in the *Vioxx* Lawsuits or resulting from the *Vioxx* Investigations could have a material adverse effect on the Company's financial position, liquidity and results of operations.

Commercial Litigation

Beginning in 1993, the Company was named in a number of antitrust suits, certain of which were certified as class actions, instituted by most of the nation's retail pharmacies and consumers in several states. In 1994, these actions, except for those pending in state courts, were consolidated for pre-trial purposes in the federal court in Chicago, Illinois. In 1996, the Company and several other defendants settled the federal class action, which represented the single largest group of claims. Since that time, the Company has settled substantially all of the remaining cases on satisfactory terms; the few remaining cases have been inactive for several years. The Company has not engaged in any conspiracy and no admission of wrongdoing was made nor was included in any settlement agreements.

As previously disclosed, the Company was joined in ongoing litigation alleging manipulation by pharmaceutical manufacturers of Average Wholesale Prices ("AWP"), which are sometimes used in calculations that determine public and private sector reimbursement levels. In 2002, the JPML ordered the transfer and consolidation of all pending federal AWP cases to federal court in Boston, Massachusetts. Plaintiffs filed one consolidated class action complaint, which aggregated the claims previously filed in various federal district court actions and also expanded the number of manufacturers to include some which, like the Company, had not been defendants in any prior pending case. In May 2003, the court granted the Company's motion to dismiss the consolidated class action and dismissed the Company from the class action case. Subsequent to the Company's dismissal, the plaintiffs filed an amended consolidated class action complaint, which did not name the Company as a defendant. The Company and 30 other pharmaceutical manufacturers remain defendants in six similar complaints pending in federal court in Massachusetts filed by the New York Counties of Suffolk, Rockland, Nassau, Westchester, Onondaga and New York City and three cases pending in Kentucky, Alabama and Wisconsin. The Company and the other defendants have filed and argued their motion to dismiss the Suffolk case and are awaiting the court's final decision on the motion. In addition, the Company is a defendant in cases brought on behalf of the citizens of Kentucky and Wisconsin alleging fraudulent practices regarding AWP, which the Company will vigorously defend.

As previously disclosed, the Company has been named as a defendant in antitrust cases in federal court in Minnesota and in state court in California, each alleging an unlawful conspiracy among different sets of pharmaceutical manufacturers to protect high prices in the United States by impeding importation into the United States of lower-priced pharmaceuticals from Canada. The Company and the other defendants have filed a motion to dismiss the action.

As previously disclosed, a suit in federal court in Alabama by two providers of health services to needy patients alleges that 15 pharmaceutical companies overcharged the plaintiffs and a class of those similarly situated, for pharmaceuticals purchased by the plaintiffs under the program established by Section 340B of the Public Health Service Act. The Company and the other defendants have filed a motion to dismiss the complaint on numerous grounds.

As previously disclosed, in January 2003, the U.S. Department of Justice notified the federal court in New Orleans, Louisiana that it was not going to intervene at that time in a pending Federal False Claims Act case that was filed under seal in December 1999 against the Company. The court issued an order unsealing the complaint, which was filed by a physician in Louisiana, and ordered that the complaint be served. The complaint, which alleged that the Company's discounting of *Pepcid* in certain Louisiana hospitals led to increases in costs to Medicaid, was dismissed. An amended complaint was filed under seal and the case has been administratively closed by the court until the seal is lifted. The allegations contained in the amended complaint are unknown.

Governmental Proceedings

As previously disclosed, the Company has received a subpoena from the U.S. Department of Justice in connection with its investigation of the Company's marketing and selling activities. The Company has also reported that it has received a Civil Investigative Demand from the Attorney General of Texas regarding the Company's

marketing and selling activities relating to Texas. In April 2004, the Company received a subpoena from the office of the Inspector General for the District of Columbia in connection with an investigation of the Company's interactions with physicians in the District of Columbia, Maryland and Virginia. In November 2004, the Company received a letter request from the Department of Justice in connection with its investigation of the Company's pricing of *Pepcid* . The Company is cooperating with all of these investigations. The Company cannot predict the outcome of these investigations; however, it is possible that unfavorable outcomes could have a material adverse effect on the Company's financial position, liquidity and results of operations. In addition, from time to time, other federal or state regulators may seek information about practices in the pharmaceutical industry in inquiries other than the investigations discussed in this paragraph. It is not feasible to predict the outcome of any such inquiries.

Vaccine Litigation

The Company is a party in claims brought under the Consumer Protection Act of 1987 in the United Kingdom, which allege that certain children suffer from a variety of conditions as a result of being vaccinated with various bivalent vaccines for measles and rubella and/or trivalent vaccines for measles, mumps and rubella, including the Company's *M-M-R* II. The conditions include autism, with or without inflammatory bowel disease, epilepsy, diabetes, encephalitis, encephalopathy, deafness, chronic fatigue syndrome and transverse myelitis. In early September 2003, the Legal Services Commission ("LSC") announced its decision to withdraw public funding of the litigation brought by the claimants. This decision was confirmed on appeal by the Funding Review Committee ("FRC") on September 30, 2003. The claimants' application for judicial review of the decision to withdraw public funding was dismissed in February 2004 and the April 2004 trial date was vacated. The lead claimants have decided not to apply to the Court of Appeals for permission to appeal the decision. As a result, legal aid for all lead claimants has now been discharged. The non-lead claimants were subject to a "show cause" procedure to withdraw legal aid unless the claimants could show cause as to why it should not be withdrawn. The FRC heard 37 of the "show cause" appeals by the non-lead claimants in October 2004. The appeals involving autism (26) were unsuccessful, but funding was reinstated for 11 appeals involving other non-autism conditions such as epilepsy, deafness, encephalitis and transverse myelitis. In light of the 11 successful appeals, the LSC has reconsidered the cases of some other claimants and, to date, funding has been reinstated in an additional 86 non-lead, non-autism cases, to the limited extent necessary to allow solicitors to provide a report on the individual cases to the LSC. It is not yet known how many of the 97 appeals involve claimants suing the Company. All claimants for all conditions had until February 28, 2005 to give notice of their intention to continue or discontinue with their claims, irrespective of whether or not they had secured legal aid funding. Directions for further conduct of the litigation will be made at a case management hearing scheduled to take place on March 17 and 18, 2005. The Company will vigorously defend against these lawsuits.

As previous disclosed, the Company is also a party to individual and class action product liability lawsuits and claims in the United States involving pediatric vaccines (i.e., hepatitis B vaccine and Haemophilus influenza type b vaccine) that contained thimerosal, a preservative used in vaccines. Merck has not distributed thimerosal-containing pediatric vaccines in the United States since the fall of 2001. As of December 31, 2004, there were approximately 300 active thimerosal related lawsuits with approximately 820 plaintiffs. Other defendants include vaccine manufacturers who produced pediatric vaccines containing thimerosal as well as manufacturers of thimerosal. In these actions, the plaintiffs allege, among other things, that they have suffered neurological injuries as a result of exposure to thimerosal from pediatric vaccines. Two state court cases and two federal district court cases are scheduled for trial in 2005. The Company will vigorously defend against these lawsuits; however, it is possible that unfavorable outcomes could have a material adverse effect on the Company's financial position, liquidity and results of operations.

The Company has been successful in having cases of this type either dismissed or stayed on the ground that the action is prohibited under the National Vaccine Injury Compensation Program ("NVICP"). The NVICP prohibits any person from filing or maintaining a civil action (in state or federal court) seeking damages against a vaccine manufacturer for vaccine-related injuries unless a petition is first filed in the United States Court of Federal Claims (hereinafter the "Vaccine Court"). Under the NVICP, before filing a civil action against a vaccine manufacturer, the petitioner must either (a) pursue his or her petition to conclusion in Vaccine Court and then timely

file an election to proceed with a civil action in lieu of accepting the Vaccine Court's adjudication of the petition or (b) timely exercise a right to withdraw the petition prior to Vaccine Court adjudication in accordance with certain statutorily prescribed time periods. The Company is aware that there are numerous cases pending in Vaccine Court involving allegations that thimerosal-containing vaccines and/or the *M-M-R* II vaccine cause autism spectrum disorders. The Company is not a party to these Vaccine Court proceedings because the petitions are brought against the Department of Health and Human Services.

Patent Litigation

From time to time, generic manufacturers of pharmaceutical products file Abbreviated New Drug Applications ("ANDAs") with the FDA seeking to market generic forms of the Company's products prior to the expiration of relevant patents owned by the Company. Generic pharmaceutical manufacturers have submitted ANDAs to the FDA seeking to market in the United States generic forms of *Fosamax* , *Prilosec* and *Propecia* prior to the expiration of the Company's (and AstraZeneca's in the case of *Prilosec)* patents concerning these products. The generic companies' ANDAs generally include allegations of non-infringement, invalidity and unenforceability of the patents. Generic manufacturers have received FDA approval to market a generic form of *Prilosec* . The Company has filed patent infringement suits in federal court against companies filing ANDAs for generic alendronate and finasteride, and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDAs for generic omeprazole. Similar patent challenges exist in certain foreign jurisdictions. The Company intends to vigorously defend its patents, which it believes are valid, against infringement by generic companies attempting to market products prior to the expiration dates of such patents. As with any litigation, there can be no assurance of the outcomes, which, if adverse, could result in significantly shortened periods of exclusivity for these products.

A trial in the United States with respect to the alendronate daily product concluded in November 2001. In November 2002, a decision was issued by the U.S. District Court in Delaware finding the Company's patent valid and infringed. On October 30, 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the validity and infringement of the Company's basic U.S. patent covering the use of alendronate in any form. A request for rehearing was denied. A trial in the United States involving the alendronate weekly product was held in March 2003. On August 28, 2003, the U.S. District Court in Delaware upheld the validity of the Company's U.S. patent covering the weekly administration of alendronate. However, on January 28, 2005, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. found the Company's patent claims for once-weekly administration of *Fosamax* to be invalid. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008 and the Company expects a decline in U.S. *Fosamax* sales at that time. Prior to the decision, Merck's patent for once-weekly administration of *Fosamax* was set to expire in July 2018. Merck disagrees with the decision of the Court of Appeals and has requested reconsideration by the Court of Appeals.

In January 2003, the High Court of Justice for England and Wales held that patents of the Company protecting the alendronate daily and weekly products were invalid in the United Kingdom. On November 6, 2003, the Court of Appeals of England and Wales affirmed the ruling by the High Court of Justice for England and Wales. European countries permit companies seeking approval of a generic product to reference data of the innovative product in certain circumstances under data exclusivity regulations. The Company has been granted leave to appeal a decision of the U.K. regulatory authority that its data for weekly alendronate may be referenced by companies seeking approval of generic weekly alendronate products. The Company has also filed an appeal of a grant by the Swedish regulatory authority of approval of generic weekly alendronate products which referenced the Company's data on weekly alendronate for their approval.

As previously announced by the Company, on July 20, 2004, the Opposition Division of the European Patent Office rendered an oral decision to revoke the Company's patent in Europe that covers the weekly administration of alendronate. On August 19, 2004, the written opinion was issued confirming the oral decision revoking the Company's patent. On September 16, 2004, the Company filed an appeal of this decision. Based on other patents, the alendronate weekly product is protected in most major European markets until at least 2007.

On October 5, 2004, in an action in Australia challenging the validity of the Company's Australian patent for the weekly administration of alendronate, the patent was found to be invalid. The Company has appealed the decision.

In addition, in Japan a proceeding has been filed challenging the validity of the Company's Japanese patent for the weekly administration of alendronate.

In the case of omeprazole, the trial court in the United States rendered an opinion in October 2002 upholding the validity of the Company's and AstraZeneca's patents covering the stabilized formulation of omeprazole and ruling that one defendant's omeprazole product did not infringe those patents. The other three defendants' products were found to infringe the formulation patents. In December 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the trial court. With respect to certain other generic manufacturers' omeprazole products, no trial date has yet been set.

In the case of finasteride, an ANDA has been filed seeking approval of a generic version of *Propecia* and alleging invalidity of the Company's patents. The Company filed a patent infringement lawsuit in the District Court of Delaware in September 2004. A trial is not anticipated before 2006.

Other Litigation

As previously disclosed, on July 6, 2004, the United States District Court for the District of New Jersey granted a motion by the Company, Medco Health and certain officers and directors to dismiss a purported class action complaint involving claims related to the Company's revenue recognition practice for retail co-payments paid by individuals to whom Medco Health provides pharmaceutical benefits as well as other allegations. The complaint was dismissed with prejudice. On August 20, 2004, the same court granted the Company's motion to dismiss with prejudice a related shareholder derivative action. Plaintiffs in both actions have appealed the decisions.

Prior to the spin-off of Medco Health, the Company and Medco Health agreed to settle, on a class action basis, a series of lawsuits asserting violations of ERISA (the "Gruer Cases"). The Company, Medco Health and certain plaintiffs' counsel filed the settlement agreement with the federal district court in New York, where cases commenced by a number of plaintiffs, including participants in a number of pharmaceutical benefit plans for which Medco Health is the pharmacy benefit manager, as well as trustees of such plans, have been consolidated. The proposed class settlement has been agreed to by plaintiffs in five of the cases filed against Medco Health and the Company. Under the proposed settlement, the Company and Medco Health have agreed to pay a total of $42.5 million, and Medco Health has agreed to modify certain business practices or to continue certain specified business practices for a period of five years. The financial compensation is intended to benefit members of the settlement class, which includes ERISA plans for which Medco Health administered a pharmacy benefit at any time since December 17, 1994. In 2003, the district court preliminarily approved the settlement and held hearings to hear objections to the fairness of the proposed settlement. The district court approved the settlement in 2004, but has not yet determined the number of class member plans that have properly elected not to participate in the settlement. The settlement becomes final only if and when all appeals have been resolved. Three notices of appeal have been filed and the appellate court is expected to hear arguments regarding the appeals in March 2005 and decide the appeals thereafter. Currently, certain class member plans have indicated that they will not participate in the settlement. Cases initiated by three such plans and two individuals remain pending in the Southern District of New York. Plaintiffs in these cases have asserted claims based on ERISA as well as other federal and state laws that are the same as or similar to the claims that had been asserted by settling class members in the Gruer Cases. The Company and Medco Health are named as defendants in these cases. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of prolonged litigation.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing paragraph. These cases are being defended by Medco Health.

There are various other legal proceedings, principally product liability and intellectual property suits involving the Company, which are pending. While it is not feasible to predict the outcome of such proceedings or the proceedings discussed above, in the opinion of the Company, all such proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability that would have a material adverse effect on the financial position, liquidity or results of operations of the Company other than proceedings for which a separate assessment is provided.

Environmental Matters

As previously disclosed, in December 2003, the Virginia Department of Environmental Quality ("VADEQ") issued a Notice of Violation to the Company's Elkton, Virginia facility for air permit limit exceedances reported by the facility as a result of performance testing of a process train. The Company is currently in discussions with VADEQ and believes that its discussions will result in capital improvements together with monetary sanctions which will be immaterial but will exceed $100,000.

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and other federal and state equivalents. These proceedings seek to require the operators of hazardous waste disposal facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the government for cleanup costs. The Company has been made a party to these proceedings as an alleged generator of waste disposed of at the sites. In each case, the government alleges that the defendants are jointly and severally liable for the cleanup costs. Although joint and several liability is alleged, these proceedings are frequently resolved so that the allocation of cleanup costs among the parties more nearly reflects the relative contributions of the parties to the site situation. The Company's potential liability varies greatly from site to site. For some sites the potential liability is *de minimis* and for others the costs of cleanup have not yet been determined. While it is not feasible to predict the outcome of many of these proceedings brought by federal or state agencies or private litigants, in the opinion of the Company, such proceedings should not ultimately result in any liability which would have a material adverse effect on the financial position, results of operations, liquidity or capital resources of the Company. The Company has taken an active role in identifying and providing for these costs and such amounts do not include any reduction for anticipated recoveries of cleanup costs from insurers, former site owners or operators or other recalcitrant potentially responsible parties.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Executive Officers of the Registrant (as of March 10, 2005)

RAYMOND V. GILMARTIN — Age 64

June, 1994 — Chairman of the Board (since November, 1994), President and Chief Executive Officer

DAVID W. ANSTICE — Age 56

January, 2003 — President, Human Health — responsible for the Company's prescription drug business in Japan, Latin America, Canada, Australia, New Zealand and the Company's joint venture relationship with Schering-Plough

March, 2001 — President, The Americas and U.S. Human Health — responsible for one of the two prescription drug divisions comprising U.S. Human Health, as well as the Company's prescription drug business in Canada and Latin America, and the Company's joint venture relationship with Schering-Plough

January, 1997 — President, Human Health-The Americas — responsible for the Company's human health business in the United States, Canada and Latin America

MARCIA J. AVEDON — Age 43

January, 2003 — Senior Vice President, Human Resources

September, 2002 — Vice President, Talent Management and Organization Effectiveness

Prior to September, 2002, Dr. Avedon held several senior human resources positions (1995 to 2002) at Honeywell International (diversified manufacturing and technology company)

RICHARD T. CLARK — Age 59

June, 2003 — President, Merck Manufacturing Division — responsible for the Company's manufacturing, information services and operational excellence organizations worldwide

January, 2003 — Chairman, President and Chief Executive Officer, Medco Health Solutions, Inc. (Medco Health), formerly a wholly-owned subsidiary of the Company

January, 2000 — President, Medco Health

June, 1997 — Executive Vice President/Chief Operating Officer, Medco Health

CELIA A. COLBERT — Age 48

January, 1997 — Vice President, Secretary (since September, 1993) and Assistant General Counsel (since November, 1993)

CAROLINE DORSA — Age 45

August, 2002 — Vice President and Treasurer — responsible for the Company's treasury and tax functions, and for providing financial support for the Merck Manufacturing and Merck Research Laboratories Divisions as well as Human Resources

September, 1999 — Vice President and Treasurer — responsible for the Company's treasury and tax functions and for providing financial support for the Asia Pacific Division

KENNETH C. FRAZIER — Age 50

December, 1999 — Senior Vice President and General Counsel — responsible for legal and public affairs functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

January, 1999 — Vice President and Deputy General Counsel

RICHARD C. HENRIQUES JR. — Age 49

August, 2002 — Vice President, Controller — responsible for the Corporate Controller's Group and providing financial support for the Human Health operations in the United States, Canada, Latin America, Europe, the Middle East, Africa, Japan, and Australia/New Zealand and the Merck Vaccine Division (MVD)

November, 2000 — Vice President, Controller — responsible for the Corporate Controller's Group and providing financial support for U.S. Human Health, Canada and Latin America (The Americas) and MVD

February, 1999 — Vice President, Controller — responsible for the Corporate Controller's Group and providing financial support for The Americas

PETER S. KIM — Age 46

January, 2003 — President, Merck Research Laboratories (MRL)

February, 2001 — Executive Vice President, Research and Development, MRL

Prior to February, 2001, Dr. Kim served as Member of the Whitehead Institute (1985 - 2001), Professor of Biology at the Massachusetts Institute of Technology (1988 — 2001), and Investigator of the Howard Hughes Medical Institute (1990 — 2001)

JUDY C. LEWENT — Age 56

January, 2003 — Executive Vice President, Chief Financial Officer and President, Human Health Asia — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's prescription drug business in Asia North and Asia South, the Company's joint venture relationships, and Merck Capital Ventures, LLC, a subsidiary of the Company

February, 2001 — Executive Vice President and Chief Financial Officer — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's joint venture relationships, and Merck Capital Ventures, LLC

November, 2000 — Senior Vice President and Chief Financial Officer — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's joint venture relationships, and Merck Capital Ventures, LLC

January, 1997 — Senior Vice President (since January, 1993) and Chief Financial Officer (since April, 1990) — responsible for financial and corporate development functions, internal auditing and the Company's joint venture relationships

ADEL MAHMOUD — Age 63

May, 1999 — President, Merck Vaccines

MARGARET G. MCGLYNN — Age 45

January, 2003 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (hospital and specialty product franchises) comprising U.S. Human Health (USHH), and the Managed Care Group of USHH

August, 2001 — Executive Vice President, Customer Marketing and Sales, USHH

November, 1998 — Senior Vice President, Worldwide Human Health Marketing

BRADLEY T. SHEARES — Age 48

January, 2003 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (primary care product franchises) comprising U.S. Human Health (USHH)

March, 2001 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (hospital and specialty product franchises) comprising USHH

July, 1998 — Vice President, Hospital Marketing and Sales, USHH

JOAN E. WAINWRIGHT — Age 44

January, 2001 — Vice President, Public Affairs

June, 2000 — Vice President, Corporate Communications, Public Affairs

Prior to June, 2000, Ms. Wainwright was Deputy Commissioner for Communications at the U.S. Social Security Administration (1994 — 2000)

PER WOLD-OLSEN — Age 57

January, 1997 — President, Human Health-Europe, Middle East & Africa — responsible for the Company's prescription drug business in Europe, the Middle East and Africa and worldwide human health marketing

All officers listed above serve at the pleasure of the Board of Directors. None of these officers was elected pursuant to any arrangement or understanding between the officer and the Board.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The required information on market information and dividends is incorporated by reference to page 35 of the Company's 2004 Annual Report to stockholders and the required information on the number of holders of the Company's common stock is incorporated by reference to page 60 of the Company's 2004 Annual Report to Stockholders.

Issuer purchases of equity securities for the three month period ended December 31, 2004 are as follows:

Issuer Purchases of Equity Securities

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	($ in millions) Approx. Dollar Value Of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2004	—	—	—	$ 8,831.6
November 1 - November 30, 2004	4,915,000	$ 27.05	4,915,000	$ 8,698.6
December 1 - December 31, 2004	5,083,000	$ 30.22	5,083,000	$ 8,545.0
Total (Quarter to Date 2004)	9,998,000	$ 28.66	9,998,000	$ 8,545.0

Item 6. Selected Financial Data.

The information required for this item is incorporated by reference to the data for the last five fiscal years of the Company included under Results for Year and Year-End Position in the Selected Financial Data table on page 60 of the Company's 2004 Annual Report to stockholders.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required for this item is incorporated by reference to pages 20 through 35 of the Company's 2004 Annual Report to stockholders.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required for this item is incorporated by reference to pages 30 (beginning with the caption "Financial Instruments Market Risk Disclosures") to 31 of the Company's 2004 Annual Report to stockholders.

Item 8. Financial Statements and Supplementary Data.

(a) Financial Statements

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, of retained earnings, of comprehensive income and of cash flows for each of the three years in the period ended December 31, 2004, and the report dated February 22, 2005 of PricewaterhouseCoopers LLP, independent registered public accounting firm, are incorporated by reference to pages 36 through 57 and page 59, respectively, of the Company's 2004 Annual Report to stockholders.

(b) Supplementary Data

Selected quarterly financial data for 2004 and 2003 are incorporated by reference to the data contained in the Condensed Interim Financial Data table on page 35 of the Company's 2004 Annual Report to stockholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2004 based on criteria in *Internal Control — Integrated Framework* issued by COSO. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and PricewaterhouseCoopers LLP has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting, which is incorporated by reference to page 59 of the Company's 2004 Annual Report to stockholders.

There have been no significant changes in internal control over financial reporting for the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The required information on directors and nominees is incorporated by reference to pages 8 through 11 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005. Information on executive officers is set forth in Part I of this document on pages 25 through 27.

The required information on the audit committee financial expert is incorporated by reference to page 13 (under the heading “Financial Expert on Audit Committee”) of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

The required information on the identification of the audit committee is incorporated by reference to pages 12 (under the caption “Board Committees”) to 13 of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

The required information on compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to page 50 (under the caption “Section 16(a) Beneficial Ownership Reporting Compliance”) of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

The Company has adopted a Code of Conduct — *Our Values and Standards* applicable to all employees, including the principal executive officer, principal financial officer, and principal accounting officer. The Code of Conduct is available on the Company’s website at www.merck.com/about/corporategovernance . The Company intends to post on this website any amendments to, or waivers from, its Code of Conduct. A printed copy will be sent, without charge, to any stockholder who requests it by writing to the Chief Ethics Officer of Merck & Co., Inc., One Merck Drive, Whitehouse Station, NJ 08889-0100.

Item 11. Executive Compensation.

The information required for this item is incorporated by reference to pages 16 (under the caption “Compensation of Directors”) through 17; pages 25 (beginning with the caption “Summary Compensation Table”) through 27; pages 29 (beginning with the caption “Annual Benefits Payable Under Merck & Co., Inc. Retirement Plans”) to 35; page 15 (under the caption “Compensation Committee Interlocks and Insider Participation”); pages 19 (under the caption “Compensation and Benefits Committee Report on Executive Compensation”) through 24; and page 36 (under the caption “Performance Graph”) of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information with respect to securities authorized for issuance under equity compensation plans is incorporated by reference to page 28 (under the caption “Equity Compensation Plan Information”) of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005. Information with respect to security ownership of certain beneficial owners and management is incorporated by reference to pages 18 (under the caption “Security Ownership of Certain Beneficial Owners and Management”) to 19 of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

Item 13. Certain Relationships and Related Transactions.

The information required for this item is incorporated by reference to page 12 (under the caption “Relationships with Outside Firms”) and page 35 (under the caption “Indebtedness of Management”) of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

Item 14. Principal Accountant Fees and Services.

The information required for this item is incorporated by reference to pages 37 (beginning with the caption “Pre-Approval Policy for Services of Independent Registered Public Accounting Firm”) to 38 of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2005.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

Documents filed as part of this Form 10-K

1. Financial Statements

The following consolidated financial statements and report of independent registered public accounting firm are incorporated herein by reference to the Company's 2004 Annual Report to stockholders, as noted on page 29 of this document:

Consolidated statement of income for the years ended December 31, 2004, 2003 and 2002

Consolidated statement of retained earnings for the years ended December 31, 2004, 2003 and 2002

Consolidated statement of comprehensive income for the years ended December 31, 2004, 2003 and 2002

Consolidated balance sheet as of December 31, 2004 and 2003

Consolidated statement of cash flows for the years ended December 31, 2004, 2003 and 2002

Notes to consolidated financial statements

Report of PricewaterhouseCoopers LLP, independent registered public accounting firm

2. Financial Statement Schedules

Schedules are omitted because they are either not required or not applicable.

Financial statements of affiliates carried on the equity basis have been omitted because, considered individually or in the aggregate, such affiliates do not constitute a significant subsidiary.

3. Exhibits

Exhibit Number		Description
2.1	—	Master Restructuring Agreement dated as of June 19, 1998 between Astra AB, Merck & Co., Inc., Astra Merck Inc., Astra USA, Inc., KB USA, L.P., Astra Merck Enterprises, Inc., KBI Sub Inc., Merck Holdings, Inc. and Astra Pharmaceuticals, L.P. (Portions of this Exhibit are subject to a request for confidential treatment filed with the Commission) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
3.1	—	Restated Certificate of Incorporation of Merck & Co., Inc. (October 1, 2004) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended September 30, 2004
3.2	—	By-Laws of Merck & Co., Inc. (as amended effective September 28, 2004) — Incorporated by reference to Current Report on Form 8-K dated September 28, 2004
4.1	—	Indenture, dated as of April 1, 1991, between Merck & Co., Inc. and Morgan Guaranty Trust Company of New York, as Trustee — Incorporated by reference to Exhibit 4 to Registration Statement on Form S-3 (No. 33-39349)
4.2	—	First Supplemental Indenture between Merck & Co., Inc. and First Trust of New York, National Association, as Trustee — Incorporated by reference to Exhibit 4(b) to Registration Statement on Form S-3 (No. 333-36383)
*10.1	—	Executive Incentive Plan (as amended effective February 27, 1996) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1995

* Management contract or compensatory plan or arrangement.

Exhibit Number		Description
*10.2	—	Base Salary Deferral Plan (as adopted on October 22, 1996, effective January 1, 1997) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1996
*10.3	—	Merck & Co., Inc. Deferral Program (amended and restated as of January 1, 2005)
*10.4	—	1991 Incentive Stock Plan (as amended effective February 23, 1994) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1994
*10.5	—	1996 Incentive Stock Plan (amended and restated as of February 22, 2005)
*10.6	—	2001 Incentive Stock Plan (amended and restated as of February 22, 2005)
*10.7	—	2004 Incentive Stock Plan (amended and restated as of February 22, 2005)
*10.8	—	Merck & Co., Inc. Change in Control Separation Benefits Plan – Incorporated by reference to Current Report on Form 8-K dated November 23, 2004
*10.9	—	Non-Employee Directors Stock Option Plan (as amended and restated February 24, 1998) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1997
*10.10	—	1996 Non-Employee Directors Stock Option Plan (as amended April 27, 1999) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1999
*10.11	—	2001 Non-Employee Directors Stock Option Plan (as amended April 19, 2002) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 2002
*10.12	—	Supplemental Retirement Plan (as amended effective January 1, 1995) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1994
*10.13	—	Retirement Plan for the Directors of Merck & Co., Inc. (amended and restated June 21, 1996) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1996
*10.14	—	Plan for Deferred Payment of Directors' Compensation (amended and restated as of January 1, 2005)
10.15	—	Limited Liability Company Agreement of Merck Capital Ventures, LLC (Dated as of November 27, 2000) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2000
*10.16	—	Offer Letter between Merck & Co., Inc. and Peter S. Kim, dated December 15, 2000 – Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2003

* Management contract or compensatory plan or arrangement.

Exhibit Number		Description
10.17	—	Amended and Restated License and Option Agreement dated as of July 1, 1998 between Astra AB and Astra Merck Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.18	—	KBI Shares Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc. and Merck Holdings, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.19	—	KBI-E Asset Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc., Astra Merck Inc. and Astra Merck Enterprises Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.20	—	KBI Supply Agreement dated as of July 1, 1998 between Astra Merck Inc. and Astra Pharmaceuticals, L.P. (Portions of this Exhibit are subject to a request for confidential treatment filed with the Commission) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.21	—	Second Amended and Restated Manufacturing Agreement dated as of July 1, 1998 among Merck & Co., Inc., Astra AB, Astra Merck Inc. and Astra USA, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.22	—	Limited Partnership Agreement dated as of July 1, 1998 between KB USA, L.P. and KBI Sub Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.23	—	Distribution Agreement dated as of July 1, 1998 between Astra Merck Enterprises Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.24	—	Agreement to Incorporate Defined Terms dated as of June 19, 1998 between Astra AB, Merck & Co., Inc., Astra Merck Inc., Astra USA, Inc., KB USA, L.P., Astra Merck Enterprises Inc., KBI Sub Inc., Merck Holdings, Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
12	—	Computation of Ratios of Earnings to Fixed Charges
13	—	2004 Annual Report to stockholders (only those portions incorporated by reference in this document are deemed “filed”)
14	—	Code of Conduct – *Our Values and Standards* — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2003
21	—	Subsidiaries of Merck & Co., Inc.
23	—	Consent of Independent Registered Public Accounting Firm — Contained on page 36 of this Report
24.1	—	Power of Attorney
24.2	—	Certified Resolution of Board of Directors
31.1	—	Rule 13a – 14(a)/15d-14(a) Certification of Chief Executive Officer

Exhibit Number		Description
31.2	—	Rule 13a – 14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	—	Section 1350 Certification of Chief Executive Officer
32.2	—	Section 1350 Certification of Chief Financial Officer

Copies of the exhibits may be obtained by stockholders upon written request directed to the Stockholder Services Department, Merck & Co., Inc., P.O. Box 100—WS 3AB-40, Whitehouse Station, New Jersey 08889-0100.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCK & CO., INC.

Dated: March 11, 2005

By RAYMOND V. GILMARTIN
(Chairman of the Board,
President and Chief Executive Officer)

By CELIA A. COLBERT
Celia A. Colbert
(Attorney-in-Fact)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
RAYMOND V. GILMARTIN	Chairman of the Board, President and Chief Executive Officer; Principal Executive Officer; Director	March 11, 2005
JUDY C. LEWENT	Executive Vice President, Chief Financial Officer and President, Human Health Asia; Principal Financial Officer	March 11, 2005
RICHARD C. HENRIQUES, JR.	Vice President, Controller; Principal Accounting Officer	March 11, 2005
LAWRENCE A. BOSSIDY	Director	March 11, 2005
WILLIAM G. BOWEN	Director	March 11, 2005
JOHNNETTA B. COLE	Director	March 11, 2005
WILLIAM B. HARRISON, JR.	Director	March 11, 2005
WILLIAM N. KELLEY	Director	March 11, 2005
ROCHELLE B. LAZARUS	Director	March 11, 2005
THOMAS E. SHENK	Director	March 11, 2005
ANNE M. TATLOCK	Director	March 11, 2005
SAMUEL O. THIER	Director	March 11, 2005
PETER C. WENDELL	Director	March 11, 2005

Celia A. Colbert, by signing her name hereto, does hereby sign this document pursuant to powers of attorney duly executed by the persons named, filed with the Securities and Exchange Commission as an exhibit to this document, on behalf of such persons, all in the capacities and on the date stated, such persons including a majority of the directors of the Company.

By CELIA A. COLBERT
Celia A. Colbert
(Attorney-in-Fact)

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 33-39349, 33-60322, 33-51785, 33-57421, 333-17045, 333-36383, 333-77569, 333-72546, 333-87034 and 333-118186) and on Form S-8 (Nos. 33-21087, 33-21088, 33-40177, 33-51235, 33-53463, 33-64273, 33-64665, 333-91769, 333-30526, 333-31762, 333-40282, 333-53246, 333-56696, 333-72206, 333-65796, 333-101519, 333-109296, 333-117737 and 333-117738) of Merck & Co., Inc. of our report dated February 22, 2005, relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to stockholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
March 11, 2005

EXHIBIT INDEX

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14	—	Code of Conduct — *Our Values and Standards* — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2003
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23	—	Consent of Independent Registered Public Accounting Firm — Contained on page 36 of this Report
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32.1	—	Section 1350 Certification of Chief Executive Officer
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Exhibit 10.3

MERCK & CO., INC.

DEFERRAL PROGRAM

(Amended and Restated as of January 1, 2005)

TABLE OF CONTENTS

MERCK & CO., INC. DEFERRAL PROGRAM

The Deferral Program ("the Program") is intended to permit a select group of management to defer income which would otherwise be immediately payable to them as annual base salary or under various incentive plans of Merck & Co., Inc. ("the Company").

I. ADMINISTRATION

This Program is administered by the Compensation and Benefits Committee of the Company's Board of Directors. This Committee is composed of non-employee directors only. The Committee shall have responsibility for determining which investments will be available under the Program, and those investments shall be listed on Schedule I hereto. The Committee shall review the investment selections at least once every five years. The Committee shall make all decisions affecting the timing, price or amount of any and all of the Deferred Compensation of participants subject to Section 16 of the Securities Exchange Act of 1934, as amended ("Section 16 Officers"), but may otherwise delegate any of its authority under this Program.

II. ELIGIBILITY

Eligibility to defer under this Program will be determined in accordance with the terms of the Company's Base Salary Deferral Plan and various incentive plans. However, the Committee has the authority to refuse to permit an employee to participate in this Program, if the Committee determines that such participation would jeopardize the Program's compliance with applicable law or the Program's status as a top hat plan under the Employee Retirement Income Security Act.

III. DEFERRAL INTO A DEFERRED COMPENSATION ACCOUNT

A. **Election to Defer**

A participant's decision to defer under the Program must be made, (i) for the Base Salary Deferral Plan, prior to the commencement of the pay period during which the base salary to be deferred will be earned, (ii) for annual incentive plans, prior to the commencement of the performance year during which the bonus monies to be deferred will be earned, and (iii) for long-term incentive plans, prior to the commencement of the last year of the award period during which the bonus monies to be deferred will be earned. For purposes of annual incentive plans only, a participant who is hired by the Company during a performance year may make an election, no later than the thirtieth (30th) day from the participant's date of hire, to defer bonus monies to be earned during such performance year. For the Base Salary Deferral Plan, only amounts equal to or in excess of five percent (5%) of Annual Base Salary (as defined in the Base Salary Deferral Plan) and less than or equal to the lesser of (1) fifty percent (50%) of Annual Base Salary or (2) the Participant's Annual Base Salary in excess of the amount determined under Section 401(a)(17) of the Internal Revenue Code may be deferred. For the annual and long-term incentive plans, only amounts in excess of $3,000 may be deferred. Amounts so deferred are known as "Deferred Compensation" and will be credited to the participant's "Deferred Compensation Account." Deferred Compensation shall be held in one account regardless of the plan (Base Salary Deferral or incentive plan) under which it was deferred.

B. **Election of Distribution Schedule**

1. Timing of Election

The participant shall also elect a distribution schedule for his/her Deferred Compensation. A participant's election of a distribution schedule in connection with a deferral election under annual and/or long-term incentive plans shall be made at the same time that the participant makes the election to defer. A participant's initial election of a distribution schedule in connection with deferrals under the Base Salary Deferral Plan shall be made at the same time as the initial deferral election, shall be irrevocable during the calendar year for which it was made and shall apply to all deferrals of Annual Base Salary until a new distribution election becomes effective. Thereafter, an election of a different distribution schedule in connection with deferrals under the Base Salary Deferral Plan may be made at any time, provided, however, that such new distribution schedule shall only apply prospectively to deferrals of Annual Base Salary in the following calendar year.

2. Distribution Schedule

A participant may elect to have payments begin at the participant's actual retirement date, subsequent to that date or prior thereto. A participant may elect a lump sum or a schedule of annual installments, up to a maximum of 15 annual installments. No installment, however, may be payable more than fifteen years after the participant's termination of employment.

C. **Election of Investment Alternatives**

The participant shall designate, in accordance with procedures established by the Company for such designation, the portion (in multiples of 1%) of the Deferred Compensation to be allocated to any investment alternative available under this Program.

IV. VALUATION OF DEFERRED COMPENSATION ACCOUNTS

A. **Common Stock**

1. Initial Crediting

The amount allocated to Merck Common Stock shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of Merck Common Stock on the New York Stock Exchange on the date cash payments of base salary, for amounts deferred under the Base Salary Deferral Plan, or incentive awards, for amounts deferred under the various incentive plans, would otherwise be paid to the participant ("the Deferral Date"). Should the Committee determine that valuation on any Deferral Date would not constitute fair market value, then the Committee shall decide on which date fair market value shall be determined using the valuation method set forth in this paragraph. The Company shall credit the participant's Deferred Compensation Account with the number of full and partial shares of Merck Common Stock so determined. However, at no time prior to the delivery of such shares shall any shares be purchased or earmarked for such Account and the participant shall not have any of the rights of a shareholder with respect to shares credited to his/her Deferred Compensation Account.

2. Dividends

The Company shall credit the Participant's Deferred Compensation Account with the number of full and partial shares of Merck Common Stock purchasable at the closing price of Merck Common Stock on the New York Stock Exchange as of the date each dividend is paid on the Common Stock, with the dividends which would have been paid on the number of shares credited to such Account (including pro rata dividends on any partial share) had the shares so credited then been issued and outstanding.

3. Redesignations

The value of Merck Common Stock for purposes of redesignation shall be the closing price of Merck Common Stock on the New York Stock Exchange on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

4. Distributions

Distributions of Merck Common Stock will be valued at the closing price of Merck Common Stock on the New York Stock Exchange on the distribution date.

5. Limitations

Shares of Merck Common Stock to be delivered under the provisions of this Program may be delivered by the Company from its authorized but unissued shares of Common Stock or from Common Stock held in the treasury. The amount of shares available each year under this Program shall be one-tenth of one-percent of outstanding shares of Merck Common Stock on the last business day of the preceding calendar year plus any shares authorized under this Program in previous years but not used, minus any shares distributed under the Executive Incentive Plan after April 26, 1994.

6. Adjustments

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company, the number and kind of shares of Merck Common Stock available under this Program or credited to participants' Deferred Compensation Accounts shall be adjusted accordingly.

B. **Mutual Funds**

1. Initial Crediting

The amount allocated to each Mutual Fund shall be used to determine the number of full and partial Mutual Fund shares that such amount would purchase at the closing net asset value of the Mutual Fund shares on the Deferral Date. The Company shall credit the participant's Deferred Compensation Account with the number of full and partial Mutual Fund shares so

determined. However, no Mutual Fund shares shall be purchased or earmarked for such Account, nor shall the participant have the rights of a shareholder with respect to such Mutual Fund shares.

2. Dividends

The Company shall credit the participant's Deferred Compensation Account with the number of full and partial Mutual Fund shares purchasable, at the closing net asset value of the Mutual Fund shares as of the date each dividend is paid on the Mutual Fund shares, with the dividends which would have been paid on the number of shares credited to such Account (including pro rata dividends on any partial share) had the shares then been owned by the participant for purposes of the above computation.

3. Redesignations

The value of Mutual Fund shares for purposes of redesignation shall be the net asset value of such Mutual Fund at the close of business on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

4. Distributions

Mutual Fund distributions will be valued based on the closing net asset value of the Mutual Fund shares on the distribution date.

5. Adjustments

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of a Mutual Fund, the number and kind of shares of that Mutual Fund credited to participants' Deferred Compensation Accounts shall be adjusted accordingly.

V. REDESIGNATION WITHIN A DEFERRED COMPENSATION ACCOUNT

A. **Basic Redesignation Rules**

A participant, or the beneficiary or legal representative of a deceased participant, may redesignate amounts credited to a Deferred Compensation Account among the investments available under this Program in accordance with the following rules:

(1) *Eligible Participants* - Active employees, separated employees and retired participants are eligible to redesignate; provided, however, that no such redesignation shall be made into Merck Common Stock.

(2) *Frequency and Timing* - Effective June 1, 1999, there is no limit on the number of times a participant may redesignate amounts measured by Mutual Funds, or, subject to Section B, below, Merck Common Stock. Redesignation shall take place on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

(3) *Amount and Extent of Redesignation* - Redesignation must be in 1% multiples of the investment from which redesignation is being made.

(4) *Beneficiaries or Legal Representatives* - The beneficiary or legal representative of a deceased participant may redesignate subject to the same rules as participants. However, the beneficiary or legal representative shall have one opportunity to redesignate any amount out of Merck Common Stock without regard to the rule set forth in Section B, below; thereafter, the beneficiary or legal representative shall be subject to the same redesignation rules as participants (including the limitation on redesignation out of Merck Common Stock).

B. **Special Rules for Redesignation Out of Common Stock**

1. Frequency and Timing

For Section 16 Officers, redesignations may only be made out of Merck Common Stock during any window period established by the Company from time-to-time and is restricted to amounts held in Merck Common Stock for longer than six (6) months.

2. Material, Nonpublic Information

The Committee, in its sole discretion and with advice of counsel, at any time may rescind a redesignation out of Merck Common Stock if such redesignation was made by a participant who, a) at the time of the redesignation was in the possession of material, nonpublic information with respect to the Company; and b) in the Committee's estimation benefited from such information in the timing of his/her redesignation. The Committee's determination shall be final and binding. In the event of such rescission, the participant's Deferred Compensation Account shall be returned to a status as though such redesignation had not occurred. Notwithstanding the above, the Committee shall not rescind a redesignation if the facts were reviewed by the participant with the General Counsel of the Company or a designee prior to the redesignation and if the General Counsel or designee had concluded that such participant was not in possession of adverse material, nonpublic information.

C. **Conversion of Common Stock Accounts**

The Committee may, in its sole discretion, convert all of the shares of Merck Common Stock allocated to a participant's Deferred Compensation Account in the manner provided below where a position which a terminated or retired participant has taken or wishes to take is, in the opinion of the Committee, such as would make uncertain the propriety of the participant's having a continued interest in Merck Common Stock. The date of conversion shall be the date of commencement of such other employment or the date of the Committee's action, whichever is later.

Conversion shall be from an expression of value in shares of Merck Common Stock in the participant's Deferred Compensation Account to an expression of value in United States dollars in another available investment. The value of the Merck Common Stock shall be based upon its closing price on the New York Stock Exchange on the date of conversion or if no trading took place on such day, the next business day on which trading took place. Any conversion under this paragraph shall be irrevocable and absolute.

VI. DISTRIBUTION OF DEFERRED COMPENSATION ACCOUNTS

Distribution of Deferred Compensation Accounts shall be made in accordance with the participant's distribution schedule pro rata by investment. Distributions from Merck Common Stock will be made in shares, with cash payable for any partial share, subject to the limitations set forth in Article IV, Section A.5. For Section 16 Officers, distribution of amounts in Merck Common Stock is also restricted to amounts held in Merck Common Stock for longer than six months. Distributions from Mutual Funds will be in cash. Distributions will be valued on the fifteenth day of the distribution month (or, if such day is not a business day, the next business day) and paid as soon thereafter as practicable.

A. **Retirement**

A participant's retirement from active service will cause distributions of his/her Deferred Compensation Account to commence as soon as administratively feasible in accordance with the participant's previously elected schedule.

If a participant retires from active service prior to age 65, the Committee may establish a different distribution schedule. The schedule chosen by the Committee, however, shall not be shorter than the participant's previously elected schedule unless there has been or would be a significant change in the participant's economic circumstances attributable to the participant's early retirement. If the Committee decides to change the participant's distribution schedule, the participant's Deferred Compensation Account must be distributed ratably over no less than five years. However, if a participant has retired at the Company's request, the limitation in the preceding sentence does not apply.

B. **Death**

In the event of a participant's death, distributions under this Program will commence as soon as administratively feasible in accordance with his/her previously elected schedule. The participant's beneficiary or legal representative, however, may request that the Committee change such distribution schedule.

C. **Automatic Distribution**

If a participant terminates employment for reasons other than death, divestiture or a separation due to reorganization, reduction in force, elimination of the participant's job, or to take a position with a joint venture or other business entity defined in Section E, below, and is not eligible to retire from active service under one of the Company's pension plans, then his/her Deferred Compensation Account will be automatically paid in a lump sum as soon as administratively feasible following his/her termination of employment. Furthermore, except as provided in Schedule II, any participant who dies, retires from active service, or whose

employment terminates as a result of a divestiture, or a separation due to reorganization, reduction in force, or elimination of the participant's job, but whose Deferred Compensation Account is valued at less than $125,000 on the date of his/her death, retirement, termination due to divestiture or separation will have his/her Deferred Compensation Account distributed in a lump sum as soon as administratively feasible following his/her death, retirement, or termination due to divestiture or separation.

D . **Termination Due to Divestiture or Separation**

If a participant is employed by a subsidiary of the Company that is sold, so that the subsidiary is no longer considered within the controlled group of the Company, that participant shall be considered to have terminated employment with the Company for purposes of this Program. If a participant's employment terminates as a result of a divestiture of a division or subsidiary of the Company, or as a result of a separation due to a reorganization, reduction in force, or elimination of the participant's job, distributions under this Program will commence as soon as administratively feasible after such termination of employment in accordance with his/her previously elected schedule or such schedule as the Committee, in its discretion, may approve in accordance with Section G, below.

E. **Joint Venture Service**

A participant's termination of employment in order to take a position with a joint venture or other business entity in which the Company shall directly or indirectly own fifty percent or more of the outstanding voting or other ownership interest shall not be considered a termination of employment with the Company for purposes of distribution under this Program.

F. **Hardship Distributions**

The Committee, in its sole discretion, may accelerate the time of distribution of a participant's Deferred Compensation Account, if the participant experiences severe financial hardship due to illness, accident or death in the immediate family, loss of or damage to property due to casualty, or other extraordinary and unforeseeable circumstances. Such participant should provide the Committee with a statement in reasonable detail as to the nature of such financial hardship together with a statement that such acceleration is necessary to alleviate such hardship.

G. **Post-Retirement, Post-Divestiture and Post-Separation Modifications**

A participant who has retired from active service or whose employment has terminated as a result of a divestiture or separation as described in Section D, above, may submit one petition to the Committee requesting an extension of the period of distribution of his/her Deferred Compensation Account. Such petition must be received by the Committee prior to the first distribution to the participant of his/her previously elected distribution schedule. Any revised distribution schedule may not exceed fifteen years from the date of actual retirement, or the divestiture or separation date and will be effective the beginning of the next calendar year. The Committee shall in no event grant a new schedule under which the participant would cumulatively receive a greater portion of his/her Deferred Compensation Account as measured at the end of each calendar year. Except as provided in Schedule II, a participant who is an active employee may not make a request under this paragraph.

VII. DEDUCTIONS FROM DISTRIBUTIONS

The Company will deduct from each distribution amounts required to be withheld for income, Social Security and other tax purposes. Such withholding will be done on a pro rata basis per investment. The Company may also deduct any amounts the participant owes the Company for any reason.

VIII. BENEFICIARY DESIGNATIONS

A participant under this program may designate a beneficiary to receive his/her Deferred Compensation Account upon the participant's death. Should the beneficiary predecease the participant or should the participant not name a beneficiary, the participant's Deferred Compensation Account will be distributed to the participant's estate.

IX. AMENDMENTS

The Committee may amend this Program at any time. However, such amendment shall not materially adversely affect any right or obligation with respect to any Deferred Compensation made theretofore.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES
(January 1, 2002 – January 10, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Fund
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income Fund
Fidelity Low-Priced Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan ® Government Income
Fidelity Spartan ® U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Fund-Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity Fund A*
Putnam International Voyager A
Putnam Vista A
T. Rowe Price Blue Chip Growth Fund
Vanguard Asset Allocation

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* From September 20, 2002 – September 30, 2002, this investment was briefly named the Putnam Global Growth Fund A as a result of the merger, in September 2002, of Putnam Global Equity Fund A with Putnam Global Growth Fund A. The merged fund briefly retained the name "Putnam Global Growth Fund A." Effective October 1, 2002, the merged fund changed its name to "Putnam Global Equity Fund A."

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES
(Effective January 11, 2003 to July 31, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A*
Putnam Vista A
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to April 30, 2003, known as Putnam International Voyager Fund A

Redesignation of Deferred Amounts measured by Putnam Vista A on July 31, 2003

Prior to 4 p.m. ET on July 31, 2003, each participant who has any part of his/her Deferred Compensation Account measured by the Putnam Vista A investment alternative may redesignate the amount in such investment alternative in accordance with Article V, Section A. If a participant does not redesignate the amount measured by the Putnam Vista A investment alternative to any other remaining investment alternatives before 4 p.m. ET on July 31, 2003, then the amount in the Putnam Vista A account shall be redesignated as of 4 p.m. ET on July 31, 2003, to the Fidelity Mid-Cap Stock Fund.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES
(Effective July 31, 2003-November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Fund Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A**
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

** Prior to April 30, 2003, known as Putnam International Voyager Fund A

Redesignation of Deferred Amounts measured by Putnam Global Equity A and Putnam International Capital Opportunities Fund A (collectively, the "Putnam Funds") on November 19, 2003

Prior to 4 p.m. ET on November 19, 2003, each participant who has any part of his/her Deferred Compensation Account measured by a Putnam Funds investment alternative may redesignate the amount in such investment alternative in accordance with Article V, Section A. If a participant does not redesignate the amount measured by a Putnam Funds investment alternative to any other remaining investment alternative(s) before 4 p.m. ET on November 19, 2003, then the amount in the Putnam Funds investment alternative shall be redesignated as of 4 p.m. ET on November 19, 2003, to the Fidelity Retirement Money Market portfolio.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES
(November 19, 2003 to April 2, 2004)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES
(April 2, 2004 to January 31, 2005)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

SCHEDULE I

(February 1, 2005)*

Merck Common Stock Fund

Mutual Funds

AXA Rosenberg U.S. Small Capitalization Account
American Funds EuroPacific Growth Fund — Class A
Columbia Acorn Fund — Class Z
Fidelity Diversified International Fund
Fidelity Freedom 2005 Fund
Fidelity Freedom 2010 Fund
Fidelity Freedom 2015 Fund
Fidelity Freedom 2020 Fund
Fidelity Freedom 2025 Fund
Fidelity Freedom 2030 Fund
Fidelity Freedom 2035 Fund
Fidelity Freedom 2040 Fund
Fidelity Low-Priced Stock Fund
Fidelity Retirement Money Market Portfolio
GMO U.S. Core Fund — M
PIMCO Total Return Fund — Institutional Class
SSgA S&P 500 Index Fund
T. Rowe Price Blue Chip Growth Fund

* Or as near thereto as is administratively feasible

SCHEDULE II

SPECIAL PROVISIONS APPLICABLE TO
MEDCO HEALTH EMPLOYEES
(Approved July 23, 2002)

DEFINITIONS

Medco Health — Medco Health Solutions, Inc.

Medco Health Employee — A participant who is (i) employed by Medco Health prior to the Spin-Off or (ii) employed by Merck prior to the Spin-Off and expected to be employed by Medco Health prior to or as of the Spin-Off.

Separated Medco Health Employee — A participant in the Deferral Program who is employed by Medco Health as of the date of the Spin-Off and is considered to have terminated employment with the Company as a result of the Spin-Off.

Spin-Off — The distribution by Merck to its shareholders of the equity securities of Medco Health. The Spin-Off will be a divestiture for purposes of the Deferral Program.

SPECIAL PROVISIONS

Notwithstanding anything to the contrary in Article VI, Section C of the Deferral Program, the Deferred Compensation Account of each Separated Medco Health Employee shall be paid out in accordance with Article VI, Section D, without regard to the $125,000 threshold set forth in Section C.

Notwithstanding anything to the contrary in Article VI, Section G of the Deferral Program, each Medco Health Employee may submit the petition for an extension of the distribution schedule permitted under Section G either prior to the Spin-Off or once the Medco Health Employee has become a Separated Medco Health Employee; provided, however, that if a Medco Health Employee makes a request for a new distribution schedule prior to the Spin-Off and thereafter does not become a Separated Medco Health Employee, then such request shall not be effective.

Exhibit 10.5

MERCK & CO., INC.

1996 INCENTIVE STOCK PLAN

(Amended and Restated as of February 22, 2005)

1996 INCENTIVE STOCK PLAN

The 1996 Incentive Stock Plan ("ISP"), effective January 1, 1996, is established to encourage employees of Merck & Co., Inc. (the "Company"), its subsidiaries, its affiliates, its joint ventures and the Merck Institute for Therapeutic Research to acquire Common Stock in the Company. It is believed that the ISP will stimulate employees' efforts on the Company's behalf, will tend to maintain and strengthen their desire to remain with the Company, will be in the interest of the Company and its Stockholders, and will encourage such employees to have a greater personal financial investment in the Company through ownership of its Common Stock.

1. Administration

The ISP shall be administered by the Compensation and Benefits Committee of the Board of Directors of the Company (the "Committee"). The Committee is authorized, subject to the provisions of the ISP, to establish such rules and regulations as it deems necessary for the proper administration of the ISP, and to make such determinations and to take such action in connection therewith or in relation to the ISP as it deems necessary or advisable, consistent with the ISP. The Committee may delegate some or all of its power and authority hereunder to the Chief Executive Officer or other senior member of management as the Committee deems appropriate; provided, however, that the Committee may not delegate its authority with regard to any matter or action affecting an officer subject to Section 16 of the Securities Exchange Act of 1934.

For the purpose of this section and all subsequent sections, the ISP shall be deemed to include this plan and any comparable sub-plans established by subsidiaries which, in the aggregate, shall constitute one plan governed by the terms set forth herein.

2. Eligibility

Regular full-time and part-time employees of the Company, its subsidiaries, its affiliates, its joint ventures and the Merck Institute for Therapeutic Research, including officers, whether or not directors of the Company, and employees of a joint venture partner or affiliate of the Company who provide services to the joint venture with such partner or affiliate and who are not directors or officers of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, shall be eligible to participate in the ISP ("Eligible Employees") if designated by the Committee or its delegate. Those directors who are not regular employees are not eligible.

3. Incentives

Incentives under the ISP may be granted in any one or a combination of (a) Incentive Stock Options (or other statutory stock option); (b) Nonqualified Stock Options; (c) Stock Appreciation Rights; (d) Restricted Stock Grants, and (e) Performance Shares (together "Incentives"). All Incentives shall be subject to the terms and conditions set forth herein and to such other terms and conditions as may be established by the Committee. Determinations by the Committee under the ISP including without limitation, determinations of the Eligible Employees, the form, amount and timing of Incentives, the terms and provisions of Incentives, and the agreements evidencing Incentives, need not be uniform and may be made selectively among Eligible Employees who receive, or are eligible to receive, Incentives hereunder, whether or not such Eligible Employees are similarly situated.

4. Shares Available for Incentives

(a) **Shares Subject to Issuance or Transfer.** Subject to adjustment as provided in Section 4(c) hereof, there is hereby reserved for issuance under the ISP 130 million shares of the

Company's Common Stock ("Common Stock"). The shares available for granting awards shall be increased by the number of shares as to which options or other benefits granted under the Plan have lapsed, expired, terminated or been cancelled. In addition, any shares reserved for issuance under the Company's 1991 Incentive Stock Plan and 1987 Incentive Stock Plan ("Prior Plans") in excess of the number of shares as to which options or other benefits have been awarded thereunder, plus any such shares as to which options or other benefits granted under the Prior Plans may lapse, expire, terminate or be cancelled, shall also be reserved and available for issuance or reissuance under the ISP. Shares under this Plan may be delivered by the Company from its authorized but unissued shares of Common Stock or from Common Stock held in the Treasury.

(b) **Limit on an Individual's Incentives.** In any given year, no Eligible Employee may receive Incentives covering more than three million shares of the Company's Common Stock (such number of shares may be adjusted in accordance with Section 4(c)).

(c) **Recapitalization Adjustment.** In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Company, the Committee shall make such adjustment, if any, as it may deem appropriate in the number and kind of shares authorized by the ISP, in the number and kind of shares covered by Incentives granted, in the case of Stock Options, in the option price, and in the case of stock appreciation rights, in the fair market value.

5. Stock Options

The Committee may grant options qualifying as Incentive Stock Options under the Internal Revenue Code of 1986, as amended, or any successor code thereto (the "Code"), other statutory options under the Code, and Nonqualified Options (collectively "Stock Options"). Such Stock Options shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Option Price.** The option price per share with respect to each Stock Option shall be determined by the Committee, but shall not be less than 100% of the fair market value of the Common Stock on the date the Stock Option is granted, as determined by the Committee.

(b) **Period of Option.** The period of each Stock Option shall be fixed by the Committee but shall not exceed ten (10) years.

(c) **Payment.** The option price shall be payable in cash at the time the Stock Option is exercised. No shares shall be issued until full payment therefore has been made. A grantee of a Stock Option shall have none of the rights of a stockholder until the shares are issued.

(d) **Exercise of Option.** The shares covered by a Stock Option may be purchased in such installments and on such exercise dates as the Committee or its delegate may determine. Any shares not purchased on the applicable exercise date may be purchased thereafter at any time prior to the final expiration of the Stock Option. In no event (including those specified in paragraphs (e), (f) and (g) of this section) shall any Stock Option be exercisable after its specified expiration period.

(e) **Termination of Employment.** Upon the termination of a Stock Option grantee's employment (for any reason other than retirement, death or termination for deliberate, willful or gross misconduct), Stock Option privileges shall be limited to the shares which were immediately exercisable at the date of such termination. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the termination of a Stock Option grantee's employment may become exercisable in accordance with a schedule to be determined by the Committee. Such Stock Option privileges shall expire unless exercised or

surrendered under a Stock Appreciation Right within such period of time after the date of termination of employment as may be established by the Committee, but in no event later than the expiration date of the Stock Option. If a Stock Option grantee's employment is terminated for deliberate, willful or gross misconduct, as determined by the Company, all rights under the Stock Option shall expire upon receipt of the notice of such termination.

(f) **Retirement.** Upon retirement of a Stock Option grantee, Stock Option privileges shall apply to those shares immediately exercisable at the date of retirement. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the retirement of a Stock Option grantee may become exercisable in accordance with a schedule to be determined by the Committee. Stock Option privileges shall expire unless exercised within such period of time as may be established by the Committee, but in no event later than the expiration date of the Stock Option.

(g) **Death.** Upon the death of a Stock Option grantee, Stock Option privileges shall apply to those shares which were immediately exercisable at the time of death. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the death of a Stock Option grantee may become exercisable in accordance with a schedule to be determined by the Committee. Such privileges shall expire unless exercised by legal representatives within a period of time as determined by the Committee but in no event later than the expiration date of the Stock Option.

(h) **Limits on Incentive Stock Options.** Except as may otherwise be permitted by the Code, the Committee shall not grant to an Eligible Employee Incentive Stock Options, that, in the aggregate, are first exercisable during any one calendar year to the extent that the aggregate fair market value of the Common Stock, at the time the Incentive Stock Options are granted, exceeds $100,000.

6. Stock Appreciation Rights

The Committee may, in its discretion, grant a right to receive the appreciation in the fair market value of shares of Common Stock ("Stock Appreciation Right") either singly or in combination with an underlying Stock Option granted hereunder or under the Prior Plans. Such Stock Appreciation Rights shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Time and Period of Grant.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, it may be granted at the time of the Stock Option Grant or at any time thereafter but prior to the expiration of the Stock Option Grant. If a Stock Appreciation Right is granted with respect to an underlying Stock Option, at the time the Stock Appreciation Right is granted the Committee may limit the exercise period for such Stock Appreciation Right, before and after which period no Stock Appreciation Right shall attach to the underlying Stock Option. In no event shall the exercise period for a Stock Appreciation Right granted with respect to an underlying Stock Option exceed the exercise period for such Stock Option. If a Stock Appreciation Right is granted without an underlying Stock Option, the period for exercise of the Stock Appreciation Right shall be set by the Committee.

(b) **Value of Stock Appreciation Right.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, the grantee will be entitled to surrender the Stock Option which is then exercisable and receive in exchange therefore an amount equal to the excess of the fair market value of the Common Stock on the date the election to surrender is received by the Company over the Stock Option price multiplied by the number of shares covered by the Stock Option which are surrendered. If a Stock Appreciation Right is granted without an underlying Stock Option, the grantee will receive upon exercise of the Stock Appreciation Right an amount

equal to the excess of the fair market value of the Common Stock on the date the election to surrender such Stock Appreciation Right is received by the Company over the fair market value of the Common Stock on the date of grant multiplied by the number of shares covered by the grant of the Stock Appreciation Right.

(c) **Payment of Stock Appreciation Right.** Payment of a Stock Appreciation Right shall be in the form of shares of Common Stock, cash, or any combination of shares and cash. The form of payment upon exercise of such a right shall be determined by the Committee either at the time of grant of the Stock Appreciation Right or at the time of exercise of the Stock Appreciation Right.

7. Performance Share Awards

The Committee may grant awards under which payment may be made in shares of Common Stock, cash or any combination of shares and cash if the performance of the Company or any subsidiary, division or affiliate of the Company selected by the Committee during the Award Period meets certain goals established by the Committee ("Performance Share Awards"). Such Performance Share Awards shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Award Period and Performance Goals.** The Committee shall determine and include in a Performance Share Award grant the period of time for which a Performance Share Award is made ("Award Period"). The Committee shall also establish performance objectives ("Performance Goals") to be met by the Company, subsidiary or division during the Award Period as a condition to payment of the Performance Share Award. The Performance Goals may include earnings per share, return on stockholders' equity, return on assets, net income, or any other financial or other measurement established by the Committee. The Performance Goals may include minimum and optimum objectives or a single set of objectives.

(b) **Payment of Performance Share Awards.** The Committee shall establish the method of calculating the amount of payment to be made under a Performance Share Award if the Performance Goals are met, including the fixing of a maximum payment. The Performance Share Award shall be expressed in terms of shares of Common Stock and referred to as "Performance Shares." After the completion of an Award Period, the performance of the Company, subsidiary or division shall be measured against the Performance Goals, and the Committee shall determine whether all, none or any portion of a Performance Share Award shall be paid. The Committee, in its discretion, may elect to make payment in shares of Common Stock, cash or a combination of shares and cash. Any cash payment shall be based on the fair market value of Performance Shares on, or as soon as practicable prior to, the date of payment.

(c) **Revision of Performance Goals.** At any time prior to the end of an Award Period, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur which have a substantial effect on the performance of the Company, subsidiary or division and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made.

(d) **Requirement of Employment.** A grantee of a Performance Share Award must remain in the employ of the Company until the completion of the Award Period in order to be entitled to payment under the Performance Share Award; provided that the Committee may, in its sole discretion, provide for a partial payment where such an exception is deemed equitable.

(e) **Dividends.** The Committee may, in its discretion, at the time of the granting of a Performance Share Award, provide that any dividends declared on the Common Stock during the Award Period, and which would have been paid with respect to Performance Shares had they

been owned by a grantee, be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and used to increase the number of Performance Shares of the grantee.

(f) **Limit on Performance Share Awards.** Incentives granted as Performance Share Awards under this section and Restricted Stock Grants under Section 8 shall not exceed, in the aggregate, 12 million shares of Common Stock (such number of shares may be adjusted in accordance with Section 4(c)).

8. Restricted Stock Grants

The Committee may award shares of Common Stock to a grantee, which shares shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe ("Restricted Stock Grant"):

(a) **Requirement of Employment.** A grantee of a Restricted Stock Grant must remain in the employment of the Company during a period designated by the Committee ("Restriction Period") in order to retain the shares under the Restricted Stock Grant. If the grantee leaves the employment of the Company prior to the end of the Restriction Period, the Restricted Stock Grant shall terminate and the shares of Common Stock shall be returned immediately to the Company; provided that the Committee may, at the time of the grant, provide for the employment restriction to lapse with respect to a portion or portions of the Restricted Stock Grant at different times during the Restriction Period. The Committee may, in its discretion, also provide for such complete or partial exceptions to the employment restriction as it deems equitable.

(b) **Restrictions on Transfer and Legend on Stock Certificates.** During the Restriction Period, the grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Common Stock except to a successor under Section 10 hereof. Each certificate for shares of Common Stock issued hereunder shall contain a legend giving appropriate notice of the restrictions in the grant.

(c) **Escrow Agreement.** The Committee may require the grantee to enter into an escrow agreement providing that the certificates representing the Restricted Stock Grant will remain in the physical custody of an escrow holder until all restrictions are removed or expire.

(d) **Lapse of Restrictions.** All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if the conditions as to employment set forth above have been met. The grantee shall then be entitled to have the legend removed from the certificates.

(e) **Dividends.** The Committee shall, in its discretion, at the time of the Restricted Stock Grant, provide that any dividends declared on the Common Stock during the Restriction Period shall either be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and paid to the grantee only after the expiration of the Restriction Period.

(f) **Limit on Restricted Stock Grant.** Incentives granted as Restricted Stock Grants under this section and Performance Share Awards under Section 7 shall not exceed, in the aggregate, 12 million shares of Common Stock (such number of shares may be adjusted in accordance with Section 4(c)).

9. Discontinuance or Amendment of the Plan

The Board of Directors may discontinue the ISP at any time and may from time to time amend or revise the terms of the ISP as permitted by applicable statutes, except that it may not revoke or alter, in a manner unfavorable to the grantees of any Incentives hereunder, any Incentives then outstanding, nor may the Board amend the ISP without stockholder approval

where the absence of such approval would cause the Plan to fail to comply with Rule 16b-3 under the Securities Exchange Act of 1934, or any other requirement of applicable law or regulation. No Incentive shall be granted under the ISP after December 31, 2000, but Incentives granted theretofore may extend beyond that date.

10. Nontransferability

Each Incentive Stock Option granted under the ISP shall not be transferable other than by will or the laws of descent and distribution; each other Incentive granted under the ISP may be transferable subject to the terms and conditions as may be established by the Committee in accordance with regulations promulgated under the Securities Exchange Act of 1934, or any other applicable law or regulation.

11. No Right of Employment

The ISP and the Incentives granted hereunder shall not confer upon any Eligible Employee the right to continued employment with the Company, its subsidiaries, its affiliates, its joint ventures or the Merck Institute for Therapeutic Research or affect in any way the right of such entities to terminate the employment of an Eligible Employee at any time and for any reason.

12. Taxes

The Company shall be entitled to withhold the amount of any tax attributable to any option granted, any amount payable or shares deliverable under the ISP after giving the person entitled to receive such amount or shares notice as far in advance as practicable.

Merck Change in Control

(a) Options.

1. Vesting of Options Other Than Key R&D Options. Upon the occurrence of a Change in Control, each Stock Option which is outstanding immediately prior to the Change in Control, other than the Key R&D Options, shall immediately become fully vested and exercisable.

2. Vesting of Key R&D Options.

(i) Subject to (a)(2)(ii) of this Schedule, upon the occurrence of a Change in Control, each Key R&D Option shall continue to be subject to the performance-based vesting schedule applicable thereto immediately prior to the Change in Control.

(ii) Notwithstanding (a)(2)(i) of this Schedule, if the Stock Options do not continue to be outstanding following the Change in Control or are not exchanged for or converted into options to purchase securities of a successor entity ("Successor Options"), then, upon the occurrence of a Change in Control, all or a portion of each Key R&D Option shall immediately vest and become exercisable in the following percentages: (A) if such Key R&D Option's first milestone has not been reached before the date of the Change in Control, 14% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; (B) if only such Key R&D Option's first milestone has been reached before the date of the Change in Control, 42% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; and (C) if such Key R&D Option's first and second milestones have been reached before the date of the Change in Control, 100% of the then-unvested portion of the Key R&D Option shall vest and become exercisable.

3. Post-Termination Exercise Period. If Stock Options continue to be outstanding following the Change in Control or are exchanged for or converted into Successor Options, then the portion of such Stock Options or such Successor Options, as applicable, that is vested and exercisable immediately following the termination of employment of the holder thereof after the Change in Control shall remain exercisable following such termination for five years from the date of such termination (but not beyond the remainder of the term thereof) provided, however, that, if such termination is by reason of gross misconduct, death or retirement (as these terms are applied to awards granted under the Plans), then those provisions of the Plan that are applicable to a termination by reason of gross misconduct, death or retirement, if any, shall apply to such termination. If the effect of vesting pursuant to this Section (a) would cause a Stock Option or Successor Stock Option to terminate earlier than if such accelerated vesting had not occurred, then the term of such Stock Option shall not expire earlier than if such accelerated vesting had not occurred.

4. Cashout of Stock Options. If the Stock Options do not continue to be outstanding following the Change in Control and are not exchanged for or converted into Successor Options, each holder of a vested and exercisable option shall be entitled to receive, as soon as practicable following the Change in Control, for each share of Common Stock subject to a vested and exercisable option, an amount of cash determined by the Committee prior to the Change in Control but in no event less than the excess of the Change in Control Price over the exercise price thereof (subject to any existing deferral elections then in effect). If the consideration to be paid in a Change in Control is not entirely shares of common stock of an acquiring or resulting corporation, then the Committee may, prior to the Change in Control, provide for the cancellation of outstanding Stock Options at the time of the Change in Control, in whole or in part, for cash pursuant to this provision or may provide for the exchange or conversion of outstanding Stock Options at the time of the Change in Control, in whole or in part, and, in connection with any

such provision, may (but shall not be obligated to) permit holders of Stock Options to make such elections related thereto as it determines are appropriate.

5. Incentive Stock Options Not Amended. This Section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

(b) Restricted Stock Units and Performance Share Units.

1. Vesting of Restricted Stock Units. Upon the occurrence of a Change in Control, each unvested restricted stock unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become fully vested.

2. Vesting of Performance Share Units. Upon the occurrence of a Change in Control, each unvested performance share unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become vested in an amount equal to the PSU Pro Rata Amount.

3. Settlement of Restricted Stock Units and Performance Share Units.

(i) If the Common Stock continues to be widely held and freely tradable following the Change in Control or is exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in shares of Common Stock or such other securities as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(ii) If the Common Stock does not continue to be widely held and freely tradable following the Change in Control and is not exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in cash as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(c) Other Provisions.

1. Except to the extent required by applicable law, for the entirety of the Protection Period, the material terms of the Plan shall not be modified in any manner that is materially adverse to the Qualifying Participants (it being understood that this Section (c) of this Schedule shall not require that any specific type or levels of equity awards be granted to Qualifying Participants following the Change in Control).

2. During the Protection Period, the Plan may not be amended or modified to reduce or eliminate the protections set forth in Section (c)(1) of this Schedule and may not be terminated.

3. The Company shall pay all legal fees and related expenses (including the costs of experts, evidence and counsel) reasonably and in good faith incurred by a Qualifying Participant if the Qualifying Participant prevails on his or her claim for relief in an action (x) by the Qualifying Participant claiming that the provisions of Section (c)(1) or (c)(2) of this Schedule have been violated (but, for avoidance of doubt, excluding claims for Plan benefits in the ordinary course) and (y) if applicable, by the Company or the Qualifying Participant’s employer to enforce post-termination covenants against the Qualifying Participant.

4. This section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

5. Anything in the Plan as amended by this Schedule notwithstanding, the Company reserves the right to make such further changes as may be required if and to the extent required to avoid adverse consequences under the American Jobs Creation Act of 2004, as amended.

(d) Definitions.

For purposes of this Schedule, the following terms shall have the following meanings:

1. “Change in Control” shall have the meaning set forth in the Company’s Change in Control Separation Benefits Plan; provided, however, that, as to any award under the Plan that consists of deferred compensation subject to Section 409A of the Code, the definition of “Change in Control” shall be deemed modified to the extent necessary to comply with Section 409A of the Code.

2. “Change in Control Price” shall mean, with respect to a share of Common Stock, the higher of (A) the highest reported sales price, regular way, of such share in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on the Nasdaq National Market during the 10-day period prior to and including the date of a Change in Control and (B) if the Change in Control is the result of a tender or exchange offer, merger, or other, similar corporate transaction, the highest price per such share paid in such tender or exchange offer, merger or other, similar corporate transaction; provided that, to the extent all or part of the consideration paid in any such transaction consists of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined by the Committee.

3. “Key R&D Options” shall mean those performance-based options granted to employees under the Key Research and Development Program described in the applicable Schedule to the Rules and Regulations for the Plan, if any.

4. “Protection Period” shall mean the period beginning on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

5. “PSU Pro Rata Amount” shall mean for each Performance Share Unit award, the amount determined by multiplying (x) and (y), where (x) is the number of Target Shares subject to the Performance Share Unit award times the Assumed Performance Percentage and (y) is a fraction, the numerator of which is the number of whole and partial calendar months elapsed during the applicable performance period (counting any partial month as a whole month for this purpose) and the denominator of which is the total number of months in the applicable performance period. The Assumed Performance Percentage shall be determined by (1) averaging the ranks during the Award Period as follows: (A) as to any completed performance year as of the Change in Control, the actual rank (except that, if fewer than 90 days have elapsed since the completion of such performance year, the Target Rank shall be used), and (B) as to any performance year that is incomplete or has not yet begun as of the Change in Control, the Target Rank, (2) rounding the average rank calculated pursuant to the foregoing clause (1) to the nearest whole number using ordinary numerical rounding, and (3) using the Final Award Percentage associated with the number determined in the foregoing clause (2). The Target Rank is the rank associated with 100% on the chart of Final Award Percentages.

6. “Qualifying Participants” shall mean those individuals who participate in the Plan (whether as current or former employees) as of immediately prior to the Change in Control.

(e) Application.

This Schedule shall apply to Stock Options, restricted stock unit awards and performance share unit awards under the Plans granted prior to November 24, 2004.

EXHIBIT 10.6

MERCK & CO., INC.

2001 INCENTIVE STOCK PLAN

(Amended and Restated as of February 22, 2005)

2001 INCENTIVE STOCK PLAN

The 2001 Incentive Stock Plan ("ISP"), effective January 1, 2001, is established to encourage employees of Merck & Co., Inc. (the "Company"), its subsidiaries, its affiliates and its joint ventures to acquire Common Stock in the Company ("Common Stock"). It is believed that the ISP will stimulate employees' efforts on the Company's behalf, will tend to maintain and strengthen their desire to remain with the Company, will be in the interest of the Company and its Stockholders and will encourage such employees to have a greater personal financial investment in the Company through ownership of its Common Stock.

1. Incentives

Incentives under the ISP may be granted in any one or a combination of (a) Incentive Stock Options (or other statutory stock options); (b) Nonqualified Stock Options; (c) Stock Appreciation Rights; (d) Restricted Stock Grants and (e) Performance Shares (collectively "Incentives"). All Incentives shall be subject to the terms and conditions set forth herein and to such other terms and conditions as may be established by the Compensation and Benefits Committee of the Board of Directors (the "Committee").

2. Eligibility

Regular full-time and part-time employees of the Company, its subsidiaries, its affiliates and its joint ventures, including officers, whether or not directors of the Company, and employees of a joint venture partner or affiliate of the Company who provide services to the joint venture with such partner or affiliate, shall be eligible to participate in the ISP ("Eligible Employees") if designated by the Committee. Directors of the Company who are not regular employees are not eligible to participate in the ISP.

3. Administration

The ISP shall be administered by the Committee. The Committee shall be responsible for the administration of the ISP including, without limitation, determining which Eligible Employees receive Incentives, what kind of Incentives are made under the ISP and for what number of shares, and the other terms and conditions of such Incentives. Determinations by the Committee under the ISP including, without limitation, determinations of the Eligible Employees, the form, amount and timing of Incentives, the terms and provisions of Incentives and the agreements evidencing Incentives, need not be uniform and may be made selectively among Eligible Employees who receive, or are eligible to receive, Incentives hereunder, whether or not such Eligible Employees are similarly situated.

The Committee shall have the responsibility of construing and interpreting the ISP and of establishing and amending such rules and regulations as it may deem necessary or desirable for the proper administration of the ISP. Any decision or action taken or to be taken by the Committee, arising out of or in connection with the construction, administration, interpretation and effect of the ISP and of its rules and regulations, shall, to the maximum extent permitted by applicable law, be within its absolute discretion (except as otherwise specifically provided herein) and shall be conclusive and binding upon the Company, all Eligible Employees and any person claiming under or through any Eligible Employee.

The Committee may delegate some or all of its power and authority hereunder to the Chief Executive Officer or other senior member of management as the Committee deems appropriate; provided, however, that the Committee may not delegate its authority with regard to any matter or action affecting an officer subject to Section 16 of the Securities Exchange Act of 1934.

For the purpose of this section and all subsequent sections, the ISP shall be deemed to include this plan and any comparable sub-plans established by subsidiaries which, in the aggregate, shall constitute one plan governed by the terms set forth herein.

4. Shares Available for Incentives

(a) **Shares Subject to Issuance or Transfer.** Subject to adjustment as provided in Section 4(c) hereof, there is hereby reserved for issuance under the ISP 95 million shares of Common Stock. The shares available for granting awards shall be increased by the number of shares as to which options or other benefits granted under the ISP have lapsed, expired, terminated or been canceled. In addition, any shares reserved for issuance under the Company's 1996 Incentive Stock Plan and 1991 Incentive Stock Plan ("Prior Plans") in excess of the number of shares as to which options or other benefits have been awarded thereunder, plus any such shares as to which options or other benefits granted under the Prior Plans may lapse, expire, terminate or be canceled, shall also be reserved and available for issuance or reissuance under the ISP. Shares under this ISP may be delivered by the Company from its authorized but unissued shares of Common Stock or from Common Stock held in the Treasury.

(b) **Limit on an Individual's Incentives.** In any given year, no Eligible Employee may receive Incentives covering more than three (3) million shares of the Company's Common Stock (such number of shares shall be adjusted in accordance with Section 4(c)).

(c) **Adjustment of Shares.** In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other event identified by the Committee, the Committee shall make such adjustments, if any, as it may deem appropriate in (i) the number and kind of shares authorized for issuance under the ISP, (ii) the number and kind of shares subject to outstanding Incentives, (iii) the option price of Stock Options and (iv) the fair market value of stock appreciation rights.

5. Stock Options

The Committee may grant options qualifying as Incentive Stock Options under the Internal Revenue Code of 1986, as amended, or any successor code thereto (the "Code"), other statutory options under the Code and Nonqualified Options (collectively "Stock Options"). Such Stock Options shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Option Price.** The option price per share with respect to each Stock Option shall be determined by the Committee, but shall not be less than 100% of the fair market value of the Common Stock on the date the Stock Option is granted, as determined by the Committee.

(b) **Period of Option.** The period of each Stock Option shall be fixed by the Committee, but shall not exceed ten (10) years.

(c) **Payment.** No shares shall be issued until full payment of the option price has been made. The option prices may be paid in cash or, if the Committee determines, in shares of Common Stock or a combination of cash and shares. If the Committee approves the use of shares of Common Stock as a payment method, the Committee shall establish such conditions as it deems appropriate for the use of Common Stock to exercise a stock option. Stock options awarded under the ISP shall be exercised through the Company's broker-assisted stock option exercise program, provided such program is available at the time of the option exercise, or by such other means as the Committee may determine from time to time. The Committee may establish rules and procedures to permit an optionholder to defer recognition of gain upon the exercise of a stock option.

(d) **Exercise of Option.** The Committee shall determine how and when shares covered by a Stock Option may be purchased. The Committee may establish waiting periods, the dates on which options become exercisable or "vested" and exercise periods, provided that in no event (including those specified

in paragraphs (e), (f) and (g) of this section) shall any Stock Option be exercisable after its specified expiration period.

(e) **Termination of Employment.** Upon the termination of a Stock Option grantee's employment (for any reason other than retirement, death or termination for deliberate, willful or gross misconduct), Stock Option privileges shall be limited to the shares which were immediately exercisable at the date of such termination. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the termination of a Stock Option grantee's employment may become exercisable in accordance with a schedule as may be determined by the Committee. Such Stock Option privileges shall expire unless exercised or surrendered under a Stock Appreciation Right within such period of time after the date of termination of employment as may be established by the Committee, but in no event later than the expiration date of the Stock Option.

(f) **Retirement.** Upon retirement of a Stock Option grantee, Stock Option privileges shall apply to those shares immediately exercisable at the date of retirement. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the retirement of a Stock Option grantee may become exercisable in accordance with a schedule as may be determined by the Committee. Stock Option privileges shall expire unless exercised within such period of time as may be established by the Committee, but in no event later than the expiration date of the Stock Option.

(g) **Death.** Upon the death of a Stock Option grantee, Stock Option privileges shall apply to those shares which were immediately exercisable at the time of death. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the death of a Stock Option grantee may become exercisable in accordance with a schedule as may be determined by the Committee. Such privileges shall expire unless exercised by legal representative(s) within a period of time as determined by the Committee, but in no event later than the expiration date of the Stock Option.

(h) **Termination due to Misconduct** . If a Stock Option grantee's employment is terminated for deliberate, willful or gross misconduct, as determined by the Company, all rights under the Stock Option shall expire upon receipt of the notice of such termination.

(i) **Limits on Incentive Stock Options.** Except as may otherwise be permitted by the Code, the Committee shall not grant to an Eligible Employee Incentive Stock Options that, in the aggregate, are first exercisable during any one calendar year to the extent that the aggregate fair market value of the Common Stock, at the time the Incentive Stock Options are granted, exceeds $100,000, or such other amount as the Internal Revenue Service may decide from time to time.

6. Stock Appreciation Rights

The Committee may, in its discretion, grant a right to receive the appreciation in the fair market value of shares of Common Stock ("Stock Appreciation Right") either singly or in combination with an underlying Stock Option granted hereunder or under the Prior Plans. Such Stock Appreciation Rights shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Time and Period of Grant.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, it may be granted at the time of the Stock Option grant or at any time thereafter but prior to the expiration of the Stock Option grant. If a Stock Appreciation Right is granted with respect to an underlying Stock Option, at the time the Stock Appreciation Right is granted the Committee may limit the exercise period for such Stock Appreciation Right, before and after which period no Stock Appreciation Right shall attach to the underlying Stock Option. In no event shall the exercise period for a Stock Appreciation Right granted with respect to an underlying Stock Option exceed the exercise period

for such Stock Option. If a Stock Appreciation Right is granted without an underlying Stock Option, the period for exercise of the Stock Appreciation Right shall be set by the Committee.

(b) **Value of Stock Appreciation Right.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, the grantee will be entitled to surrender the Stock Option which is then exercisable and receive in exchange therefor an amount equal to the excess of the fair market value of the Common Stock on the date the election to surrender is received by the Company over the Stock Option price multiplied by the number of shares covered by the Stock Option which is surrendered. If a Stock Appreciation Right is granted without an underlying Stock Option, the grantee will receive upon exercise of the Stock Appreciation Right an amount equal to the excess of the fair market value of the Common Stock on the date the election to surrender such Stock Appreciation Right is received by the Company over the fair market value of the Common Stock on the date of grant multiplied by the number of shares covered by the grant of the Stock Appreciation Right.

(c) **Payment of Stock Appreciation Right.** Payment of a Stock Appreciation Right shall be in the form of shares of Common Stock, cash or any combination of shares and cash. The form of payment upon exercise of such a right shall be determined by the Committee either at the time of grant of the Stock Appreciation Right or at the time of exercise of the Stock Appreciation Right.

7. Performance Share Awards

The Committee may grant awards under which payment may be made in shares of Common Stock, cash or any combination of shares and cash if the performance of the Company or any subsidiary, division, affiliate or joint venture of the Company selected by the Committee during the Award Period meets certain goals established by the Committee ("Performance Share Awards"). Such Performance Share Awards shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Award Period and Performance Goals.** The Committee shall determine and include in a Performance Share Award grant the period of time for which a Performance Share Award is made ("Award Period"). The Committee shall also establish performance objectives ("Performance Goals") to be met by the Company, subsidiary, division or joint venture during the Award Period as a condition to payment of the Performance Share Award. The Performance Goals may include earnings per share, return on stockholders' equity, return on assets, net income or any other financial or other measurement established by the Committee. The Performance Goals may include minimum and optimum objectives or a single set of objectives.

(b) **Payment of Performance Share Awards.** The Committee shall establish the method of calculating the amount of payment to be made under a Performance Share Award if the Performance Goals are met, including the fixing of a maximum payment. The Performance Share Award shall be expressed in terms of shares of Common Stock and referred to as "Performance Shares." After the completion of an Award Period, the performance of the Company, subsidiary, division or joint venture shall be measured against the Performance Goals, and the Committee shall determine whether all, none or any portion of a Performance Share Award shall be paid. The Committee, in its discretion, may elect to make payment in shares of Common Stock, cash or a combination of shares and cash. Any cash payment shall be based on the fair market value of Performance Shares on, or as soon as practicable prior to, the date of payment.

(c) **Revision of Performance Goals.** At any time prior to the end of an Award Period, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur which have a substantial effect on the performance of the Company, subsidiary, division or joint

venture and which, in the judgment of the Committee, make the application of the Performance Goals unfair unless a revision is made.

(d) **Requirement of Employment.** A grantee of a Performance Share Award must remain in the employ of the Company until the completion of the Award Period in order to be entitled to payment under the Performance Share Award; provided that the Committee may, in its discretion, provide for a full or partial payment where such an exception is deemed equitable.

(e) **Dividends.** The Committee may, in its discretion, at the time of the granting of a Performance Share Award, provide that any dividends declared on the Common Stock during the Award Period, and which would have been paid with respect to Performance Shares had they been owned by a grantee, be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and used to increase the number of Performance Shares of the grantee.

(f) **Limit on Performance Share Awards.** Incentives granted as Performance Share Awards under this section and Restricted Stock Grants under Section 8 shall not exceed, in the aggregate, six (6) million shares of Common Stock (such number of shares shall be adjusted in accordance with Section 4(c)).

8. Restricted Stock Grants

The Committee may award shares of Common Stock to a grantee, which shares shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe ("Restricted Stock Grant"):

(a) **Requirement of Employment.** A grantee of a Restricted Stock Grant must remain in the employment of the Company during a period designated by the Committee ("Restriction Period") in order to retain the shares under the Restricted Stock Grant. If the grantee leaves the employment of the Company prior to the end of the Restriction Period, the Restricted Stock Grant shall terminate and the shares of Common Stock shall be returned immediately to the Company provided that the Committee may, at the time of the grant, provide for the employment restriction to lapse with respect to a portion or portions of the Restricted Stock Grant at different times during the Restriction Period. The Committee may, in its discretion, also provide for such complete or partial exceptions to the employment restriction as it deems equitable.

(b) **Restrictions on Transfer and Legend on Stock Certificates.** During the Restriction Period, the grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of Common Stock. Each certificate for shares of Common Stock issued hereunder shall contain a legend giving appropriate notice of the restrictions in the grant.

(c) **Escrow Agreement.** The Committee may require the grantee to enter into an escrow agreement providing that the certificates representing the Restricted Stock Grant will remain in the physical custody of an escrow holder until all restrictions are removed or expire.

(d) **Lapse of Restrictions.** All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if the conditions as to employment set forth above have been met. The grantee shall then be entitled to have the legend removed from the certificates.

(e) **Dividends.** The Committee shall, in its discretion, at the time of the Restricted Stock Grant, provide that any dividends declared on the Common Stock during the Restriction Period shall either be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and paid to the grantee only after the expiration of the Restriction Period.

(f) **Limit on Restricted Stock Grant.** Incentives granted as Restricted Stock Grants under this section and Performance Share Awards under Section 7 shall not exceed, in the aggregate, six (6) million shares of Common Stock (such number of shares shall be adjusted in accordance with Section 4(c)).

9. Transferability

Each Incentive Stock Option granted under the ISP shall not be transferable other than by will or the laws of descent and distribution; each other Incentive granted under the ISP will not be transferable or assignable by the recipient, and may not be made subject to execution, attachment or similar procedures, other than by will or the laws of descent and distribution or as determined by the Committee in accordance with regulations promulgated under the Securities Exchange Act of 1934, or any other applicable law or regulation.

10. Discontinuance or Amendment of the Plan

The Board of Directors may discontinue the ISP at any time and may from time to time amend or revise the terms of the ISP as permitted by applicable statutes, except that it may not revoke or alter, in a manner unfavorable to the grantees of any Incentives hereunder, any Incentives then outstanding, nor may the Board amend the ISP without stockholder approval where the absence of such approval would cause the Plan to fail to comply with Rule 16b-3 under the Securities Exchange Act of 1934, or any other requirement of applicable law or regulation. Unless approved by the Company's stockholders, no adjustments or reduction of the exercise price of any outstanding Incentives shall be made by cancellation of outstanding Incentives and the subsequent regranting of Incentives at a lower price to the same individual. No Incentive shall be granted under the ISP after December 31, 2003, but Incentives granted theretofore may extend beyond that date.

11. No Right of Employment or Participation

The ISP and the Incentives granted hereunder shall not confer upon any Eligible Employee the right to continued employment with the Company, its subsidiaries, its affiliates or its joint ventures or affect in any way the right of such entities to terminate the employment of an Eligible Employee at any time and for any reason. No individual shall have a right to be granted an Incentive, or having been granted an Incentive, to receive any future Incentives.

12. No Limitation on Compensation

Nothing in the ISP shall be construed to limit the right of the Company to establish other plans or to pay compensation to its employees, in cash or property, in a manner which is not expressly authorized under the ISP.

13. No Impact on Benefits

Except as may otherwise be specifically stated under any employee benefit plan, policy or program, no amount payable in respect of any Incentive shall be treated as compensation for purposes of calculating an employee's right under any such plan, policy or program.

14. No Constraint on Corporate Action

Nothing in the ISP shall be construed (i) to limit, impair or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or assets, or (ii) except as provided in Section 10, to limit the right or power of the Company or any subsidiary to take any action which such entity deems to be necessary or appropriate.

15. Withholding Taxes

The Company shall be entitled to deduct from any payment under the ISP, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Eligible Employee to pay to it such tax prior to and as a condition of the making of such payment. In accordance with any applicable administrative guidelines it establishes, the Committee may allow an Eligible Employee to pay the amount of taxes required by law to be withheld from an Incentive by withholding from any payment of Common Stock due as a result of such Incentive, or by permitting the Eligible Employee to deliver to the Company, shares of Common Stock having a fair market value, as determined by the Committee, equal to the amount of such required withholding taxes.

16. Governing Law

The ISP, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New Jersey.

Merck Change in Control

(a) **Options.**

1. Vesting of Options Other Than Key R&D Options. Upon the occurrence of a Change in Control, each Stock Option which is outstanding immediately prior to the Change in Control, other than the Key R&D Options, shall immediately become fully vested and exercisable.

2. Vesting of Key R&D Options.

(i) Subject to (a)(2)(ii) of this Schedule, upon the occurrence of a Change in Control, each Key R&D Option shall continue to be subject to the performance-based vesting schedule applicable thereto immediately prior to the Change in Control.

(ii) Notwithstanding (a)(2)(i) of this Schedule, if the Stock Options do not continue to be outstanding following the Change in Control or are not exchanged for or converted into options to purchase securities of a successor entity ("Successor Options"), then, upon the occurrence of a Change in Control, all or a portion of each Key R&D Option shall immediately vest and become exercisable in the following percentages: (A) if such Key R&D Option's first milestone has not been reached before the date of the Change in Control, 14% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; (B) if only such Key R&D Option's first milestone has been reached before the date of the Change in Control, 42% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; and (C) if such Key R&D Option's first and second milestones have been reached before the date of the Change in Control, 100% of the then-unvested portion of the Key R&D Option shall vest and become exercisable.

3. Post-Termination Exercise Period. If Stock Options continue to be outstanding following the Change in Control or are exchanged for or converted into Successor Options, then the portion of such Stock Options or such Successor Options, as applicable, that is vested and exercisable immediately following the termination of employment of the holder thereof after the Change in Control shall remain exercisable following such termination for five years from the date of such termination (but not beyond the remainder of the term thereof) provided, however, that, if such termination is by reason of gross misconduct, death or retirement (as these terms are applied to awards granted under the Plans), then those provisions of the Plan that are applicable to a termination by reason of gross misconduct, death or retirement, if any, shall apply to such termination. If the effect of vesting pursuant to this Section (a) would cause a Stock Option or Successor Stock Option to terminate earlier than if such accelerated vesting had not occurred, then the term of such Stock Option shall not expire earlier than if such accelerated vesting had not occurred.

4. Cashout of Stock Options. If the Stock Options do not continue to be outstanding following the Change in Control and are not exchanged for or converted into Successor Options, each holder of a vested and exercisable option shall be entitled to receive, as soon as practicable following the Change in Control, for each share of Common Stock subject to a vested and exercisable option, an amount of cash determined by the Committee prior to the Change in Control but in no event less than the excess of the Change in Control Price over the exercise price thereof (subject to any existing deferral elections then in effect). If the consideration to be paid in a Change in Control is not entirely shares of common stock of an acquiring or resulting corporation, then the Committee may, prior to the Change in Control, provide for the cancellation of outstanding Stock Options at the time of the Change in Control, in whole or in part, for cash pursuant to this provision or may provide for the exchange or conversion of outstanding Stock Options at the time of the Change in Control, in whole or in part, and, in connection with any such provision, may (but shall not be obligated to) permit holders of Stock Options to make such elections related thereto as it determines are appropriate.

5. Incentive Stock Options Not Amended. This Section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

(b) **Restricted Stock Units and Performance Share Units.**

1. Vesting of Restricted Stock Units. Upon the occurrence of a Change in Control, each unvested restricted stock unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become fully vested.

2. Vesting of Performance Share Units. Upon the occurrence of a Change in Control, each unvested performance share unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become vested in an amount equal to the PSU Pro Rata Amount.

3. Settlement of Restricted Stock Units and Performance Share Units.

(i) If the Common Stock continues to be widely held and freely tradable following the Change in Control or is exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in shares of Common Stock or such other securities as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(ii) If the Common Stock does not continue to be widely held and freely tradable following the Change in Control and is not exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in cash as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(c) **Other Provisions.**

1. Except to the extent required by applicable law, for the entirety of the Protection Period, the material terms of the Plan shall not be modified in any manner that is materially adverse to the Qualifying Participants (it being understood that this Section (c) of this Schedule shall not require that any specific type or levels of equity awards be granted to Qualifying Participants following the Change in Control).

2. During the Protection Period, the Plan may not be amended or modified to reduce or eliminate the protections set forth in Section (c)(1) of this Schedule and may not be terminated.

3. The Company shall pay all legal fees and related expenses (including the costs of experts, evidence and counsel) reasonably and in good faith incurred by a Qualifying Participant if the Qualifying Participant prevails on his or her claim for relief in an action (x) by the Qualifying Participant claiming that the provisions of Section (c)(1) or (c)(2) of this Schedule have been violated (but, for avoidance of doubt, excluding claims for Plan benefits in the ordinary course) and (y) if applicable, by the Company or the Qualifying Participant's employer to enforce post-termination covenants against the Qualifying Participant.

4. This section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

5. Anything in the Plan as amended by this Schedule notwithstanding, the Company reserves the right to make such further changes as may be required if and to the extent required to avoid adverse consequences under the American Jobs Creation Act of 2004, as amended.

(d) **Definitions.**

For purposes of this Schedule, the following terms shall have the following meanings:

1. “Change in Control” shall have the meaning set forth in the Company’s Change in Control Separation Benefits Plan; provided, however, that, as to any award under the Plan that consists of deferred compensation subject to Section 409A of the Code, the definition of “Change in Control” shall be deemed modified to the extent necessary to comply with Section 409A of the Code.

2. “Change in Control Price” shall mean, with respect to a share of Common Stock, the higher of (A) the highest reported sales price, regular way, of such share in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on the Nasdaq National Market during the 10-day period prior to and including the date of a Change in Control and (B) if the Change in Control is the result of a tender or exchange offer, merger, or other, similar corporate transaction, the highest price per such share paid in such tender or exchange offer, merger or other, similar corporate transaction; provided that, to the extent all or part of the consideration paid in any such transaction consists of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined by the Committee.

3. “Key R&D Options” shall mean those performance-based options granted to employees under the Key Research and Development Program described in the applicable Schedule to the Rules and Regulations for the Plan, if any.

4. “Protection Period” shall mean the period beginning on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

5. “PSU Pro Rata Amount” shall mean for each Performance Share Unit award, the amount determined by multiplying (x) and (y), where (x) is the number of Target Shares subject to the Performance Share Unit award times the Assumed Performance Percentage and (y) is a fraction, the numerator of which is the number of whole and partial calendar months elapsed during the applicable performance period (counting any partial month as a whole month for this purpose) and the denominator of which is the total number of months in the applicable performance period. The Assumed Performance Percentage shall be determined by (1) averaging the ranks during the Award Period as follows: (A) as to any completed performance year as of the Change in Control, the actual rank (except that, if fewer than 90 days have elapsed since the completion of such performance year, the Target Rank shall be used), and (B) as to any performance year that is incomplete or has not yet begun as of the Change in Control, the Target Rank, (2) rounding the average rank calculated pursuant to the foregoing clause (1) to the nearest whole number using ordinary numerical rounding, and (3) using the Final Award Percentage associated with the number determined in the foregoing clause (2). The Target Rank is the rank associated with 100% on the chart of Final Award Percentages.

6. “Qualifying Participants” shall mean those individuals who participate in the Plan (whether as current or former employees) as of immediately prior to the Change in Control.

(e) **Application.**

This Schedule shall apply to Stock Options, restricted stock unit awards and performance share unit awards under the Plans granted prior to November 24, 2004.

Exhibit 10.7

MERCK & CO., INC.
2004 INCENTIVE STOCK PLAN

(Amended and Restated as of February 22, 2005)

MERCK & CO., INC.
2004 INCENTIVE STOCK PLAN
(Amended November 23, 2004)

1. Purpose

The 2004 Incentive Stock Plan (the "Plan"), effective May 1, 2003, is established to encourage employees of Merck & Co., Inc. (the "Company"), its subsidiaries, its affiliates and its joint ventures to acquire Common Stock in the Company ("Common Stock"). It is believed that the Plan will serve the interests of the Company and its stockholders because it allows employees to have a greater personal financial interest in the Company through ownership of, or the right to acquire its Common Stock, which in turn will stimulate employees' efforts on the Company's behalf, and maintain and strengthen their desire to remain with the Company. It is believed that the Plan also will assist in the recruitment of employees.

2. Administration

The Plan shall be administered by the Compensation and Benefits Committee of the Board of Directors of the Company (the "Committee"). A Director of the Company may serve on the Committee only if he or she (i) is a "Non-Employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code (the "Code"). The Committee shall be responsible for the administration of the Plan including, without limitation, determining which Eligible Employees receive Incentives, the types of Incentives they receive under the Plan, the number of shares covered by Incentives granted under the Plan, and the other terms and conditions of such Incentives. Determinations by the Committee under the Plan including, without limitation, determinations of the Eligible Employees, the form, amount and timing of Incentives, the terms and provisions of Incentives and the writings evidencing Incentives, need not be uniform and may be made selectively among Eligible Employees who receive, or are eligible to receive, Incentives hereunder, whether or not such Eligible Employees are similarly situated.

The Committee shall have the responsibility of construing and interpreting the Plan, including the right to construe disputed or doubtful Plan provisions, and of establishing, amending and construing such rules and regulations as it may deem necessary or desirable for the proper administration of the Plan. Any decision or action taken or to be taken by the Committee, arising out of or in connection with the construction, administration, interpretation and effect of the Plan and of its rules and regulations, shall, to the maximum extent permitted by applicable law, be within its absolute discretion (except as otherwise specifically provided herein) and shall be final, binding and conclusive upon the Company, all Eligible Employees and any person claiming under or through any Eligible Employee.

The Committee, as permitted by applicable state law, may delegate any or all of its power and authority hereunder to the Chief Executive Officer or such other senior member of management as the Committee deems appropriate; provided, however, that the Committee may not delegate its authority with regard to any matter or action affecting an officer subject to Section 16 of the Exchange Act and that no such delegation shall be made in the case of Incentives intended to be qualified under Section 162(m) of the Code.

For the purpose of this section and all subsequent sections, the Plan shall be deemed to include this Plan and any comparable sub-plans established by subsidiaries which, in the aggregate, shall constitute one Plan governed by the terms set forth herein.

3. Eligibility

(a) **Employees.** Regular full-time and part-time employees employed by the Company, its parent, if any, or its subsidiaries, its affiliates and its joint ventures, including officers, whether or not directors of the Company, and employees of a joint venture partner or affiliate of the Company who provide services to the joint venture with such partner or affiliate (each such person, an "Employee"), shall be eligible to participate in the Plan if designated by the Committee ("Eligible Employees").

(b) **Non-employees.** The term "Employee" shall not include any of the following (collectively, "Excluded Persons"): a director who is not an employee or an officer; a person who is an independent contractor, or agrees or has agreed that he/she is an independent contractor; a person who has any agreement or understanding with the Company, or any of its affiliates or joint venture partners that he/she is not an employee or an Eligible Employee, even if he/she previously had been an employee or Eligible Employee; a person who is employed by a temporary or other employment agency, regardless of the amount of control, supervision or training provided by the Company or its affiliates; or a "leased employee" as defined under Section 414 (n) of the Code. An Excluded Person is not an Eligible Employee and cannot receive Incentives even if a court, agency or other authority rules that he/she is a common-law employee of the Company or its affiliates.

(c) **No Right To Continued Employment.** Nothing in the Plan shall interfere with or limit in any way the right of the Company, its parent, its subsidiaries, its affiliates or its joint ventures to terminate the employment of any participant at any time, nor confer upon any participant the right to continue in the employ of the Company, its parent, its subsidiaries, its affiliates or its joint ventures. No Eligible Employee shall have a right to receive an Incentive or any other benefit under this Plan or having been granted an Incentive or other benefit, to receive any additional Incentive or other benefit. Neither the award of an Incentive nor any benefits arising under such Incentives shall constitute an employment contract with the Company, its parent, its subsidiaries, its affiliates or its joint ventures, and, accordingly, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Company without giving rise to liability on the part of the Company, its parent, its subsidiaries, its affiliates or its joint ventures for severance. Except as may be otherwise specifically stated in any other employee benefit plan, policy or program, neither any Incentive under this Plan nor any amount realized from any such Incentive shall be treated as compensation for any purposes of calculating an employee's benefit under any such plan, policy or program.

4. Term of the Plan

This Plan shall be effective as of May 1, 2003, subject to the approval of the Plan by the affirmative vote of the stockholders of the Company entitled to vote thereon at the time of such approval. No Incentive shall be granted under the Plan after April 30, 2013, but the term and exercise of Incentives granted theretofore may extend beyond that date.

5. Incentives

Incentives under the Plan may be granted in any one or a combination of (a) Incentive Stock Options, (b) Nonqualified Stock Options, (c) Stock Appreciation Rights, (d) Restricted Stock Grants, (e) Performance Shares, (f) Share Awards and (g) Phantom Stock Awards (collectively "Incentives"). All Incentives shall be subject to the terms and conditions set forth herein and to such other terms and conditions as may be established by the Committee.

6. Shares Available for Incentives

(a) **Shares Available.** Subject to the provisions of Section 6(c), the maximum number of shares of Common Stock of the Company that may be issued under the Plan is 115 million. Any shares under this Plan or under the predecessor Incentive Stock Plans that are not purchased or awarded under an Incentive that has lapsed, expired, terminated or been cancelled, may be used for the further grant of Incentives under the Plan. Incentives and similar awards issued by an entity that is merged into or with the Company, acquired by the Company or otherwise involved in a similar corporate transaction with the Company are not considered issued under this Plan. Shares under this Plan may be delivered by the Company from its authorized but unissued shares of Common Stock or from issued and reacquired Common Stock held as treasury stock, or both. In no event shall fractional shares of Common Stock be issued under the Plan.

(b) **Limit on an Individual's Incentives.** In any calendar year, no Eligible Employee may receive (i) Incentives covering more than 3 million shares of the Company's Common Stock (such number of shares shall be adjusted in accordance with Section 6(c)), or (ii) any Incentive if such person owns more than 10 percent of the stock of the Company within the meaning of Section 422 of the Code, or (iii) any Incentive Stock Option, as defined in Section 422 of the Code, that would result in such person receiving a grant of Incentive Stock Options for stock that would have an aggregate fair market value in excess of $100,000, determined as of the time that the Incentive Stock Option is granted, that would be exercisable for the first time by such person during any calendar year.

(c) **Adjustment of Shares.** In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other event identified by the Committee, the Committee shall make such adjustments, if any, as it may deem appropriate in (i) the number and kind of shares authorized for issuance under the Plan, (ii) the number and kind of shares subject to outstanding Incentives, (iii) the option price of Stock Options and (iv) the fair market value of Stock Appreciation Rights. Any such determination shall be final, binding and conclusive on all parties.

7. Stock Options

The Committee may grant options qualifying as Incentive Stock Options as defined in Section 422 of the Code, and options other than Incentive Stock Options ("Nonqualified Options") (collectively "Stock Options"). Such Stock Options shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Stock Option Price.** The option price per share with respect to each Stock Option shall be determined by the Committee, but shall not be less than 100 percent of the fair market value of the Common Stock on the date the Stock Option is granted, as determined by the Committee.

(b) **Period of Stock Option.** The period of each Stock Option shall be fixed by the Committee, provided that the period for all Stock Options shall not exceed ten years from the grant; provided further, however, that, in the event of the death of an Optionee prior to the expiration of a Nonqualified Option, such Nonqualified Option may, if the Committee so determines, be exercisable for up to eleven years from the date of the grant. The Committee may, subsequent to the granting of any Stock Option, extend the term thereof, but in no event shall the extended term exceed ten years from the original grant date.

(c) **Exercise of Stock Option and Payment Therefore.** No shares shall be issued until full payment of the option price has been made. The option price may be paid in cash or, if the Committee determines, in shares of Common Stock or a combination of cash and shares of Common Stock. If the Committee approves the use of shares of Common Stock as a payment method, the Committee shall establish such conditions as it deems appropriate for the use of Common Stock to exercise a Stock Option. Stock Options awarded under the Plan shall be exercised through such procedure or program as the Committee may establish or define from time to time, which may include a designated broker that must be used in exercising such Stock Options. The Committee may establish rules and procedures to permit an optionholder to defer recognition of gain upon the exercise of a Stock Option.

(d) **First Exercisable Date** . The Committee shall determine how and when shares covered by a Stock Option may be purchased. The Committee may establish waiting periods, the dates on which Stock Options become exercisable or "vested" and, subject to paragraph (b) of this section, exercise periods. The Committee may accelerate the exercisability of any Stock Option or portion thereof.

(e) **Termination of Employment.** Unless determined otherwise by the Committee, upon the termination of a Stock Option grantee's employment (for any reason other than gross misconduct), Stock Option privileges shall be limited to the shares that were immediately exercisable at the date of such termination. The Committee, however, in its discretion, may provide that any Stock Options outstanding but not yet exercisable upon the termination of a Stock Option grantee's employment may become exercisable in accordance with a schedule determined by the Committee. Such Stock Option privileges shall expire unless exercised within such period of time after the date of termination of employment as may be established by the Committee, but in no event later than the expiration date of the Stock Option.

(f) **Termination Due to Misconduct** . If a Stock Option grantee's employment is terminated for gross misconduct, as determined by the Company, all rights under the Stock Option shall expire upon the date of such termination.

(g) **Limits on Incentive Stock Options** . Except as may otherwise be permitted by the Code, an Eligible Employee may not receive a grant of Incentive Stock Options for stock that would have an aggregate fair market value in excess of $100,000 (or such other amount as the Internal Revenue Service may decide from time to time), determined as of the time that the Incentive Stock Option is granted, that would be exercisable for the first time by such person during any calendar year.

8. Stock Appreciation Rights

The Committee may, in its discretion, grant a right to receive the appreciation in the fair market value of shares of Common Stock ("Stock Appreciation Right") either singly or in combination with an underlying Stock Option granted hereunder. Such Stock Appreciation Right shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Time and Period of Grant.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, it may be granted at the time of the Stock Option grant or at any time thereafter but prior to the expiration of the Stock Option grant. If a Stock Appreciation Right is granted with respect to an underlying Stock Option, at the time the Stock Appreciation Right is granted the Committee may limit the exercise period for such Stock Appreciation Right, before and after which period no Stock Appreciation Right shall attach to the underlying Stock Option. In no event shall the exercise period for a Stock Appreciation Right granted with respect to an underlying Stock Option exceed the exercise period for such Stock Option. If a Stock Appreciation Right is granted without an underlying Stock Option, the period for exercise of the Stock Appreciation Right shall be set by the Committee.

(b) **Value of Stock Appreciation Right.** If a Stock Appreciation Right is granted with respect to an underlying Stock Option, the grantee will be entitled to surrender the Stock Option which is then exercisable and receive in exchange therefor an amount equal to the excess of the fair market value of the Common Stock on the date the election to surrender is received by the Company in accordance with exercise procedures established by the Company over the Stock Option price (the "Spread") multiplied by the number of shares covered by the Stock Option which is surrendered. If a Stock Appreciation Right is granted without an underlying Stock Option, the grantee will receive upon exercise of the Stock Appreciation Right an amount equal to the excess of the fair market value of the Common Stock on the date the election to surrender such Stock Appreciation Right is received by the Company in accordance with exercise procedures established by the Company over the fair market value of the Common Stock on the date of grant multiplied by the number of shares covered by the grant of the Stock Appreciation Right. Notwithstanding the foregoing, in its sole discretion the Committee at the time it grants a Stock Appreciation Right may provide that the Spread covered by such Stock Appreciation Right may not exceed a specified amount.

(c) **Payment of Stock Appreciation Right.** Payment of a Stock Appreciation Right shall be in the form of shares of Common Stock, cash or any combination of shares and cash. The form of payment upon exercise of such a right shall be determined by the Committee either at the time of grant of the Stock Appreciation Right or at the time of exercise of the Stock Appreciation Right.

9. Performance Share Awards

The Committee may grant awards under which payment may be made in shares of Common Stock, cash or any combination of shares and cash if the performance of the Company or its parent or any subsidiary, division, affiliate or joint venture of the Company selected by the Committee during the Award Period meets certain goals established by the Committee ("Performance Share Awards"). Such Performance Share Awards shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) **Award Period and Performance Goals.** The Committee shall determine and include in a Performance Share Award grant the period of time for which a Performance Share Award is made ("Award Period"). The Committee also shall establish performance objectives ("Performance Goals") to be met by the Company, its parent, subsidiary, division, affiliate or joint venture of the Company during the Award Period as a condition to payment of the Performance Share Award. The Performance Goals may include share price, pre-tax profits, earnings per share, return on stockholders' equity, return on assets, sales, net income or any combination of the foregoing or, solely for an Award not intended to constitute "performance-based compensation" under Section 162(m) of the Code, any other financial or other measurement established by the Committee. The Performance Goals may include minimum and optimum objectives or a single set of objectives.

(b) **Payment of Performance Share Awards.** The Committee shall establish the method of calculating the amount of payment to be made under a Performance Share Award if the Performance Goals are met, including the fixing of a maximum payment. The Performance Share Award shall be expressed in terms of shares of Common Stock and referred to as "Performance Shares". After the completion of an Award Period, the performance of the Company, its parent, subsidiary, division, affiliate or joint venture of the Company shall be measured against the Performance Goals, and the Committee shall determine, in accordance with the terms of such Performance Share Award, whether all, none or any portion of a Performance Share Award shall be paid. The Committee, in its discretion, may elect to make payment in shares of Common Stock, cash or a combination of shares and cash. Any cash payment shall be based on the fair market value of Performance Shares on or as soon as practicable prior to, the date of payment. The Committee may establish rules and procedures to permit a grantee to defer recognition of income upon the attainment of a Performance Share Award.

(c) **Revision of Performance Goals.** As to any Award not intended to constitute "performance-based compensation" under Section 162 (m) of the Code, at any time prior to the end of an Award Period, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur which have a substantial effect on the performance of the Company, its parent, subsidiary, division, affiliate or joint venture of the Company and which, in the judgment of the Committee, make the application of the Performance Goals unfair unless a revision is made.

(d) **Requirement of Employment.** A grantee of a Performance Share Award must remain in the employ of the Company, its parent, subsidiary, affiliate or joint venture until the completion of the Award Period in order to be entitled to payment under the Performance Share Award; provided that the Committee may, in its discretion, provide for a full or partial payment where such an exception is deemed equitable.

(e) **Dividends.** The Committee may, in its discretion, at the time of the granting of a Performance Share Award, provide that any dividends declared on the Common Stock during the Award Period, and which would have been paid with respect to Performance Shares had they been owned by a grantee, be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and used to increase the number of Performance Shares of the grantee.

(f) **Limit on Performance Share Awards.** Incentives granted as Performance Share Awards under this section, Restricted Stock Grants under Section 10 and Other Share Based Awards under Section 11 shall not exceed, in the aggregate, 12 million shares of Common Stock (such number of shares shall be adjusted in accordance with Section 6(c)).

10. Restricted Stock Grants

The Committee may award shares of Common Stock to an Eligible Employee, which shares shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe ("Restricted Stock Grant"):

(a) **Requirement of Employment.** A grantee of a Restricted Stock Grant must remain in the employment of the Company during a period designated by the Committee ("Restriction Period") in order to retain the shares under the Restricted Stock Grant. If the grantee leaves the employment of the Company prior to the end of the Restriction Period, the Restricted Stock Grant shall terminate and the shares of Common Stock shall be returned immediately to the Company provided that the Committee may, at the time of the grant, provide for the employment restriction to lapse with respect to a portion or portions of the Restricted Stock Grant at different times during the Restriction Period. The Committee may, in its discretion, also provide for such complete or partial exceptions to the employment restriction as it deems equitable.

(b) **Restrictions on Transfer and Legend on Stock Certificates.** During the Restriction Period, the grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of Common Stock. Each certificate for shares of Common Stock issued hereunder shall contain a legend giving appropriate notice of the restrictions in the grant.

(c) **Escrow Agreement.** The Committee may require the grantee to enter into an escrow agreement providing that the certificates representing the Restricted Stock Grant will remain in the physical custody of an escrow holder until all restrictions are removed or expire.

(d) **Lapse of Restrictions.** All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if the conditions as to employment set forth above have been met. The grantee shall then be entitled to have the legend removed from the certificates. The Committee may establish rules and procedures to permit a grantee to defer recognition of income upon the expiration of the Restriction Period.

(e) **Dividends.** The Committee shall, in its discretion, at the time of the Restricted Stock Grant, provide that any dividends declared on the Common Stock during the Restriction Period shall either be (i) paid to the grantee, or (ii) accumulated for the benefit of the grantee and paid to the grantee only after the expiration of the Restriction Period.

(f) **Performance Goals.** The Committee may designate whether any Restricted Stock Grant is intended to be "performance-based compensation" as that term is used in Section 162(m) of the Code. Any such Restricted Stock Grant designated to be "performance-based compensation" shall be conditioned on the achievement of one or more Performance Goals (as defined in Section 9(a)), to the extent required by Section 162(m).

(g) **Limit on Restricted Stock Grant.** Incentives granted as Restricted Stock Grants under this section, Performance Share Awards under Section 9 and Other Share Based Awards under Section 11 shall not exceed, in the aggregate, 12 million shares of Common Stock (such number of shares shall be adjusted in accordance with Section 6(c)).

11. Other Share-Based Awards

The Committee may grant an award of shares of common stock (a "Share Award") to any Eligible Employee on such terms and conditions as the Committee may determine in its sole discretion. Share Awards may be made as additional compensation for services rendered by the Eligible Employee or may be in lieu of cash or other compensation to which the Eligible Employee is entitled from the Company. Incentives granted as Share Based Awards under this section, Performance Share Awards under Section 9 and Restricted Stock Grants under Section 10 shall not exceed, in the aggregate, 12 million shares of Common Stock (such number of shares shall be adjusted in accordance with Section 6 (c)).

12. Transferability

Each Incentive Stock Option granted under the Plan shall not be transferable other than by will or the laws of descent and distribution; each other Incentive granted under the Plan will not be transferable or assignable by the recipient, and may not be made subject to execution, attachment or similar procedures, other than by will or the laws of descent and distribution or as determined by the Committee in accordance with regulations promulgated under the Securities Exchange Act of 1934, or any other applicable law or regulation. Notwithstanding the foregoing, the Committee, in its discretion, may adopt rules permitting the transfer, solely as gifts during the grantee's lifetime, of Stock Options (other than Incentive Stock Options) to members of a grantee's immediate family or to trusts, family partnerships or similar entities for the benefit of such immediate family members. For this purpose, immediate family member means the grantee's spouse, parent, child, stepchild, grandchild and the spouses of such family members. The terms of a Stock Option shall be final, binding and conclusive upon the beneficiaries, executors, administrators, heirs and successors of the grantee.

13. Discontinuance or Amendment of the Plan

The Board of Directors may discontinue the Plan at any time and may from time to time amend or revise the terms of the Plan as permitted by applicable statutes, except that it may not, without the consent of the grantees affected, revoke or alter, in a manner unfavorable to the grantees of any Incentives hereunder, any Incentives then outstanding, nor may the Board amend the Plan without stockholder approval where the absence of such approval would cause the Plan to fail to comply with Rule 16b-3 under the Exchange Act, or any other requirement of applicable law or regulation. Unless approved by the Company's stockholders or as otherwise specifically provided under this Plan, no adjustments or reduction of the exercise price of any outstanding Incentives shall be made in the event of a decline in stock price, either by reducing the exercise price of outstanding Incentives or through cancellation of outstanding Incentives in connection with regranting of Incentives at a lower price to the same individual.

14. No Limitation on Compensation

Nothing in the Plan shall be construed to limit the right of the Company to establish other plans or to pay compensation to its employees, in cash or property, in a manner which is not expressly authorized under the Plan.

15. No Constraint on Corporate Action

Nothing in the Plan shall be construed (i) to limit, impair or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or assets, or (ii) except as provided in Section 13, to limit the right or power of the Company, its parent, or any subsidiary, affiliate or joint venture to take any action which such entity deems to be necessary or appropriate.

16. Withholding Taxes

The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Eligible Employee to pay to it such tax prior to and as a condition of the making of such payment. In accordance with any applicable administrative guidelines it establishes, the Committee may allow an Eligible Employee to pay the amount of taxes required by law to be withheld from an Incentive by withholding from any payment of Common Stock due as a result of such Incentive, or by permitting the Eligible Employee to deliver to the Company, shares of Common Stock having a fair market value, as determined by the Committee, equal to the amount of such required withholding taxes.

17. Compliance with Section 16

With respect to Eligible Employees subject to Section 16 of the Exchange Act ("Section 16 Officers"), transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successor under the Exchange Act. To the extent that compliance with any Plan provision applicable solely to the Section 16 Officers is not required in order to bring a transaction by such Section 16 Officer into compliance with Rule 16b-3, it shall be deemed null and void as to such transaction, to the extent permitted by law and deemed advisable by the Committee and its delegees. To the extent any provision of the Plan or action by the Plan administrators involving such Section 16 Officers is deemed not to comply with an applicable condition of Rule 16b-3, it shall be deemed null and void as to such Section 16 Officers, to the extent permitted by law and deemed advisable by the Plan administrators.

18. Use of Proceeds

The proceeds received by the Company from the sale of stock under the Plan shall be added to the general funds of the Company and shall be used for such corporate purposes as the Board of Directors shall direct.

19. Governing Law

The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New Jersey without giving effect to the principles of conflicts of laws.

20. Offset and Suspension of Exercise

Anything to the contrary in the Plan notwithstanding, the Plan administrators may (i) offset any Incentive by amounts reasonably believed to be owed to the Company by the grantee and (ii) disallow an Incentive to be exercised or otherwise payable during a time when the Company is investigating reasonably reliable allegations of gross misconduct by the grantee.

21. Effect of a Change in Control

(a) **Options.**

1. Vesting of Options Other Than Key R&D Options. Upon the occurrence of a Change in Control, each Stock Option which is outstanding immediately prior to the Change in Control, other than the Key R&D Options, shall immediately become fully vested and exercisable.

2. Vesting of Key R&D Options.

(i) Subject to Section 21(a)(2)(ii), upon the occurrence of a Change in Control, each Key R&D Option shall continue to be subject to the performance-based vesting schedule applicable thereto immediately prior to the Change in Control.

(ii) Notwithstanding Section 21(a)(2)(i), if the Stock Options do not continue to be outstanding following the Change in Control or are not exchanged for or converted into options to purchase securities of a successor entity ("Successor Options"), then, upon the occurrence of a Change in Control, all or a portion of each Key R&D Option shall immediately vest and become exercisable

in the following percentages: (A) if such Key R&D Option's first milestone has not been reached before the date of the Change in Control, 14% of the then-unvested portion of the KeyR&D Option shall vest and become exercisable and the remainder shall be forfeited; (B) if only such Key R&D Option's first milestone has been reached before the date of the Change in Control, 42% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; and (C) if such Key R&D Option's first and second milestones have been reached before the date of the Change in Control, 100% of the then-unvested portion of the Key R&D Option shall vest and become exercisable.

3. Post-Termination Exercise Period. If Stock Options continue to be outstanding following the Change in Control or are exchanged for or converted into Successor Options, then the portion of such Stock Options or such Successor Options, as applicable, that is vested and exercisable immediately following the termination of employment of the holder thereof after the Change in Control shall remain exercisable following such termination for five years from the date of such termination (but not beyond the remainder of the term thereof) provided, however, that, if such termination is by reason of gross misconduct, death or retirement (as these terms are applied to awards granted under the Plan), then those provisions of the Plan that are applicable to a termination by reason of gross misconduct, death or retirement shall apply to such termination.

4. Cashout of Stock Options. If the Stock Options do not continue to be outstanding following the Change in Control and are not exchanged for or converted into Successor Options, each holder of a vested and exercisable option shall be entitled to receive, as soon as practicable following the Change in Control, for each share of Common Stock subject to a vested and exercisable option, an amount of cash determined by the Committee prior to the Change in Control but in no event less than the excess of the Change in Control Price over the exercise price thereof (subject to any existing deferral elections then in effect). If the consideration to be paid in a Change in Control is not entirely shares of common stock of an acquiring or resulting corporation, then the Committee may, prior to the Change in Control, provide for the cancellation of outstanding Stock Options at the time of the Change in Control in whole or in part for cash pursuant to this Section 21(a)(4) or may provide for the exchange or conversion of outstanding Stock Options at the time of the Change in Control in whole or in part, and, in connection with any such provision, may (but shall not be obligated to) permit holders of Stock Options to make such elections related thereto as it determines are appropriate.

(b) **Restricted Stock Units and Performance Share Units.**

1. Vesting of Restricted Stock Units. Upon the occurrence of a Change in Control, each unvested restricted stock unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become fully vested.

2. Vesting of Performance Share Units. Upon the occurrence of a Change in Control, each unvested performance share unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become vested in an amount equal to the PSU Pro Rata Amount.

3. Settlement of Restricted Stock Units and Performance Share Units.

(i) If the Common Stock continues to be widely held and freely tradable following the Change in Control or is exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in shares of Common Stock or such other securities as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(ii) If the Common Stock does not continue to be widely held and freely tradable following the Change in Control and is not exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in cash as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(c) **Other Provisions.**

1. Except to the extent required by applicable law, for the entirety of the Protection Period, the material terms of the Plan shall not be modified in any manner that is materially adverse to the Qualifying Participants (it being understood that this Section 21(c) shall not require that any specific type or levels of equity awards be granted to Qualifying Participants following the Change in Control).

2. During the Protection Period, the Plan may not be amended or modified to reduce or eliminate the protections set forth in Section 21 (c)(1) and may not be terminated.

3. The Company shall pay all legal fees and related expenses (including the costs of experts, evidence and counsel) reasonably and in good faith incurred by a Qualifying Participant if the Qualifying Participant prevails on his or her claim for relief in an action (x) by the Qualifying Participant claiming that the provisions of Section 21(c)(1) or 21(c)(2) of the Plan have been violated (but, for avoidance of doubt, excluding claims for plan benefits in the ordinary course) and (y) if applicable, by the Company or the Qualifying Participant's employer to enforce post-termination covenants against the Qualifying Participant.

(d) **Definitions.** For purposes of this Section 21, the following terms shall have the following meanings:

1. "Change in Control" shall have the meaning set forth in the Company's Change in Control Separation Benefits Plan; provided, however, that, as to any award under the Plan that consists of deferred compensation subject to Section 409A of the Code, the definition of "Change in Control" shall be deemed modified to the extent necessary to comply with Section 409A of the Code.

2. "Change in Control Price" shall mean, with respect to a share of Common Stock, the higher of (A) the highest reported sales price, regular way, of such share in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on the Nasdaq National Market during the ten-day period prior to and including the date of a Change in Control and (B) if the Change in Control is the result of a tender or exchange offer, merger, or other, similar corporate transaction, the highest price per such share paid in such tender or exchange offer, merger or other, similar corporate transaction; provided that, to the extent all or part of the consideration paid in any such transaction consists of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined by the Committee.

3. "Key R&D Options" shall mean those performance-based options granted to employees under the Key Research and Development Program described in the applicable Schedule to the Rules and Regulations for the Plan.

4. "Protection Period" shall mean the period beginning on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

5. "PSU Pro Rata Amount" shall mean for each Performance Share Unit award, the amount determined by multiplying (x) and (y), where (x) is the number of Target Shares subject to the Performance Share Unit award times the Assumed Performance Percentage and (y) is a fraction, the numerator of which is the number of whole and partial calendar months elapsed during the applicable performance period (counting any partial month as a whole month for this purpose) and the denominator of which is the total number of months in the applicable performance period. The Assumed Performance Percentage shall be determined by (1) averaging the ranks during the Award Period as follows: (A) as to any completed performance year as of the Change in Control, the actual rank (except that, if fewer than 90 days have elapsed since the completion of such performance year, the Target Rank shall be used), and (B) as to any performance year that is incomplete or has not yet begun as of the Change in Control, the Target Rank, (2) rounding the average rank calculated pursuant to the foregoing clause (1) to the nearest whole number using ordinary numerical rounding, and (3) using the Final Award Percentage associated with the number determined in the foregoing clause (2). The Target Rank is the rank associated with 100% on the chart of Final Award Percentages.

6. “Qualifying Participants” shall mean those individuals who participate in the Plan (whether as current or former employees) as of immediately prior to the Change in Control.

(e) **Application.** This Section 21 shall apply to Stock Options, restricted stock unit awards and performance share unit awards granted after November 23, 2004. (NOTE: For incentives granted before November 23, 2004, see Merck Change in Control schedule.)

Merck Change in Control

(a) **Options.**

1. Vesting of Options Other Than Key R&D Options. Upon the occurrence of a Change in Control, each Stock Option which is outstanding immediately prior to the Change in Control, other than the Key R&D Options, shall immediately become fully vested and exercisable.

2. Vesting of Key R&D Options.

(i) Subject to (a)(2)(ii) of this Schedule, upon the occurrence of a Change in Control, each Key R&D Option shall continue to be subject to the performance-based vesting schedule applicable thereto immediately prior to the Change in Control.

(ii) Notwithstanding (a)(2)(i) of this Schedule, if the Stock Options do not continue to be outstanding following the Change in Control or are not exchanged for or converted into options to purchase securities of a successor entity ("Successor Options"), then, upon the occurrence of a Change in Control, all or a portion of each Key R&D Option shall immediately vest and become exercisable in the following percentages: (A) if such Key R&D Option's first milestone has not been reached before the date of the Change in Control, 14% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; (B) if only such Key R&D Option's first milestone has been reached before the date of the Change in Control, 42% of the then-unvested portion of the Key R&D Option shall vest and become exercisable and the remainder shall be forfeited; and (C) if such Key R&D Option's first and second milestones have been reached before the date of the Change in Control, 100% of the then-unvested portion of the Key R&D Option shall vest and become exercisable.

3. Post-Termination Exercise Period. If Stock Options continue to be outstanding following the Change in Control or are exchanged for or converted into Successor Options, then the portion of such Stock Options or such Successor Options, as applicable, that is vested and exercisable immediately following the termination of employment of the holder thereof after the Change in Control shall remain exercisable following such termination for five years from the date of such termination (but not beyond the remainder of the term thereof) provided, however, that, if such termination is by reason of gross misconduct, death or retirement (as these terms are applied to awards granted under the Plans), then those provisions of the Plan that are applicable to a termination by reason of gross misconduct, death or retirement, if any, shall apply to such termination. If the effect of vesting pursuant to this Section (a) would cause a Stock Option or Successor Stock Option to terminate earlier than if such accelerated vesting had not occurred, then the term of such Stock Option shall not expire earlier than if such accelerated vesting had not occurred.

4. Cashout of Stock Options. If the Stock Options do not continue to be outstanding following the Change in Control and are not exchanged for or converted into Successor Options, each holder of a vested and exercisable option shall be entitled to receive, as soon as practicable following the Change in Control, for each share of Common Stock subject to a vested and exercisable option, an amount of cash determined by the Committee prior to the Change in Control but in no event less than the excess of the Change in Control Price over the exercise price thereof (subject to any existing deferral elections then in effect). If the consideration to be paid in a Change in Control is not entirely shares of common stock of an acquiring or resulting corporation, then the Committee may, prior to the Change in Control, provide for the cancellation of outstanding Stock Options at the time of the Change in Control, in whole or in part, for cash pursuant to this provision or may provide for the exchange or conversion of outstanding Stock Options at the time of the Change in Control, in whole or in part, and, in connection with any such provision, may (but shall not be obligated to) permit holders of Stock Options to make such elections related thereto as it determines are appropriate.

5. Incentive Stock Options Not Amended. This Section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

(b) **Restricted Stock Units and Performance Share Units.**

1. Vesting of Restricted Stock Units. Upon the occurrence of a Change in Control, each unvested restricted stock unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become fully vested.

2. Vesting of Performance Share Units. Upon the occurrence of a Change in Control, each unvested performance share unit award which is outstanding immediately prior to the Change in Control under the Plan shall immediately become vested in an amount equal to the PSU Pro Rata Amount.

3. Settlement of Restricted Stock Units and Performance Share Units.

(i) If the Common Stock continues to be widely held and freely tradable following the Change in Control or is exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in shares of Common Stock or such other securities as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(ii) If the Common Stock does not continue to be widely held and freely tradable following the Change in Control and is not exchanged for or converted into securities of a successor entity that are widely held and freely tradable, then the restricted stock units and the vested performance share units shall be paid in cash as soon as practicable after the date of the Change in Control (subject to any existing deferral elections then in effect).

(c) **Other Provisions.**

1. Except to the extent required by applicable law, for the entirety of the Protection Period, the material terms of the Plan shall not be modified in any manner that is materially adverse to the Qualifying Participants (it being understood that this Section (c) of this Schedule shall not require that any specific type or levels of equity awards be granted to Qualifying Participants following the Change in Control).

2. During the Protection Period, the Plan may not be amended or modified to reduce or eliminate the protections set forth in Section (c)(1) of this Schedule and may not be terminated.

3. The Company shall pay all legal fees and related expenses (including the costs of experts, evidence and counsel) reasonably and in good faith incurred by a Qualifying Participant if the Qualifying Participant prevails on his or her claim for relief in an action (x) by the Qualifying Participant claiming that the provisions of Section (c)(1) or (c)(2) of this Schedule have been violated (but, for avoidance of doubt, excluding claims for Plan benefits in the ordinary course) and (y) if applicable, by the Company or the Qualifying Participant's employer to enforce post-termination covenants against the Qualifying Participant.

4. This section does not apply to any incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

5. Anything in the Plan as amended by this Schedule notwithstanding, the Company reserves the right to make such further changes as may be required if and to the extent required to avoid adverse consequences under the American Jobs Creation Act of 2004, as amended.

(d) **Definitions.** For purposes of this Schedule, the following terms shall have the following meanings:

1. "Change in Control" shall have the meaning set forth in the Company's Change in Control Separation Benefits Plan; provided, however, that, as to any award under the Plan that consists of deferred compensation subject to Section 409A of the Code, the definition of "Change in Control" shall be deemed modified to the extent necessary to comply with Section 409A of the Code.

2. "Change in Control Price" shall mean, with respect to a share of Common Stock, the higher of (A) the highest reported sales price, regular way, of such share in any transaction reported on the New York Stock

Exchange Composite Tape or other national exchange on which such shares are listed or on the Nasdaq National Market during the 10-day period prior to and including the date of a Change in Control and (B) if the Change in Control is the result of a tender or exchange offer, merger, or other, similar corporate transaction, the highest price per such share paid in such tender or exchange offer, merger or other, similar corporate transaction; provided that, to the extent all or part of the consideration paid in any such transaction consists of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined by the Committee.

3. "Key R&D Options" shall mean those performance-based options granted to employees under the Key Research and Development Program described in the applicable Schedule to the Rules and Regulations for the Plan, if any.

4. "Protection Period" shall mean the period beginning on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

5. "PSU Pro Rata Amount" shall mean for each Performance Share Unit award, the amount determined by multiplying (x) and (y), where (x) is the number of Target Shares subject to the Performance Share Unit award times the Assumed Performance Percentage and (y) is a fraction, the numerator of which is the number of whole and partial calendar months elapsed during the applicable performance period (counting any partial month as a whole month for this purpose) and the denominator of which is the total number of months in the applicable performance period. The Assumed Performance Percentage shall be determined by (1) averaging the ranks during the Award Period as follows: (A) as to any completed performance year as of the Change in Control, the actual rank (except that, if fewer than 90 days have elapsed since the completion of such performance year, the Target Rank shall be used), and (B) as to any performance year that is incomplete or has not yet begun as of the Change in Control, the Target Rank, (2) rounding the average rank calculated pursuant to the foregoing clause (1) to the nearest whole number using ordinary numerical rounding, and (3) using the Final Award Percentage associated with the number determined in the foregoing clause (2). The Target Rank is the rank associated with 100% on the chart of Final Award Percentages.

6. "Qualifying Participants" shall mean those individuals who participate in the Plan (whether as current or former employees) as of immediately prior to the Change in Control.

(e) **Application.** This Schedule shall apply to Stock Options, restricted stock unit awards and performance share unit awards under the Plans granted prior to November 24, 2004.

Exhibit 10.14

MERCK & CO., INC.

PLAN FOR DEFERRED PAYMENT OF

DIRECTORS' COMPENSATION

(Amended and Restated as of January 1, 2005)

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MERCK & CO., INC.
PLAN FOR DEFERRED PAYMENT OF
DIRECTORS' COMPENSATION

I. PURPOSE

To provide an arrangement under which directors of Merck & Co., Inc. other than current employees may (i) elect to voluntarily defer payment of annual retainers and Board and committee meeting fees until after termination of their service as a director, and (ii) value compensation mandatorily deferred on their behalf.

II. ELECTION OF DEFERRAL, MEASUREMENT METHODS AND DISTRIBUTION SCHEDULE

A. Election of Voluntary Deferral Amount

1. Prior to December 28 of each year, each director is entitled to make an irrevocable election to defer until termination of service as a director receipt of payment of (a) 50% or 100% of the Board retainer for the 12 months beginning April 1 of the next calendar year, (b) 50% or 100% of the Committee Chairperson retainer for the 12 months beginning April 1 of the next calendar year, (c) 50% or 100% of the Audit Committee member retainer for the 12 months beginning April 1 of the next calendar year and (d) 50% or 100% of the Board and committee meeting fees for the 12 months beginning April 1 of the next calendar year.

2. Prior to commencement of duties as a director, a director newly elected or appointed to the Board during a calendar year must make the election under this paragraph for the portion of the Voluntary Deferral Amount applicable to such director's first year of service (or part thereof).

3. The Voluntary Deferral Amount shall be credited as follows: (1) Board and committee meeting fees that are deferred are credited on the last business day of each calendar quarter; (2) if the Board retainer, Committee Chairperson retainer and/or Audit Committee member retainer are deferred, a pro-rata share of the deferred retainer is credited on the last business day of each calendar quarter. The dates the Voluntary Deferral Amount, or parts thereof, are credited to the director's deferred account are hereinafter referred to as the Voluntary Deferral Dates.

B. Mandatory Deferral Amount

1. On the Friday following the Company's Annual Meeting of Stockholders (such Friday hereinafter referred to as the "Mandatory Deferral Date"), each director will be credited with an amount equivalent to one-third of the annual cash retainer for the 12 month period beginning on the April 1 preceding the Annual Meeting (the "Mandatory Deferral Amount"). The Mandatory Deferral Amount will be measured by the Merck Common Stock account.

2. A director newly elected or appointed to the Board after the Mandatory Deferral Date will be credited with a pro rata portion of the Mandatory Deferral Amount

applicable to such director's first year of service (or part thereof). Such pro rata portion shall be credited to the director's account on the first day of such director's service.

C. Election of Measurement Method

Each such annual election referred to in Section A shall include an election as to the measurement method or methods by which the value of amounts deferred will be measured in accordance with Article III, below. The available measurement methods are set forth on Schedule A hereto.

D. Election of Distribution Schedule

Each annual election referred to in Article II, Section A shall also include an election to receive payment following termination of service as a director of all Voluntary Deferral Amounts and Mandatory Deferral Amounts in a lump sum either immediately or one year after such termination, or in quarterly or annual installments over five, ten or fifteen years.

III. VALUATION OF DEFERRED AMOUNTS

A. Common Stock

1. *Initial Crediting* . The annual Mandatory Deferral Amount shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of the Common Stock on the New York Stock Exchange on the Mandatory Deferral Date.

   That portion of the Voluntary Deferral Amount allocated to Merck Common Stock shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of the Common Stock on the New York Stock Exchange on the applicable Voluntary Deferral Date.

   However, should it be determined by the Committee on Corporate Governance of the Board of Directors that a measurement of Merck Common Stock on any Mandatory or Voluntary Deferral Date would not constitute fair market value, then the Committee shall decide on which date fair market value shall be determined using the valuation method set forth in this Article III, Section A.1.

   At no time during the deferral period will any shares of Merck Common Stock be purchased or earmarked for such deferred amounts nor will any rights of a shareholder exist with respect to such amounts.

2. *Dividends.* Each director's account will be credited with the additional number of full and partial shares of Merck Common Stock which would have been purchasable with the dividends on shares previously credited to the account at the closing price of the Common Stock on the New York Stock Exchange on the date each dividend was paid.

3. *Distributions.* Distribution from the Merck Common Stock account will be valued at the closing price of Merck Common Stock on the New York Stock Exchange on the distribution date.

B. Mutual Funds

1. *Initial Crediting.* The amount allocated to each Mutual Fund shall be used to determine the full and partial Mutual Fund shares which such amount would purchase at the closing net asset value of the Mutual Fund shares on the Mandatory or Voluntary Deferral Date, whichever is applicable. The director's account will be credited with the number of full and partial Mutual Fund shares so determined.

   At no time during the deferral period will any Mutual Fund shares be purchased or earmarked for such deferred amounts nor will any rights of a shareholder exist with respect to such amounts.

2. *Dividends.* Each director's account will be credited with the additional number of full and partial Mutual Fund shares which would have been purchasable, at the closing net asset value of the Mutual Fund shares as of the date each dividend is paid on the Mutual Fund shares, with the dividends which would have been paid on the number of shares previously credited to such account (including pro rata dividends on any partial shares).

3. *Distributions.* Mutual Fund distributions will be valued based on the closing net asset value of the Mutual Fund shares on the distribution date.

C. Adjustments

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company or a Mutual Fund, the number and kind of shares or units of such investment measurement method available under this Plan and credited to each director's account shall be adjusted accordingly.

IV. REDESIGNATION WITHIN A DEFERRAL ACCOUNT

A. General

A director may request a change in the measurement methods used to value all or a portion of his/her account other than Merck Common Stock. **Amounts deferred using the Merck Common Stock method and any earnings attributable to such deferrals may not be redesignated.** The change will be effective on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

B. When Redesignation May Occur

1. *During Active Service* . There is no limit on the number of times a director may redesignate the portion of his/her deferred account permitted to be redesignated. Each such request shall be irrevocable and can be designated in whole percentages or as a dollar amount.

2. *After Death* . Following the death of a director, the legal representative or beneficiary of such director may redesignate subject to the same rules as for active directors set forth in Article IV, Section B.1.

C. Valuation of Amounts to be Redesignated

The portion of the director's account to be redesignated will be valued at its cash equivalent and such cash equivalent will be converted into shares or units of the other measurement method(s). For purposes of such redesignations, the cash equivalent of the value of the Mutual Fund shares shall be the closing net asset value of such Mutual Fund on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

V. PAYMENT OF DEFERRED AMOUNTS

A. Payment

All payments to directors of amounts deferred will be in cash in accordance with the distribution schedule elected by the director pursuant to Article II, Section D. Distributions shall be pro rata by measurement method. Distributions shall be valued on the fifteenth day of the distribution month (or, if such day is not a business day, the next business day) and paid as soon thereafter as possible.

B. Changes to Distribution Schedule Prior to Termination

Upon the request of a director made at any time during the calendar year immediately preceding the calendar year in which service as a director is expected to terminate, the Committee on Corporate Governance of the Board of Directors (the "Committee"), in its sole discretion, may authorize: (a) an extension of a payment period beyond that originally elected by the director not to exceed that otherwise allowable under Article II, Section D, and/or (b) a payment frequency different from that originally elected by the director. Such request may not be made with regard to amounts deferred after December 31, 1990 using the Merck Common Stock method and to any earnings attributable to such deferrals. Deferrals into Merck Common Stock made after December 31, 1990 and any earnings thereon may only be distributed in accordance with the schedule elected by the director under Article II, Section D or determined by the Committee on Corporate Governance under Article VI.

C. Post-Termination Changes to Distribution Schedule

Following termination of service as a director, each director may make one request for a further extension of the period for distribution of his/her deferred compensation. Such request must be received by the Committee on Corporate Governance prior to the first distribution to the participant under his/her previously elected distribution schedule. Any revised distribution schedule may not exceed the deferral period otherwise allowable under Article II, Section C. This request may be granted and a new payment schedule determined in the sole discretion of the Committee on Corporate Governance.

Such request may not be made with regard to amounts deferred after December 31, 1990 using the Merck Common Stock Method and to any earnings attributable to such deferrals. Any retired director who is not subject to U.S. income tax may petition the Committee on Corporate Governance to change payment frequency, including a lump sum distribution, and the Committee on Corporate Governance may grant such petition if, in its discretion, it considers there to be reasonable justification therefor. Deferrals into Merck Common Stock made after December 30, 1990 and any earnings thereon may only be distributed in accordance with the schedule elected by the director under Article II, Section D or determined by the Committee on Corporate Governance under Article VI.

D. Forfeitures

A director's deferred amount attributable to the Mandatory Deferral Amount and earnings thereon shall be forfeited upon his or her removal as a director or upon a determination by the Committee on Corporate Governance in its sole discretion, that a director has:

(i) joined the Board of, managed, operated, participated in a material way in, entered employment with, performed consulting (or any other) services for, or otherwise been connected in any material manner with a company, corporation, enterprise, firm, limited partnership, partnership, person, sole proprietorship or any other business entity determined by the Committee on Corporate Governance in its sole discretion to be competitive with the business of the Company, its subsidiaries or its affiliates (a "Competitor");

(ii) directly or indirectly acquired an equity interest of five (5) percent or greater in a Competitor; or

(iii) disclosed any material trade secrets or other material confidential information, including customer lists, relating to the Company or to the business of the Company to others, including a Competitor.

VI. DESIGNATION OF BENEFICIARY

In the event of the death of a director, the deferred amount at the date of death shall be paid to the last named beneficiary or beneficiaries designated by the director, or, if no beneficiary has been designated, to the director's legal representative, in one or more

installments as the Committee on Corporate Governance in its sole discretion may determine.

VII. PLAN AMENDMENT OR TERMINATION

The Committee on Corporate Governance shall have the right to amend or terminate this Plan at any time for any reason.

SCHEDULE A

MEASUREMENT METHODS
(January 1, 2002 – January 10, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Fund
American Century Europacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity Income Fund
Fidelity Low-Priced Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity Fund A*
Putnam International Voyager A
Putnam Vista A
T. Rowe Price Blue Chip Growth Fund
Vanguard Asset Allocation

* From September 20, 2002 – September 30, 2002, this investment was briefly named the Putnam Global Growth Fund A as a result of the merger, in September 2002, of Putnam Global Equity Fund A with Putnam Global Growth Fund A. The merged fund briefly retained the name "Putnam Global Growth Fund A." Effective October 1, 2002, the merged fund changed its name to "Putnam Global Equity Fund A."

SCHEDULE A

MEASUREMENT METHODS
(Effective January 11, 2003 to July 31, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A*
Putnam Vista A
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to April 30, 2003, known as Putnam International Voyager Fund A

Redesignation of Deferred Amounts measured by Putnam Vista A on July 31, 2003

Prior to 4 p.m. ET on July 31, 2003, each participant who has any part of his/her account measured by the Putnam Vista A measurement method may redesignate the amount in such measurement method in accordance with Article IV. If a participant does not redesignate the amount measured by the Putnam Vista A measurement method to any other remaining measurement method before 4 p.m. ET on July 31, 2003, then the amount in the Putnam Vista A account shall be redesignated as of 4 p.m. ET on July 31, 2003, to the Fidelity Mid-Cap Stock Fund.

SCHEDULE A

MEASUREMENT METHODS
(Effective July 31, 2003 – November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A**
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

** Prior to April 30, 2003, known as Putnam International Voyager Fund A

Redesignation of Deferred Amounts measured by Putnam Global Equity A and Putnam International Capital Opportunities Fund A (collectively, the "Putnam Funds") on November 19, 2003

Prior to 4 p.m. ET on November 19, 2003, each participant who has any part of his/her Deferred Compensation Account measured by a Putnam Funds investment alternative may redesignate the amount in such investment alternative in accordance with Article IV. If a participant does not redesignate the amount measured by a Putnam Funds investment alternative to any other remaining investment alternative(s) before 4 p.m. ET on November 19, 2003, then the amount in the Putnam Funds investment alternative shall be redesignated as of 4 p.m. ET on November 19, 2003, to the Fidelity Retirement Money Market Portfolio.

SCHEDULE A

MEASUREMENT METHODS
(November 19, 2003 to April 2, 2004)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

SCHEDULE A

MEASUREMENT METHODS
(April 2, 2004 through January 31, 2005)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

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* Prior to October 2003, known as Liberty Acorn Class Z

SCHEDULE A

MEASUREMENT METHODS
(February 1, 2005)

Investment alternatives available under this Plan shall be the same as the investment alternatives available from time to time under the Merck & Co., Inc. Deferral Program.

Exhibit 12

MERCK & CO., INC. AND SUBSIDIARIES

Computation Of Ratios Of Earnings To Fixed Charges

($ in millions except ratio data)

	Twelve Months Ended December 31	Years Ended December 31				
	2004	2003	2002	2001	2000	1999
Income from Continuing Operations Before Taxes	$ 7,974.5	$9,051.6	$ 9,651.7	$ 9,948.1	$9,362.3	$8,370.1
Add (Subtract):						
One-third of rents	71.9	75.6	67.2	64.2	55.9	55.0
Interest expense, gross	293.7	350.9	390.6	463.7	484.0	315.5
Interest capitalized, net of amortization	(21.3)	(30.1)	(36.9)	(66.1)	(99.0)	(61.4)
Equity (income) loss from affiliates, net of distributions	(421.2)	79.2	(156.1)	(113.7)	(288.3)	(352.7)
Preferred stock dividends, net of tax	151.0	150.9	164.3	199.6	205.0	120.2
Earnings from Continuing Operations	$ 8,048.6	$9,678.1	$10,080.8	$10,495.8	$9,719.9	$8,446.7
One-third of rents	$ 71.9	$ 75.6	$ 67.2	$ 64.2	$ 55.9	$ 55.0
Interest expense, gross	293.7	350.9	390.6	463.7	484.0	315.5
Preferred stock dividends	207.1	215.6	234.7	285.1	292.9	171.7
Fixed Charges from Continuing Operations	$ 572.7	$ 642.1	$ 692.5	$ 813.0	$ 832.8	$ 542.2
Ratio of Earnings to Fixed Charges from Continuing Operations	14	15	15	13	12	16

For purposes of computing these ratios, “earnings” consist of income from continuing operations before taxes, one-third of rents (deemed by the Company to be representative of the interest factor inherent in rents), interest expense, net of amounts capitalized, equity (income) loss from affiliates, net of distributions, and dividends on preferred stock of subsidiary companies. “Fixed charges” consist of one-third of rents, interest expense as reported in the Company’s consolidated financial statements and dividends on preferred stock of subsidiary companies.

Financial Section

Contents

Financial Review

Description of Merck's Business

Merck is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. Merck sells its products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Company's professional representatives communicate the effectiveness, safety and value of our products to health care professionals in private practice, group practices and managed care organizations.

Overview

The decision announced on September 30, 2004 to voluntarily withdraw *Vioxx* from the market, as discussed further below, reflects the depth and sincerity of Merck's commitment to patients. The Company made the decision to withdraw *Vioxx* based on the science available at that time and given the availability of alternative therapies and the questions raised by the data. Throughout Merck's history, it has been the Company's rigorous adherence to scientific investigation, openness and integrity that has enabled it to bring new medicines to people who need them. Having responded swiftly and effectively to the voluntary withdrawal of *Vioxx* , Merck has turned its focus to the future.

Merck's efforts to expand its pipeline by moving into new therapeutic categories, increasing its licensing activities and accelerating early- and late-stage development, are producing positive results. With the exception of the delay in approval of *Arcoxia* in the United States, the Company is on or ahead of schedule with its planned regulatory submissions and Phase III development programs. In 2004, Bristol-Myers Squibb Company (BMS) submitted an application to the Food and Drug Administration (FDA) for muraglitazar, a new class of oral agents for the treatment of Type 2 diabetes. Merck and BMS will jointly commercialize muraglitazar on a global basis. In addition, Merck submitted an application for *ProQuad* , a new childhood vaccine that adds chickenpox to the existing measles, mumps and rubella vaccine. Merck currently has five product candidates in Phase III development: three vaccines; MK-431, Merck's DPP-IV inhibitor for the treatment of Type 2 diabetes; and gaboxadol, an insomnia compound licensed from H. Lundbeck A/S. Merck plans to submit its three Phase III vaccines for FDA approval in 2005.

Merck plans to drive sales through new and established products, new indications and formulations, and clinical trials that bolster products' safety and efficacy profiles. *Vytorin* , developed and marketed by the Merck/Schering-Plough partnership, has gained rapid acceptance among patients, physicians and payers since its July 2004 U.S. approval and is being rapidly adopted for first-line use. The Company is seeking new indications for *Singulair* , its asthma and seasonal allergy medicine. Also, Merck expects to enhance its osteoporosis franchise with the addition of *Fosamax* plus vitamin D, a compound that combines alendronate (the active ingredient in *Fosamax*) and vitamin D. The Company disagrees with the January 2005 court ruling that found Merck's U.S. patent claims for *Fosamax* Once Weekly to be invalid, and will request reconsideration by the Court of Appeals.

Merck is in the process of redesigning many of its critical business processes. By improving efficiencies in many areas, including procurement, manufacturing, capital investment and inventory management, Merck is positioned to realize significant cost reductions in the future. The new U.S. wholesaler distribution program launched in 2003 has succeeded in leveling the quarterly

volume fluctuations that once made it difficult to streamline production and reduce inventory levels.

Also, by the end of 2004, Merck eliminated 5,100 positions exceeding the target of 4,400 positions announced in October 2003. This action is expected to result in about $300 million in savings in 2005 without impacting either key productivity initiatives or Merck's ability to meet its business objectives.

Earnings per common share assuming dilution for 2004 were $2.61, including the impact of the withdrawal of *Vioxx* and reserves established solely for future legal defense costs for *Vioxx* Litigation (as defined in Note 11 to the financial statements). The Company anticipates full-year 2005 earnings per common share assuming dilution of $2.42 to $2.52. This guidance does not reflect the establishment of any reserves for any potential liability relating to the *Vioxx* Litigation or any additional reserves for legal defense costs. This guidance also does not reflect any changes in the way Merck accounts for stock-based compensation as a result of recently issued accounting standards. Furthermore, this guidance does not include any one-time impacts that may result from the repatriation of permanently reinvested off-shore earnings under the American Jobs Creation Act of 2004.

Voluntary Product Withdrawal

On September 30, 2004, Merck announced a voluntary worldwide withdrawal of *Vioxx* , its arthritis and acute pain medication. (See Notes 3 and 11 to the financial statements for further information.) The Company's decision, which was effective immediately, was based on new three-year data from a prospective, randomized, placebo-controlled clinical trial, APPROVe (Adenomatous Polyp Prevention on *Vioxx*).

The trial, which was stopped, was designed to evaluate the efficacy of *Vioxx* 25 mg in preventing the recurrence of colorectal polyps in patients with a history of colorectal adenomas and to further assess the cardiovascular safety of *Vioxx* . In this study, there was an increased relative risk for confirmed cardiovascular events, such as heart attack and stroke, beginning after 18 months of treatment in the patients taking *Vioxx* compared to those taking placebo. The results for the first 18 months of the APPROVe study did not show any increased risk of confirmed cardiovascular events on *Vioxx* , and in this respect, were similar to the results of two placebo-controlled studies described in the most recent U.S. labeling for *Vioxx* .

Merck presented data from APPROVe at the American College of Rheumatology (ACR) Annual Scientific Meeting in San Antonio on October 18, 2004. The Company had requested the opportunity to present the data at the ACR meeting.

The Company estimates that there were 105 million U.S. prescriptions written for *Vioxx* from May 1999 through August 2004. Based on this estimate, the Company estimates that the number of patients who have taken *Vioxx* in the United States since its 1999 launch is approximately 20 million. The number of patients outside the United States who have taken *Vioxx* is undetermined at this time.

In October 2004, the Company received a letter from Senator Charles Grassley, chairman of the Senate Committee on Finance, requesting certain documents and information related to *Vioxx* . The Company also received requests for information from other Congressional committees. The Company intends to cooperate with these inquiries so that the Company can continue to describe the reasons for the Company's voluntary withdrawal of *Vioxx* and to answer any questions related to the Company's development and extensive testing of the medicine and its disclosures of the results of its studies.

Also, in October 2004, the Company received a letter from a group of five state Attorneys General raising concerns that the Company's return and refund program for unused *Vioxx* will not provide consumers with adequate notice and will be unduly burdensome. The Company is cooperating with the Attorneys General to respond to their concerns.

On February 16-18, 2005, the FDA held a joint meeting of the Arthritis Advisory Committee and the Drug Safety and Risk Management Advisory Committee. The committees discussed the overall benefit to risk considerations (including cardiovascular and gastrointestinal safety concerns) for COX-2 selective nonsteriodal anti-inflammatory drugs and related agents. On February 18, the members of the committees were asked to vote on whether the overall risk versus benefit profile for *Vioxx* supports marketing in the United States. The members of the committees voted 17 to 15 in support of the marketing of *Vioxx* in the United States. The Company looks forward to discussions with the FDA and other regulatory authorities about *Vioxx.*

As previously announced, the Board of Directors of the Company appointed a Special Committee to review the Company's actions prior to its voluntary withdrawal of *Vioxx,* to act for the Board in responding to shareholder litigation matters related to the withdrawal of *Vioxx* and to advise the Board with respect to any action that should be taken as a result of the review.

Competition and the Health Care Environment

The markets in which the Company conducts its business are highly competitive and often highly regulated. Global efforts toward health care cost containment continue to exert pressure on product pricing and access.

In the United States, the government made significant progress in expanding health care access by enacting the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was signed into law in December 2003. This statute added a voluntary drug discount card for Medicare beneficiaries in June 2004 and will add prescription drug coverage on January 1, 2006. Implementation of the new benefit will support the Company's goal of improving access to medicines by expanding insurance coverage, while preserving market-based incentives for pharmaceutical innovation. At the same time, the benefit is designed to assure that prescription drug costs will be controlled by competitive pressures and by encouraging the appropriate use of medicines. The Company has taken a leadership role in contributing to the success of the new Medicare-endorsed discount cards by providing its medicines free for low-income Medicare beneficiaries who exhaust their $600 transitional assistance allowance in Medicare-endorsed drug discount cards. This action is consistent with the Company's long-standing Patient Assistance Program, which provides free medicines to patients in the United States who lack drug coverage and cannot afford their medicines. During 2005, the Company will be negotiating with prescription drug plans under the new Medicare drug benefit to offer Merck products to Medicare beneficiaries beginning January 1, 2006 under the terms of the new benefit.

In addressing cost containment outside of Medicare, the Company has made a continuing effort to demonstrate that its medicines can help save costs in over-all patient health care. In addition, pricing flexibility across the Company's product portfolio has encouraged growing use of its medicines and mitigated the effects of increasing cost pressures.

Outside the United States, in difficult environments encumbered by government cost-containment actions, the Company has worked in partnership with payers on allocating scarce resources to optimize health care outcomes, limiting the potentially detrimental effects of government policies on sales growth and supporting the discovery and development of innovative products to benefit patients. The Company also is working with governments in many emerging markets in Eastern Europe, Latin America and Asia to encourage them to increase their investments in health and thereby improve their citizens' access to medicines. Countries within the European Union (EU), recognizing the economic importance of the research-based pharmaceutical industry and the value of innovative medicines to society, are working with industry representatives and the

European Commission on proposals to complete the "Single Market" in pharmaceuticals and improve the competitive climate through a variety of means including market deregulation.

The Company is committed to improving access to medicines and enhancing the quality of life for people around the world. Merck's African Comprehensive HIV/AIDS Partnerships (ACHAP) in Botswana, in collaboration with the government of Botswana and the Bill & Melinda Gates Foundation, is striving to develop a comprehensive and sustainable approach to HIV prevention, care and treatment. To further catalyze access to HIV medicines in developing countries, in October 2002 the Company introduced a new 600 mg tablet formulation of its antiretroviral medicine *Stocrin* at a price of less than one dollar per day in the least developed countries and those hardest hit by the HIV/AIDS epidemic. By the end of 2004, more than 190,000 patients in 68 developing countries were being treated with antiretroviral regimens containing either *Crixivan* or *Stocrin* . Through these and other actions, Merck is working with partners in the public and private sectors alike to focus on the most critical barriers to access to medicines in the developing world: the need for sustainable financing, increased international assistance and additional investments in education, training and health infrastructure and capacity in developing countries.

There has been an increasing amount of focus on privacy issues in countries around the world, including the United States and the EU. In the United States and the EU, governments have pursued legislative and regulatory initiatives regarding privacy, including federal privacy regulations and recently enacted state privacy laws concerning health and other personal information, which have affected the Company's operations.

Although no one can predict the outcome of these and other legislative, regulatory and advocacy initiatives, the Company is well positioned to respond to the evolving health care environment and market forces.

The Company anticipates that the worldwide trend toward cost-containment will continue, resulting in ongoing pressures on health care budgets. As the Company continues to successfully launch new products, contribute to health care debates and monitor reforms, its new products, policies and strategies should enable it to maintain a strong position in the changing economic environment.

Operating Results

Sales

Worldwide sales for 2004 increased 2% in total over 2003, reflecting a 3% favorable effect from foreign exchange, a 1% favorable effect from price changes and a volume decline of 2%. In connection with the Company's voluntary worldwide withdrawal of *Vioxx* on September 30, sales for 2004 were unfavorably impacted by $491.6 million for estimated customer returns of product previously sold and approximately $700 to $750 million in foregone sales in the fourth quarter. (See Note 3 to the financial statements for further information.) The overall increase in sales over 2003 reflects strong growth of *Singulair* for asthma and seasonal allergic rhinitis, *Fosamax* for osteoporosis, and *Cozaar/Hyzaar* for high blood pressure. Sales growth for 2004 also includes a favorable comparison to 2003, which was affected by $565 million of wholesaler buy-out. Following the implementation of the new distribution program for U.S. wholesalers in the fourth quarter of 2003, fluctuations in 2004 sales caused by wholesaler investment buying have significantly moderated. The overall growth was offset in part by lower revenues from the Company's relationship with AstraZeneca LP (AZLP) primarily driven by generic and over-the-counter competition of *Prilosec* .

Domestic sales growth was 1%, while foreign sales grew 3%, including an eight percentage point favorable effect from foreign exchange. Domestic and foreign sales include the unfavorable effect associated with the voluntary worldwide withdrawal of *Vioxx* and foreign sales were negatively affected by the impact of patent expirations for *Zocor* in 2003 in certain countries in Europe, including the United Kingdom and Germany, Japan and Canada. Foreign sales represented 41% of total sales in 2004.

Worldwide sales for 2003 increased 5% in total over 2002, reflecting a 4% favorable effect from foreign exchange and a 1% favorable effect from price changes. Foreign sales represented 41% of total sales in 2003.

Sales [(1)] by category of the Company's products were as follows:

($ in millions)	2004	2003	2002
Atherosclerosis	$ 5,223.0	$ 5,077.9	$ 5,552.1
Hypertension/heart failure	3,646.7	3,421.6	3,477.8
Osteoporosis	3,159.6	2,676.6	2,243.1
Respiratory	2,622.0	2,009.4	1,489.8
Anti-inflammatory/analgesics	1,779.6	2,677.3	2,587.2
Anti-bacterial/anti-fungal	1,200.9	1,028.5	821.0
Vaccines/biologicals	1,036.1	1,056.1	1,028.3
Urology	733.1	605.5	547.3
Ophthalmologicals	726.5	675.1	621.5
Human immunodeficiency virus (HIV)	255.5	290.6	294.3
Other	2,555.6	2,967.3	2,783.4
	$22,938.6	$22,485.9	$21,445.8

[(1)] *Presented net of discounts and returns.*

The Company's products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are atherosclerosis products, of which *Zocor* is the largest-selling; hyper- tension/heart failure products, the most significant of which are *Cozaar* , *Hyzaar* , and *Vasotec* ; an osteoporosis product, *Fosamax* , for treatment and prevention of osteoporosis; a respiratory product, *Singulair* , a leukotriene receptor antagonist for treatment of asthma and for relief of symptoms of seasonal allergic rhinitis; anti-inflammatory/analgesics, which include *Vioxx* , which was voluntarily withdrawn worldwide on September 30, 2004, and *Arcoxia* , agents that specifically inhibit the COX-2 enzyme, which is responsible for pain and inflammation (coxib); anti-bacterial/anti-fungal products, which includes *Primaxin* , *Cancidas* and *Invanz* ; vaccines/biologicals, of which *Varivax* , a live virus vaccine for the prevention of chickenpox, *M-M-R* II, a pediatric vaccine for measles, mumps and rubella, *Pneumovax* , a vaccine for the prevention of pneumococcal, and *Recombivax HB* (hepatitis B vaccine recombinant) are the largest-selling; a urology product, *Proscar* , for treatment of symptomatic benign prostate enlargement; ophthalmologicals, of which *Cosopt* and *Trusopt* are the largest-selling; and HIV products, which include *Stocrin* and *Crixivan* for the treatment of human immunodeficiency viral infection in adults.

Other primarily includes sales of other human pharmaceuticals, pharmaceutical and animal health supply sales to the Company's joint ventures and revenue from the Company's relationship with AZLP, primarily relating to sales of *Nexium* and *Prilosec* . Revenue from AZLP was $1.5 billion, $1.9 billion and $1.5 billion in 2004, 2003 and 2002, respectively.

Singulair , Merck's once-a-day oral medication indicated for the treatment of chronic asthma and the relief of symptoms of seasonal allergic rhinitis (hay fever), continued its strong performance in 2004. *Singulair* is the No. 1 asthma controller in terms of total prescriptions in the United States as patients, physicians and managed care organizations continue to recognize the value *Singulair* offers to those who suffer from asthma or seasonal allergic rhinitis. Total 2004 sales of *Singulair* were $2.6 billion, an increase of 30% over 2003. *Singulair* performance includes a favorable comparison to 2003, which was affected by U.S. wholesaler

buy-out. U.S. mail-order-adjusted prescription levels for *Singulair* increased by approximately 21% in 2004.

Merck is seeking new indications for *Singulair* . A new indication for perennial allergic rhinitis was filed with the FDA in the second half of 2004. Merck also plans to file for additional indications for *Singulair* for the prevention of exercise-induced bronchospasm in 2005, for acute asthma during the second half of 2006 and for respiratory syncytial viral bronchiolitis in 2008.

Fosamax , the most prescribed medicine worldwide for the treatment of postmenopausal, male and glucocorticoid-induced osteoporosis, continued its strong growth in 2004 with sales of $3.2 billion, an increase of 18% over 2003. *Fosamax* performance includes a favorable comparison to 2003, which was affected by U.S. wholesaler buy-out. U.S. mail-order-adjusted prescription levels for *Fosamax* increased by approximately 1% in 2004.

In April, the *Journal of Internal Medicine* published findings from the first international head-to-head study that compared the efficacy of *Fosamax* Once Weekly (alendronate) 70 mg to Evista (raloxifene) 60 mg once daily, which showed that *Fosamax* provided significantly greater increases in bone mineral density (BMD) at the lumbar spine and total hip.

Results from the *Fosamax* Actonel Comparison Trial (FACT) were presented in October at the American Society for Bone and Mineral Research meeting. This is the first head-to-head study conducted in the United States comparing FDA-approved once-weekly osteoporosis treatments in postmenopausal women with osteoporosis. FACT showed that *Fosamax* demonstrated significantly greater increases in BMD at all sites measured as early as six months and greater reductions in markers of bone-turnover than once-weekly Actonel. *Fosamax* increased BMD 62 percent more than Actonel at the hip trochanter (hip bone), with similar tolerability. BMD is a major determinant of bone strength. The lower the BMD score, the greater the risk of fracture.

Merck expects to enhance its osteoporosis franchise with the addition of *Fosamax* plus vitamin D, a compound that combines alendronate (the active ingredient in *Fosamax*) and vitamin D. The Company submitted a New Drug Application (NDA) to the FDA for the product in 2004. Vitamin D is critical for calcium absorption, which aids bone strength. An estimated 50 percent of osteoporosis patients have inadequate levels of vitamin D, and compliance among those prescribed supplements is poor. Combining *Fosamax* and vitamin D could help ensure an adequate weekly dose of vitamin D in a convenient manner for patients with osteoporosis.

In 2003, the FDA granted an additional six months of market exclusivity in the United States to *Fosamax* until February 2008 and *Fosamax* Once Weekly until January 2019. However, on January 28, 2005, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. found the Company's patent claims for once-weekly administration of *Fosamax* to be invalid. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008 and the Company expects a decline in U.S. *Fosamax* sales at that time. Prior to the decision, Merck's patent for once-weekly administration of *Fosamax* was set to expire in July 2018. Merck disagrees with the decision of the Court of Appeals and will request reconsideration by the Court of Appeals.

Global sales for *Cozaar* , and its companion agent, *Hyzaar* (a combination of *Cozaar* and the diuretic hydrochlorothiazide), for the treatment of hypertension were strong in 2004, reaching $2.8 billion, a 14% increase over 2003. U.S. mail-order-adjusted prescription levels for *Cozaar* and *Hyzaar* increased by approximately 5% in 2004.

Cozaar and *Hyzaar* compete in the fastest-growing class in the antihypertensive market, angiotension II antagonists (AIIA). *Cozaar* continues to be the largest-selling branded AIIA in Europe and the second-most-frequently prescribed AIIA in the United States.

A new formulation is expected to help drive future growth for *Cozaar/Hyzaar* . *Hyzaar* 100/12.5 mg was submitted for approval to the FDA in December to better address the need for titration flexibility as an intermediate step between *Cozaar* 100 mg and *Hyzaar* 100/25 mg. Filings for this new formulation in markets outside the United States are anticipated throughout 2005.

Zocor , Merck's statin for modifying cholesterol, achieved worldwide sales of $5.2 billion in 2004, an increase of 4% from 2003. *Zocor* performance includes a favorable comparison to 2003, which was affected by U.S. wholesaler buy-out. Excluding this effect, *Zocor* experienced a volume decline. Sales of *Zocor* were affected by patent expirations outside the United States and increased competition in the U.S. cholesterol-modifying market. Mail-order-adjusted prescription levels in the United States for *Zocor* increased by approximately 2% in 2004. *Zocor* is available for 93 percent of managed care lives; and 79 percent of the targeted managed care contracts have been renewed through 2006. In June 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in U.S. *Zocor* sales.

The Company continues to promote the landmark Heart Protection Study (HPS) to physicians and consumers. The HPS demonstrated that *Zocor* 40 mg, along with diet, is proven to reduce the risk of heart attacks and stroke in people with heart disease, regardless of cholesterol level.

In July, the National Cholesterol Education Program (NCEP) issued a report recommending modifications to the Adult Treatment Panel III (ATP III) guidelines. The report, which was based on five major studies, including the HPS, was endorsed by the American Heart Association, the American College of Cardiology, and the National Heart, Lung and Blood Institute. The new report may lead to an increase in the number of people for whom cholesterol-lowering medicines should be considered. Under the NCEP ATP III guidelines, an estimated 36 million people would be eligible for cholesterol-lowering medication such as *Zocor* for cholesterol management. According to the new report, in high risk persons, the recommended LDL-C goal is <100 mg/dL. The report also indicates that when risk is very high, such as for a patient with established cardiovascular disease plus multiple major risk factors (especially diabetes), an LDL-C goal of <70 mg/dL is a reasonable clinical strategy for physicians.

Sales of *Arcoxia* , the Company's once-a-day coxib, reached $230.2 million outside the United States in 2004. *Arcoxia* has been launched in 51 countries in Europe, Latin America and Asia. In October, the Company received an "approvable" letter from the FDA for the Company's NDA for *Arcoxia* . The FDA informed the Company in the letter that before approval of the NDA can be issued, additional safety and efficacy data for *Arcoxia* are required.

Also in October, the European Medicines Evaluation Agency (EMEA) announced that it would conduct a review of all COX-2 inhibitors, including *Arcoxia* , in light of the worldwide withdrawal of *Vioxx* . The EMEA said that it had been asked to conduct the review by the European Commission as a "precautionary measure" and that it would look at all aspects of the cardiovascular safety of COX-2 inhibitors, including thrombotic and cardio-renal events. On January 18, 2005, the EMEA's Committee on Medicinal Products for Human Use (CHMP) held hearings in connection with its review. Additional meetings were held by CHMP in mid-February to continue its review to determine whether there is a need to make EU-wide changes to the products' marketing authorizations, including labeling, and to determine whether additional studies are needed. On February 17, 2005, CHMP announced that it had concluded that the available data show an increased risk of cardiovascular adverse events for COX-2 inhibitors as a class relative to placebo and some NSAIDS. According to CHMP, the data also suggested an association between duration of use and dose and the probability of suffering a cardiovascular event and therefore recommended use of the lowest effective dose of COX-2 inhibitors for the shortest possible duration of treatment.

Further, CHMP introduced a contra-indication for all COX-2 inhibitors in patients with ischemic heart disease or stroke, and expanded the contra-indication for certain patients having higher classes of congestive heart failure. Specifically with respect to *Arcoxia* , CHMP also introduced a contra-indication in patients with hypertension whose blood pressure is not under control, and advised that *Arcoxia* may be associated with more frequent and severe effects on blood pressure, particularly at higher doses, than some other COX-2 inhibitors, and recommended monitoring of blood pressure for all patients taking *Arcoxia* . CHMP stated that these are interim measures pending the finalization of the class review which is expected in April 2005. Finally, CHMP concluded that more research is needed in the field to evaluate the cardiovascular safety of COX-2 inhibitors, and that ongoing cardiovascular trials should continue as planned.

Merck is working with other regulatory agencies in the countries where *Arcoxia* is approved to assess whether changes to the prescribing information for the coxib class of drugs, including *Arcoxia* , are warranted.

Other products experiencing growth in 2004 include *Cancidas* to treat certain life-threatening fungal infections, *Proscar* for the treatment of symptomatic benign prostate enlargement, *Cosopt* to treat glaucoma, *Stocrin* for treatment of HIV infections, *Propecia* for male pattern hair loss, *Invanz* for the treatment of selected moderate to severe infection in adults and *Emend* for prevention of acute and delayed nausea and vomiting associated with highly emetogenic cancer chemotherapy. Also contributing to Merck's total sales in 2004 was revenue resulting from the Company's relationship with AZLP, primarily relating to sales of *Nexium* .

Global sales of *Zetia* (branded *Ezetrol* outside the United States), the cholesterol-absorption inhibitor developed and marketed by the Merck/Schering-Plough partnership, reached $1.1 billion in 2004. In December, *Zetia* accounted for approximately 6% of total prescriptions in the lipid-lowering market, according to IMS Health, and is reimbursed for nearly 90 percent of all patients in managed care plans in the United States. To date, *Ezetrol* has been launched in more than 50 countries outside of the United States and continues to achieve solid sales and market share growth.

Vytorin (marketed as *Inegy* in many countries outside of the United States), developed and marketed by the Merck/Schering-Plough partnership, was approved by the FDA in July. *Vytorin* accounted for nearly 4% of new prescriptions in December in the U.S. lipid-lowering market, according to IMS Health. Worldwide sales of *Vytorin* were $132.4 million in 2004. In addition to the United States, *Vytorin* has been approved in 15 countries.

Vytorin is the only single tablet to provide powerful LDL cholesterol reduction through dual inhibition of the two sources of cholesterol by inhibiting the production of cholesterol in the liver and blocking absorption of cholesterol in the intestine, including cholesterol from food. In two separate clinical trials, *Vytorin* provided greater reductions in LDL cholesterol than Lipitor or *Zocor* across the dosing ranges.

In November, Merck and Schering-Plough announced a new clinical trial for *Vytorin* , IMPROVE IT (Improved Reduction of Outcomes: *Vytorin* Efficacy International Trial). This trial will evaluate *Vytorin* in reducing major cardiovascular events through intensive lipid lowering of LDL cholesterol in 10,000 patients with acute coronary syndrome. IMPROVE IT is the fourth large-scale outcomes trial being conducted on *Vytorin* .

The Company records the results from its interest in the Merck/Schering-Plough partnership in Equity income from affiliates.

Costs, Expenses and Other

($ in millions)	2004	Change	2003	Change	2002
Materials and production	$ 4,959.8	+12%	$ 4,436.9	+11%	$ 4,004.9
Marketing and administrative	7,346.3	+15%	6,394.9	+13%	5,652.2
Research and development	4,010.2	+22%	3,279.9	+23%	2,677.2
Equity income from affiliates	(1,008.2)	*	(474.2)	-26%	(644.7)
Other (income) expense, net	(344.0)	+69%	(203.2)	*	104.5
	$14,964.1	+11%	$13,434.3	+14%	$11,794.1

** 100% or greater.*

Materials and Production

In 2004, materials and production costs increased 12% compared to a 2% sales growth rate. Excluding the effects of exchange and inflation, these costs increased 8%, compared to a decrease of 2% in sales volume. The increase in these costs relative to the sales volume change reflects the unfavorable effects associated with the withdrawal of *Vioxx* and the impact of changes in product mix. In 2003, materials and production costs increased 11%, compared to a 5% sales growth rate. Excluding the effects of exchange and inflation, these costs increased 7%, compared to sales volume at the same level as 2002. The increase in these costs relative to the sales volume reflects the effect of changes in product mix as well as a change in the mix of domestic and foreign sales, attributable in part to the implementation of the new distribution program for U.S. wholesalers in 2003. Gross margin was 78.4% in 2004 compared to 80.3% in 2003 and 81.3% in 2002. The withdrawal of *Vioxx* had an unfavorable effect on the gross margin in 2004.

Marketing and Administrative

In 2004, marketing and administrative expenses increased 15%. Excluding the effects of exchange and inflation, these costs increased 8% including the impact of an additional $604.0 million reserve solely for future legal defense costs for *Vioxx* Litigation and $141.4 million of estimated costs to undertake the withdrawal of *Vioxx* . Excluding such costs, as well as restructuring costs related to previously announced position eliminations described below of $104.6 million and $194.6 million in 2004 and 2003, respectively, marketing and administrative expenses decreased 2%.

The $604.0 million charge taken in the fourth quarter of 2004 increased the Company's reserve solely for its future legal defense costs related to the *Vioxx* Litigation to $675.0 million as of December 31. This reserve is based on certain assumptions and is the minimum amount that the Company believes at this time it can reasonably estimate will be spent over a multi-year period. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. The Company has not established any reserves for any potential liability relating to the *Vioxx* Litigation. (See Note 3 to the financial statements for further information.)

In October 2003, Merck announced plans to eliminate 4,400 positions as part of a cost-reduction initiative that was completed at the end of 2004. As of December 31, the Company had eliminated 5,100 positions, as the Company identified additional opportunities to eliminate positions and reduce costs. Most of the additional eliminations came from contractor positions. This action is expected to result in approximately $300 million in savings in 2005 without impacting either key productivity initiatives or Merck's ability to meet its business objectives. Merck has also redeployed sales representatives that had previously supported *Vioxx* to capitalize on opportunities to grow its in-line products and support upcoming launches.

In 2003, marketing and administrative expenses increased 13%. Excluding the effects of exchange, inflation and the impact of $194.6 million for restructuring costs related to position eliminations, these costs increased by 1%.

Research and Development

Research and development expenses increased 22% in 2004. Excluding the effects of exchange and inflation, these expenses increased 18%. Research and development expense growth reflects the Company's ongoing commitment to both basic and clinical research, as well as the impact of the Company's external collaborations to augment Merck's internal research efforts, such as those with H. Lundbeck A/S (Lundbeck), Bristol-Myers Squibb Company (BMS), Vertex Pharmaceuticals Incorporated (Vertex), DOV Pharmaceutical, Inc. (DOV), Nastech Pharmaceutical Inc. (Nastech) and Ono Pharmaceutical Co., Ltd. (Ono). Also contributing to the increase is higher acquired research expense primarily related to the acquisition of Aton Pharma, Inc. (Aton) in 2004 compared with the acquired research expense related to the increase in the Company's ownership of Banyu Pharmaceutical Co., Ltd. (Banyu) in 2003.

The Company's efforts to expand its pipeline by moving into new therapeutic categories, increasing its licensing activities and accelerating early- and late-stage development continue to produce positive results.

In November, the Company announced it had filed a Biologics LicenseApplication for *ProQuad* [Measles, Mumps, Rubella and Varicella (Oka/Merck) Virus Vaccine Live] with the FDA. *ProQuad* is an investigational vaccine for simultaneous vaccination against measles, mumps, rubella and varicella in children 12 months to 12 years of age. *ProQuad* combines two established Merck vaccines, *M-M-R* II (Measles, Mumps, Rubella Virus Vaccine Live) and *Varivax* [Varicella (Oka/Merck) Virus Vaccine Live].

In a new study presented at the National Immunization Conference in May, a single dose of *ProQuad* in 4- to 6-year-olds used in place of the routinely administered second dose of *M-M-R* II was generally well-tolerated and resulted in antibody response similar to those developed with *M-M-R* II and *Varivax* separately.

Merck's late-stage pipeline includes three Phase III vaccines which are expected to be submitted for FDA approval in 2005. The three vaccines are: *RotaTeq* , a vaccine to protect against rotavirus disease; *Gardasil* , a vaccine to prevent the incidence of human papillomavirus (HPV) infection and the associated development of cervical cancer and genital warts; and a vaccine for the prevention of zoster (shingles) and the reduction of pain associated with it. These vaccines will provide significant new opportunities for Merck in the pediatric, adolescent and adult vaccine markets.

It is estimated that, by age 5, all children worldwide become infected by rotavirus, a highly contagious virus that causes gastroenteritis and results in the hospitalization of nearly 50,000 children under age 5 annually in the United States. Worldwide, rotavirus is responsible for an estimated 500,000 deaths each year. The planned filing of the *RotaTeq* vaccine with the FDA is in the second quarter of 2005.

HPV is the predominant causative agent of cervical cancer, which results in approximately 288,000 deaths worldwide each year. Merck expects to file *Gardasil* with the FDA during the second half of 2005 for the prevention of HPV, related cervical cancer and genital warts. There are an estimated 86 million women in the United States and European Union between the ages of 9 and 24, the expected age range for the initial indication of *Gardasil* .

The analysis of data of an investigational HPV vaccine studied by Merck was presented at the Interscience Conference on Antimicrobial Agents and Chemotherapy in November. The vaccine studied in this clinical trial was an investigational monovalent vaccine developed to prevent infection by HPV type 16; it is a component of Merck's investigational quadrivalent HPV (types 6, 11, 16, 18) L1 VLP vaccine, *Gardasil* . In the study of 2,391 women aged 16 to 23 who were HPV 16-naïve at baseline, the vaccine was 100 percent efficacious in preventing the development of HPV 16-related CIN 2/3 (high-grade cervical pre-cancer, the immediate precursor to invasive cervical cancer). Administration of the HPV 16 vaccine also resulted in a 94-percent reduction in the combined incidence of persistent HPV 16 infection and HPV 16-related cervical precancerous lesions (Cervical Intraepithelial Neoplasia = CIN). These are the final results of this study after the completion of 48 months of follow-up on all active study participants.

On February 2, 2005, the Company announced that it and GlaxoSmithKline (GSK) entered into a cross-license and settlement agreement for certain patent rights related to HPV vaccines. Pursuant to the agreement, GSK will receive an upfront payment and royalties from the Company based upon sales of *Gardasil* , upon development and launch. The agreement resolves competing intellectual property claims related to the Company's and GSK's vaccine candidates. The Company will continue with its research, development and, after appropriate regulatory reviews, commercialization activities, if approved, for *Gardasil* .

Shingles, the reactivation of the chickenpox virus (herpes zoster) in adults, affects an estimated 800,000 people in the United States annually. Merck plans to seek approval for its zoster vaccine for people age 50 and older, of which there are approximately 210 million in the United States and European Union. The planned filing of the zoster vaccine with the FDA is in the second quarter of 2005.

The Company is also studying a DPP-IV inhibitor, a glucose-lowering mechanism, used alone and in combination for the treatment of Type 2 diabetes. The compound is currently in Phase III clinical studies and the Company expects to submit an NDA to the FDA in 2006.

Merck's early-stage pipeline includes candidates in each of the following areas: Alzheimer's disease, arthritis, atherosclerosis, cancer, diabetes, endocrine disorders, glaucoma, infectious diseases, obesity, osteoporosis, psychiatric disease, neurodegenerative disease, pain, respiratory disease, urogenital disorders and vaccines.

Merck continues to augment its internal research efforts by capitalizing on external growth opportunities, ranging from research collaborations, preclinical and clinical compounds and technology transactions that will drive both near- and long-term growth. The Company completed 50 transactions in 2004 across a range of therapeutic areas, including neuroscience, diabetes, obesity and oncol- ogy, as well as early-stage technology transactions. This compares with 10 total transactions in 1999. Merck continues to evaluate more than 40 other opportunities, and is actively monitoring the landscape for a range of targeted acquisitions that meet the Company's strategic criteria.

In February, the Company announced that it had entered into an agreement with Lundbeck for the exclusive development and commercialization in the United States of gaboxadol, a compound licensed to Lundbeck by a third party that is currently in Phase III development for the treatment of sleep disorders. Under the terms of the agreement, Lundbeck received an initial payment of $70.0 million and, during the term of the agreement, could receive up to $200.0 million in additional milestone payments. Merck and Lundbeck will jointly complete the ongoing Phase III clinical program, with Merck funding the majority of the remaining development activities. The companies anticipate that Merck will file an NDA with the FDA between late 2006 and early 2007. Following FDA approval, the companies plan to co-promote gaboxadol in the United States. Lundbeck will receive a share of gaboxadol sales in the United States. In June, Merck and Lundbeck announced an extension of their agreement for the exclusive development and commercialization of gaboxadol to Japan. Merck and Lundbeck will jointly conduct the clinical program required for filing an NDA in Japan, with Merck funding the majority of the development activities. Following approval, the companies plan to co-promote gaboxadol in Japan. Lundbeck will receive a share of Japanese gaboxadol sales.

In April, Merck and BMS entered into a worldwide collaborative agreement for muraglitazar, BMS's product for use in treating patients with Type 2 diabetes. Merck and BMS will globally develop and market muraglitazar. BMS submitted an NDA to the FDA in December for muraglitazar. Muraglitazar has the potential to be the first in a novel class of drugs known as glitazars. This class of dual alpha/gamma PPAR agonists, including muraglitazar, is thought to control blood sugar. In clinical trials, muraglitazar has reduced blood glucose levels, decreased triglyceride levels, and increased high-density lipoprotein (HDL) cholesterol levels in Type 2 diabetes patients and has been generally well-tolerated. An estimated 18 million people in the United States currently suffer from Type 2 diabetes. BMS received a $100.0 million upfront payment and, during the term of the agreement, could receive up to $275.0 million in additional payments based on the achievement of certain regulatory milestones. Merck and BMS share equally in development and commercialization costs for muraglitazar. Both companies will co-promote the product to physicians on a global basis, and Merck will receive payments based on net sales levels.

In June, Merck and Vertex entered into a global collaboration to develop and commercialize VX-680, Vertex's lead Aurora kinase inhibitor that is in Phase I clinical development for the treatment of cancer. Aurora kinases are implicated in the onset and progression of many different human cancers, and novel Aurora kinase inhibitors such as VX-680 have the potential to play an important future role in the treatment and management of a wide range of tumor types. Vertex received a $20.0 million upfront payment and, during the term of the agreement, could receive up to an additional $14.0 million in research funding over the next two years. In addition, Vertex could receive additional milestone payments based upon the achievement of significant development events, regulatory filings and other events and approvals.

In August, Merck and DOV announced an agreement for the development and commercialization of DOV's novel triple-uptake inhibitors being developed for depression and related psychiatric disorders. DOV received a $35.0 million upfront payment and, during the term of the agreement, could receive additional milestone payments based upon the achievement of significant development events, regulatory filings and other events and approvals. Merck has licensed exclusive worldwide rights to DOV 21,947, which is in Phase I, for all therapeutic indications.

In September, Merck and Nastech announced a global alliance to develop and commercialize Peptide YY (PYY) 3-36 Nasal Spray, Nastech's product for the treatment of obesity, which is currently in Phase I development. The investigational PYY3-36 Nasal Spray is designed to deliver the natural, appetite-regulating hormone PYY directly to the bloodstream.

In November, Merck and Ono announced that they signed an agreement granting Merck the worldwide license for ONO-2506 ((2 *R*)-2-propyloctanoic acid), a novel intravenous compound currently in Phase II development for the treatment of acute stroke. Under the terms of the agreement, Ono received an initial upfront payment and, during the term of the agreement, could receive milestone payments in addition to royalties on net sales. In addition, Ono received exclusive rights in Japan to develop and market *Emend* (aprepitant), Merck's drug for use in combination with other antiemetic agents for prevention of acute and delayed nausea and vomiting associated with initial and repeat courses of highly emetogenic cancer chemotherapy, including cisplatin. Ono also received rights in Japan to co-market a second brand of MK-431, Merck's investigational oral compound for the treatment of diabetes, under a yet to be determined trademark.

In March, the Company acquired Aton, a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Aton's clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. The lead product candidate, suberoylanilide hydroxamic acid (SAHA) is currently in Phase II clinical trials for the treatment of cutaneous T-cell lymphoma. The acquisition resulted in $125.5 million of acquired research expense. Former shareholders of Aton may receive additional payments which are contingent upon regulatory filing, approval, and sales of certain Aton products.

The chart below reflects the Company's current research pipeline as of February 15, 2005. Candidates shown in Phase III include specific products. Candidates shown in Phase I and II include the most advanced compound with a specific mechanism in a given therapeutic area. Back-up compounds, regardless of their phase of development, additional indications in the same therapeutic areas and additional line extensions or formulations for in-line products are not shown. Preclinical areas shown are those where the Company has initiated Good Laboratory Practices studies in compounds with mechanisms distinct from those in Phase I and II. The Company's programs are generally designed to focus on the development of novel medicines to address large, unmet medical needs.

Research Pipeline

Preclinical	
Alzheimer's Disease	
Antibacterials	
Antiviral	
Arthritis	
Atherosclerosis	
Cancer	
Cardiovascular Disease	
Diabetes	
Glaucoma	
Immunology	
Insomnia	
Osteoporosis	
Pain	
Respiratory Disease	
Vaccines	

Phase I	
Alzheimer's Disease	c-7617
Arthritis	c-7198, c-9101
Cancer	c-8585, VX-680*
CINV	c-9280
Diabetes	c-0730
Endocrine	c-0239, c-0302, c-7717
Glaucoma	c-3859
Obesity	Nastech PYY3-36*
Osteoporosis	c-3578
Pain	c-8928, c-6740, c-1246
Parkinson's Disease	c-6161
Psychiatric Disease	DOV*
Urinary Incontinence	c-4699, c-0172

Phase II	
AIDS	c-1605
Alzheimer's Disease	c-9136
Arthritis	c-4462, c-9787
Atherosclerosis	c-8834, c-1602
Cancer (CTCL)	SAHA*
Diabetes	c-3347
HIV Vaccine	
Multiple Sclerosis	c-6448
Obesity	c-2624, c-2735, c-5093
Pediatric Vaccine	
Psychiatric Disease	c-9054
Respiratory Disease	c-3193, c-3885
Stroke	ONO 2506*

Phase III	
HPV and Related Cervical Cancer and Genital Warts	*Gardasil*
Diabetes	MK-431
Rotavirus Gastroenteritis	*RotaTeq*
Insomnia	Gaboxadol*
Shingles	Zoster Vaccine

2004 U.S. Submissions	
Diabetes	Muraglitazar*
Osteoporosis	*Fosamax* Plus Vitamin D
Pediatric Vaccine	*ProQuad*

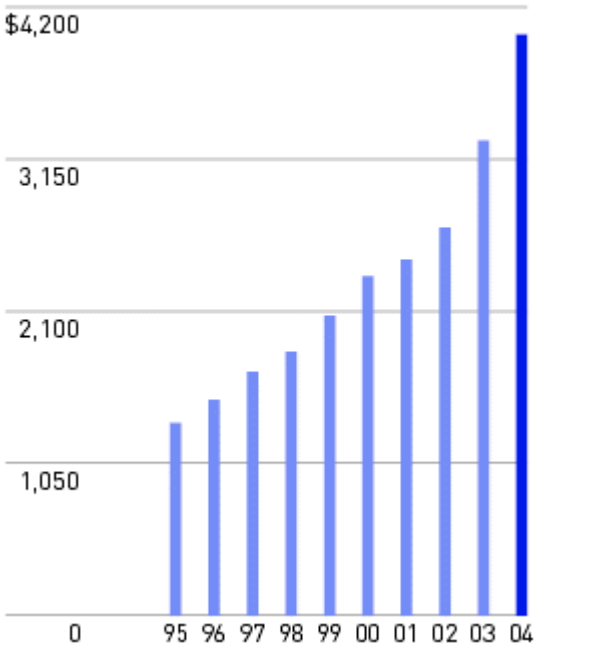
** Licensed*

Research and development expenses increased 23% in 2003. Excluding the effects of exchange and inflation, these expenses increased 17%.

Research and development in the pharmaceutical industry is inherently a long-term process. The following data show an unbroken trend of year-to-year increases in the Company's research and development spending. For the period 1995 to 2004, the compounded annual growth rate in research and development was 13%.

Research and Development Expenditures

$ in millions



Equity Income from Affiliates

Equity income from affiliates reflects the performance of the Company's joint ventures and partnership returns from AZLP. In 2004, the increase in equity income from affiliates reflects the successful performance of *Zetia* through the Merck/Schering-Plough partnership as well as higher partnership returns from AZLP relative to 2003. Equity income also includes the results of *Vytorin* launches in 2004 through the Merck/Schering-Plough partnership. In 2003, the decrease in equity income from affiliates reflected lower partnership returns from AZLP, primarily resulting from the impact of generic competition for *Prilosec* .

Other (Income) Expense, Net

The increase in other (income) expense, net, in 2004 primarily reflects a $176.8 million gain from the sale of the Company's 50-percent equity stake in its European joint venture with Johnson & Johnson. In 2003, the increase in other (income) expense, net, was primarily attributable to an $84.0 million gain on the sale of *Aggrastat* product rights in the United States, lower minority interest expense resulting from the Banyu shares acquisitions, and realized gains on the Company's investment portfolios relating to the favorable interest rate environment.

Earnings

($ in millions except per share amounts)	2004	Change	2003	Change	2002
Income from continuing operations	$5,813.4	-12%	$6,589.6	-3%	$6,794.8
As a % of sales	25.3%		29.3%		31.7%
Net income	5,813.4		6,830.9		7,149.5
As a % of average total assets	14.0%		14.9%		15.5%
Earnings per common share assuming dilution from continuing operations	$ 2.61	-11%	$ 2.92	-2%	$ 2.98

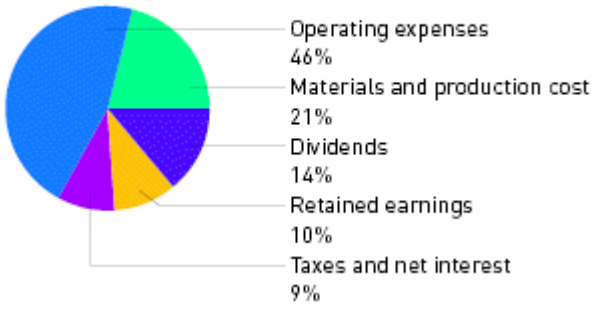
The Company's effective income tax rate was 27.1% in 2004, 27.2% in 2003, and 29.6% in 2002. The lower tax rate in 2004 and 2003 resulted from a change in mix of domestic and foreign income, which in 2004 included the impact of the *Vioxx* withdrawal, and in 2003 included the impact of restructuring costs and the wholesaler distribution program.

On August 19, 2003, Merck completed the spin-off of Medco Health Solutions, Inc. (Medco Health). The income of Medco Health is presented separately as discontinued operations and was $241.3 million in 2003 and $354.7 million in 2002.

Income from continuing operations declined 12% in 2004 compared to a 3% decline in 2003. Income from continuing operations as a percentage of sales was 25.3% in 2004 compared to 29.3% in 2003 and 31.7% in 2002. The decline in the ratios from 2002 is driven by increased spending in research and development as well as the effect of changes in product mix. The reduction in 2004 also reflects the unfavorable effect of the withdrawal of *Vioxx* , and was partially offset by the increase in Equity income from affiliates. The reduction in 2003 also reflects the impact of the implementation of a new wholesaler distribution program and restructuring costs related to position eliminations. Net income as a percentage of average total assets was 14.0% in 2004, 14.9% in 2003 and 15.5% in 2002.

Earnings per common share assuming dilution from continuing operations declined 11% in 2004 compared to a decline of 2% in 2003. The lower relative declines of earnings per common share assuming dilution from continuing operations compared to income from continuing operations are a result of treasury stock purchases.

Distribution of 2004 Sales and Equity Income



Selected Joint Venture and Affiliate Information

To expand its research base and realize synergies from combining capabilities, opportunities and assets, the Company has formed a number of joint ventures. (See Note 9 to the financial statements for further information.)

In 2000, the Company and Schering-Plough Corporation (Schering-Plough) entered into agreements to create separate equally-owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In 2001, the cholesterolmanagement partnership agreements were expanded to include all the countries of the world, excluding Japan. In 2002, ezetimibe, the first in a new class of cholesterol-lowering agents, was launched in the United States as *Zetia* (branded *Ezetrol* outside the United States). As of December 2004, *Ezetrol* has been launched in more than 50 countries outside the United States. Sales totaled $1.1 billion in 2004, $469.4 million in 2003 and $25.3 million in 2002. In July 2004, a combination product containing the active ingredients of both *Zetia* and *Zocor* , was approved in the United States as *Vytorin* (marketed as *Inegy* in many countries outside of the United States). *Vytorin* has been approved in 15 countries outside the United States. Sales totaled $132.4 million in 2004. The results from the Company's interest in the Merck/Schering-Plough partnership are recorded in Equity income from affiliates and were income of $132.0 million in 2004 and losses of $92.5 million and $147.4 million in 2003 and 2002, respectively.

In 1982, the Company entered into an agreement with Astra AB (Astra) to develop and market Astra products in the United States. In 1994, the Company and Astra formed an equally-owned joint venture that developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec* , the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, the Company and Astra restructured the joint venture whereby the Company acquired Astra's interest in the joint venture, renamed KBI Inc. (KBI), and contributed KBI's operating assets to a new U.S. limited partnership named Astra Pharmaceuticals, L.P. (the Partnership), in which the Company maintains a limited partner interest. The Partnership, renamed AstraZeneca LP (AZLP), became the exclusive distributor of the products for which KBI retained rights.

Merck earns ongoing revenue based on sales of current and future KBI products and such revenue was $1.5 billion, $1.9 billion and $1.5 billion in 2004, 2003 and 2002, respectively, primarily relating to sales of *Nexium* and *Prilosec* . In addition, Merck earns certain Partnership returns, which are recorded in Equity income from affiliates. Such returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing Merck's share of undistributed AZLP GAAP earnings. These returns aggregated $646.5 million, $391.5 million and $640.2 million in 2004, 2003 and 2002, respectively. The lower amount in 2003 is attributable to a reduction in the preferential return, primarily resulting from the impact of generic competition for *Prilosec* .

In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited (Merial), a fully integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species. Sales of joint venture products were as follows:

($ in millions)	2004	2003	2002
Fipronil products	$ 679.1	$ 577.2	$ 486.2
Avermectin products	452.4	476.7	462.1
Other products	841.8	779.8	705.7
	$1,973.3	$1,833.7	$1,654.0

In 1994, Merck and Pasteur Mérieux Connaught (now Sanofi Pasteur S.A.) established a 50% owned joint venture to market vaccines in Europe and to collaborate in the development of combination vaccines for distribution in Europe. Sales of joint venture products were as follows:

($ in millions)	2004	2003	2002
Hepatitis vaccines	$ 80.5	$ 73.6	$ 69.4
Viral vaccines	54.0	51.5	34.6
Other vaccines	672.5	543.9	442.4
	$ 807.0	$ 669.0	$ 546.4

In 1989, Merck formed a joint venture with Johnson & Johnson to develop and market a broad range of nonprescription medicines for U.S. consumers. This 50% owned joint venture was expanded into Europe in 1993, and into Canada in 1996. In March 2004, Merck sold its 50% equity stake in its European joint venture to Johnson & Johnson for $244.0 million and recorded a $176.8 million gain as Other (income) expense, net. Merck will continue to benefit through royalties on certain products and also regained the rights to potential future products that switch from prescription to over-the-counter status in Europe. Sales of joint venture products were as follows:

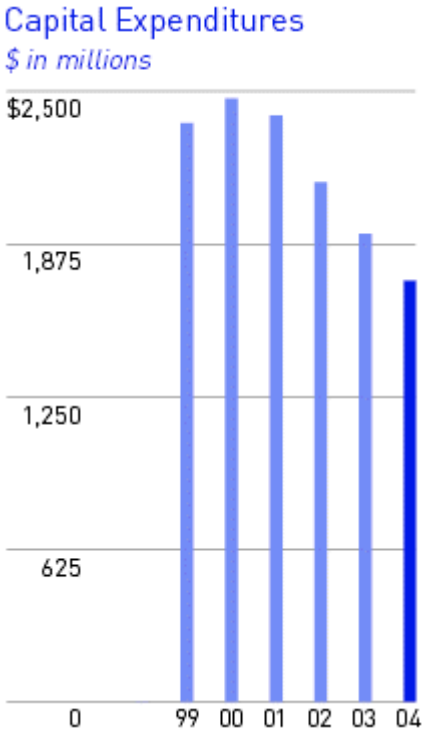
($ in millions)	2004*	2003	2002
Gastrointestinal products	$ 269.2	$ 299.6	$ 299.0
Other products	46.1	146.2	114.0
	$ 315.3	$ 445.8	$ 413.0

** Includes sales of the European joint venture up through March 2004.*

Capital Expenditures

Capital expenditures were $1.7 billion in 2004 and $1.9 billion in 2003. Expenditures in the United States were $1.1 billion in 2004 and $1.3 billion in 2003. Expenditures during 2004 included $677.8 million for production facilities, $675.9 million for research and development facilities, $50.2 million for environmental projects, and $322.2 million for administrative, safety and general site projects. Capital expenditures approved but not yet spent at December 31, 2004 were $1.1 billion. Capital expenditures for 2005 are estimated to be $1.5 billion.

Depreciation was $1.3 billion in 2004 and $1.1 billion in 2003, of which $908.4 million and $790.0 million, respectively, applied to locations in the United States.



Analysis of Liquidity and Capital Resources

Merck's strong financial profile enables the Company to fully fund research and development, focus on external alliances, support in-line products and maximize upcoming launches while providing significant cash returns to shareholders. Cash provided by operating activities of $8.8 billion continues to be the Company's primary source of funds to finance capital expenditures, treasury stock purchases and dividends paid to stockholders. At December 31, 2004, the total of worldwide cash and investments was $13.8 billion, including $7.1 billion of cash, cash equivalents and short-term investments, and $6.7 billion of long-term investments.

Selected Data

($in millions)	2004	2003	2002
Working capital	$1,731.1	$1,957.6	$2,011.2
Total debt to total liabilities and equity	16.1%	16.7%	18.0%
Cash provided by operations to total debt	1.3:1	1.2:1	1.0:1

Working capital levels are more than adequate to meet the operating requirements of the Company. The ratios of total debt to total liabilities and equity and cash provided by operations to total debt reflect the strength of the Company's operating cash flows and the ability of the Company to cover its contractual obligations.

The Company's contractual obligations as of December 31, 2004 are as follows:

Payments Due by Period

($ in millions)	Total	2005	2006-2007	2008-2009	There-after
Loans payable and current portion of long-term debt	$2,181.2	$2,181.2	$ —	$ —	$ —
Long-term debt	4,691.5	—	895.8	1,696.5	2,099.2
Operating leases	305.2	91.7	94.1	51.0	68.4
	$7,177.9	$2,272.9	$ 989.9	$1,747.5	$2,167.6

Loans payable and current portion of long-term debt includes $500.0 million of notes with a final maturity in 2011, which, on an annual basis, will either be repurchased from the holders at the option of the remarketing agent and remarketed, or redeemed by the Company. Loans payable and current portion of long-term debt also reflects $345.9 million of long-dated notes that are subject to repayment at the option of the holders on an annual basis. Required funding obligations for 2005 relating to the Company's pension and other postretirement benefit plans are not expected to be material.

In 2001, the Company's $1.5 billion shelf registration statement filed with the Securities and Exchange Commission (the SEC) for the issuance of debt securities became effective. In February 2004, the Company issued $350.0 million of 2.5% three-year notes under the shelf. At the same time, the Company entered into an interest rate swap contract that effectively converts the 2.5% fixed-rate notes to floating-rate instruments. In February and March 2004, the Company issued a total of $50.0 million of variable-rate notes under the shelf. In December 2004, the Company's new $3.0 billion shelf registration statement filed with the the SEC for the issuance of debt securities became effective and in February 2005, the Company issued an additional $1.0 billion of 4.75% ten-year notes under the shelf. The remaining capacity under the Company's shelf registration statement is approximately $2.8 billion.

In February 2005, the Company established a $1.5 billion, 5-year revolving credit facility to provide backup liquidity for its commercial paper borrowing facility and for general corporate purposes. The Company has not drawn funding from this facility.

After the Company's voluntary withdrawal of *Vioxx* on September 30, 2004, Moody's and Standard & Poor's each conducted a review of the Company's long-term credit ratings. Upon completion of those reviews, the Company's long-term credit ratings were downgraded to Aa3 from Moody's and AA- from Standard & Poor's. These ratings continue to allow access to the capital markets and flexibility in obtaining funds on competitive terms. The Company continues to maintain a conservative financial profile. Total cash and investments of $13.8 billion exceeds the sum of loans payable and long-term debt of $6.9 billion. The Company also has long-term credit ratings that remain among the top 4% of rated non-financial corporations. Despite this strong financial profile, certain contingent events, if realized, which are discussed in Note 11, could have a material adverse impact on the Company's liquidity and capital resources. The Company does not participate in any off-balance sheet arrangements involving unconsolidated subsidiaries that provide financing or potentially expose the Company to unrecorded financial obligations.

In December 2004, the Company redeemed variable-rate preferred units of a subsidiary at $1.5 billion of par value plus accrued dividends. Also in December 2004, the Company extended a $300.0 million variable-rate borrowing that was due in 2004 for an additional five years.

In July 2002, the Board of Directors approved purchases over time of up to $10.0 billion of Merck shares. From 2002 to 2004, the Company purchased $3.6 billion of treasury shares under previously authorized completed programs, and $1.5 billion under the 2002 program. Total treasury stock purchased in 2004 was $974.6 million.

Financial Instruments Market Risk Disclosures

Foreign Currency Risk Management

While the U.S. dollar is the functional currency of the Company's foreign subsidiaries, a significant portion of the Company's revenues are denominated in foreign currencies. Merck relies on sustained cash flows generated from foreign sources to support its long-term commitment to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of a strengthening dollar, the Company's ability to fund research and other dollar- based strategic initiatives at a consistent level may be impaired. The Company has established revenue hedging and balance sheet risk management programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates.

The objective of the revenue hedging program is to reduce the potential for longer-term unfavorable changes in foreign exchange to decrease the U.S. dollar value of future cash flows derived from foreign currency denominated sales, primarily the euro and Japanese yen. To achieve this objective, the Company will partially hedge anticipated third-party sales that are expected to occur over its planning cycle, typically no more than three years into the future. The Company will layer in hedges over time, increasing the portion of sales hedged as it gets closer to the expected date of the transaction, such that it is probable the hedged transaction will occur. The portion of sales hedged is based on assessments of cost-benefit profiles that consider natural offsetting exposures, revenue and exchange rate volatilities and correlations, and the cost of hedging instruments. The hedged anticipated sales are a specified component of a portfolio of similarly denominated foreign currency-based sales transactions, each of which responds to the hedged risk in the same manner. Merck manages its anticipated transaction exposure principally with purchased local currency put options, which provide the Company with a right, but not an obligation, to sell foreign currencies in the future at a predetermined price. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, total changes in the options' cash flows fully offset the decline in the expected future U.S. dollar cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the options' value reduces to zero, but the Company benefits from the increase in the value of the anticipated foreign currency cash flows. While a weaker U.S. dollar would result in a net benefit, the market value of the Company's hedges would have declined by $45.2 million and $16.3 million, respectively, from a uniform 10% weakening of the U.S. dollar at December 31, 2004 and 2003. The market value was determined using a foreign exchange option pricing model and holding all factors except exchange rates constant. Because Merck principally uses purchased local currency put options, a uniform weakening of the U.S. dollar will yield the largest overall potential loss in the market value of these options. The sensitivity measurement assumes that a change in one foreign currency relative to the U.S. dollar would not affect other foreign currencies relative to the U.S. dollar. Although not predictive in nature, the Company believes that a 10% threshold reflects reasonably possible near-term changes in Merck's major foreign currency exposures relative to the U.S. dollar. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

The primary objective of the balance sheet risk management program is to protect the U.S. dollar value of foreign currency denominated net monetary assets from the effects of volatility in foreign exchange that might occur prior to their conversion to U.S. dollars. Merck principally utilizes forward exchange contracts, which enable the Company to buy and sell foreign currencies in the future at fixed

exchange rates and economically offset the consequences of changes in foreign exchange on the amount of U.S. dollar cash flows derived from the net assets. Merck routinely enters into contracts to fully offset the effects of exchange on exposures denominated in developed country currencies, primarily the euro and Japanese yen. For exposures in developing country currencies, the Company will enter into forward contracts on a more limited basis and only when it is deemed economical to do so based on a cost-benefit analysis that considers the magnitude of the exposure, the volatility of the exchange rate and the cost of the hedging instrument. The Company will also minimize the effect of exchange on monetary assets and liabilities by managing operating activities and net asset positions at the local level. The Company also uses forward contracts to hedge the changes in fair value of certain foreign currency denominated available-for- sale securities attributable to fluctuations in foreign currency exchange rates. A sensitivity analysis to changes in the value of the U.S. dollar on foreign currency denominated derivatives, investments and monetary assets and liabilities indicated that if the U.S. dollar uniformly strengthened by 10% against all currency exposures of the Company at December 31, 2004 and 2003, Income from continuing operations before taxes would have declined by $7.8 million and $5.6 million, respectively. Because Merck is in a net long position relative to its major foreign currencies after consideration of forward contracts, a uniform strengthening of the U.S. dollar will yield the largest overall potential net loss in earnings due to exchange. This measurement assumes that a change in one foreign currency relative to the U.S. dollar would not affect other foreign currencies relative to the U.S. dollar. Although not predictive in nature, the Company believes that a 10% threshold reflects reasonably possible near-term changes in Merck's major foreign currency exposures relative to the U.S. dollar. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

Interest Rate Risk Management

In addition to the revenue hedging and balance sheet risk management programs, the Company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and, in general, does not leverage any of its investment activities that would put principal capital at risk. At December 31, 2004, the Company was a party to four pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed rate notes maturing in 2005, 2006, 2007 and 2013, respectively. The notional amounts of these swaps, which match the amount of the hedged fixed rate notes, were $500 million, $500 million, $350 million and $500 million, respectively. The swaps effectively convert the fixed-rate obligations to floating- rate instruments. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

The Company's investment portfolio includes cash equivalents and short- term investments, the market values of which are not significantly impacted by changes in interest rates. The market value of the Company's medium- to long- term fixed-rate investments is modestly impacted by changes in U.S. interest rates. Changes in medium- to long-term U.S. interest rates would have a more significant impact on the market value of the Company's fixed-rate borrowings, which generally have longer maturities. A sensitivity analysis to measure potential changes in the market value of the Company's investments, debt and related swap contracts from a change in interest rates indicated that a one percentage point increase in interest rates at December 31, 2004 and 2003 would have positively impacted the net aggregate market value of these instruments by $75.4 million and $92.9 million, respectively. A one percentage point decrease at December 31, 2004 and 2003 would have negatively impacted the net aggregate market value by $115.4 million and $138.3 million, respectively. The fair value of the Company's debt was determined using pricing models reflecting one percentage point shifts in the appropriate yield curves. The fair value of the Company's investments was determined using a combination of pricing and duration models. Whereas duration is a linear approximation that works well for modest changes in yields and generates a symmetrical result, pricing models reflecting the convexity of the price/yield relationship provide greater precision and reflect the asymmetry of price movements for interest rate changes in opposite directions. The impact of convexity is more pronounced in longer-term maturities and low interest-rate environments.

Critical Accounting Policies and Other Matters

The consolidated financial statements include certain amounts that are based on management's best estimates and judgments. Estimates are used in determining such items as provisions for sales discounts and returns, depreciable and amortizable lives, recoverability of inventories produced in preparation for product launches, amounts recorded for contingencies, environmental liabilities and other reserves, pension and other postretirement benefit plan assumptions, and taxes on income. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Application of the following accounting policies result in accounting estimates having the potential for the most significant impact on the financial statements.

Revenue Recognition

Revenues from sales of products are recognized when title and risk of loss passes to the customer. Revenues for domestic pharmaceutical sales are recognized at the time of shipment, while for many foreign subsidiaries, as well as for vaccine sales, revenues are recognized at the time of delivery. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Domestically, sales discounts are issued to customers as direct discounts at the point-of-sale or indirectly through an intermediary wholesale purchaser, known as chargebacks, or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provisions for sales discounts and returns, which are established at the time of sale.

The provision for aggregate indirect customer discounts covers chargebacks and rebates. Chargebacks are discounts that occur when a contracted customer purchases directly through an intermediary wholesale purchaser. The contracted customer generally purchases product at its contracted price plus a mark-up from the wholesaler. The wholesaler, in turn, charges the Company back for the difference between the price initially paid by the wholesaler and the contract price paid to the wholesaler by the customer. The provision for chargebacks is based on expected sell-through levels by the Company's wholesale customers to contracted customers, as well as estimated wholesaler inventory levels. Rebates are amounts owed based upon definitive contractual agreements or legal requirements with private sector and public sector (Medicaid) benefit providers, after the final dispensing of the product by a pharmacy to a benefit plan participant. The provision is based on expected payments, which are driven by patient usage and contract performance by the benefit provider customers.

The Company assumes a first-in, first-out movement of inventory within the supply chain for purposes of estimating its aggregate indirect customer discount accrual. In addition, the Company uses historical customer segment mix, adjusted for other known events, in order to estimate the expected provision. Amounts accrued for aggregate indirect customer discounts are evaluated on a quarterly basis through comparison of information provided by the wholesalers and other customers to the amounts accrued. Adjustments are recorded when trends or significant events indicate that a change in the estimated provision is appropriate.

The Company continually monitors its provision for aggregate indirect customer discounts. There were no material adjustments to estimates associated with the aggregate indirect customer discount provision in 2004, 2003 and 2002.

Summarized information about changes in the aggregate indirect customer discount accrual is as follows:

	2004	2003
Balance, January 1	$ 752.2	$ 570.8
Current provision	4,031.6	3,233.1
Adjustments relating to prior years	57.7	(4.3)
Payments	(3,811.2)	(3,047.4)
Balance, December 31	$ 1,030.3	$ 752.2

Accruals for chargebacks are reflected as a direct reduction to accounts receivable and accruals for rebates as accrued expenses. The accrued balances relative to these provisions included in Accounts receivable and Accrued and other current liabilities were $133.7 million and $896.6 million, respectively, at December 31, 2004, and $110.4 million and $641.8 million, respectively, at December 31, 2003.

The Company maintains a returns policy that allows its customers to return product within a specified period prior to and subsequent to the expiration date (generally, six months before and twelve months after product expiration). The estimate of the provision for returns is based upon historical experience with actual returns. Additionally, the Company considers factors such as levels of inventory in the distribution channel, product dating and expiration period, whether products have been discontinued, entrance in the market of additional generic competition, changes in formularies or launch of over-the-counter products, to name a few. The product returns provision, as well as actual returns, was approximately 0.5% of net sales in 2004, 2003 and 2002.

Through the distribution program for U.S. wholesalers, implemented in 2003, the Company incents wholesalers to align purchases with underlying demand and maintain inventories within specified levels. The terms of the program allow the wholesalers to earn fees upon providing visibility into their inventory levels as well as by achieving certain performance parameters, such as, inventory management, customer service levels, reducing shortage claims and reducing product returns. Information provided through the wholesaler distribution program includes items such as sales trends, inventory on-hand, on-order quantity and product returns. Wholesalers generally provide only the above mentioned data to the Company, as there is no regulatory requirement to report lot level information to manufacturers, which is the level of information needed to determine the remaining shelf life and original sale date of inventory. Given current wholesaler inventory levels, which are generally less than a month, the Company believes that collection of order lot information across all wholesale customers would have limited use in estimating sales discounts and returns.

Inventories Produced in Preparation for Product Launches

The Company capitalizes inventories produced in preparation for product launches sufficient to support initial market demand. Typically, capitalization of such inventory does not begin until the related product candidates are in Phase III clinical trials and are considered to have a high probability of regulatory approval. At December 31, 2004, inventories produced in preparation for product launches consisted of three vaccine products, all of which are in Phase III clinical trials, as well as a new formulation for an existing vaccine product. The Company continues to monitor the status of each respective product within the regulatory approval process; however, the Company generally does not disclose specific timing for regulatory approval. If the Company is aware of any specific risks or contingencies other than the normal regulatory approval process or if there are any specific issues identified during the research process relating to safety, efficacy, manufacturing, marketing or labeling, the related inventory would generally not be capitalized. There are no significant issues with respect to any of these products. Expiry dates of the inventory are impacted by the stage of completion. The Company manages the levels of inventory at each stage to optimize the shelf life of the inventory in relation to anticipated market demand in order to avoid product expiry issues. The shelf lives for these products range from a minimum of 8 to 13 years. Anticipated future sales of the products support the realization of the inventory value as the inventory shelf life is sufficient to meet initial product launch requirements.

In addition, the Company produced inventory in preparation for the launch of *Arcoxia* in the United States. *Arcoxia* has been launched in 51 countries in Europe, Latin America and Asia. In October 2004, the Company received an “approvable” letter from the FDA for the Company’s NDA for *Arcoxia* . The FDA informed the Company in the letter that before approval of the NDA can be issued, additional safety and efficacy data for *Arcoxia* are required. In addition, Merck is working with regulatory agencies in the countries where *Arcoxia* is approved to assess whether changes to the prescribing information for the coxib class of drugs, including *Arcoxia* , are warranted. While the minimum shelf life for *Arcoxia* is approximately 4 years, anticipated worldwide market demand in countries where *Arcoxia* has been approved supports the value of inventory capitalized. The build-up of inventory for *Arcoxia* and inventories produced in preparation for product launches did not have a material effect on the Company’s liquidity.

Contingencies and Environmental Liabilities

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property and commercial litigation, as well as additional matters such as antitrust actions. (See Note 11 to the financial statements for further information.) The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. For product liability claims, a portion of the overall accrual is actuarially determined and considers such factors as past experience, number of claims reported and estimates of claims incurred but not yet reported. Individually significant contingent losses are accrued when probable and reasonably estimable.

Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable. At December 31, 2004, the Company’s reserve solely for its future legal defense costs related to the *Vioxx* Litigation was $675.0 million. This reserve is based on certain assumptions and is the minimum amount that the Company believes, at this time, it can reasonably estimate will be spent over a multi-year period. The Company

significantly increased the reserve solely for future legal defense costs for *Vioxx* when it had the ability to reasonably estimate its future legal defense costs for the *Vioxx* Litigation. Some of the significant factors that were considered in the establishment of the reserve for the *Vioxx* Litigation were as follows: the actual costs incurred by the Company up to that time; the development of the Company's legal defense strategy and structure in light of the expanded scope of the *Vioxx* Litigation; the number of cases being brought against the Company; and the anticipated timing, progression, and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. The Company has not established any reserves for any potential liability relating to the *Vioxx* Litigation.

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, comonly known as Superfund. When a legitimate claim for contribution is asserted, a liability is initially accrued based upon the estimated transaction costs to manage the site. Accruals are adjusted as feasibility studies and related cost assessments of remedial techniques are completed, and as the extent to which other potentially responsible parties (PRPs) who may be jointly and severally liable can be expected to contribute is determined.

The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites and takes an active role in identifying and providing for these costs. A worldwide survey was initially performed to assess all sites for potential contamination resulting from past industrial activities. Where assessment indicated that physical investigation was warranted, such investigation was performed, providing a better evaluation of the need for remedial action. Where such need was identified, remedial action was then initiated. Estimates of the extent of contamination at each site were initially made at the pre-investigation stage and liabilities for the potential cost of remediation were accrued at that time. As more definitive information became available during the course of investigations and/or remedial efforts at each site, estimates were refined and accruals were adjusted accordingly. These estimates and related accruals continue to be refined annually.

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations. Expenditures for remediation and environmental liabilities were $24.5 million in 2004, and are estimated at $65.6 million for the years 2005 through 2009. In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled $127.5 million and $158.1 million at December 31, 2004 and December 31, 2003, respectively. These liabilities are undiscounted, do not consider potential recoveries from insurers or other parties and will be paid out over the periods of remediation for the applicable sites, which are expected to occur primarily over the next 15 years. Although it is not possible to predict with certainty the outcome of these matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of the liabilities accrued should exceed $75.0 million in the aggregate. Management also does not believe that these expenditures should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources for any year.

Pensions and Other Postretirement Benefit Plans

Net pension and other postretirement benefit cost totaled $521.5 million in 2004 and $499.2 million in 2003. Pension and other postretirement benefit plan information for financial reporting purposes is calculated using actuarial assumptions including a discount rate for plan benefit obligations and an expected rate of return on plan assets.

The Company reassesses its benefit plan assumptions on a regular basis. For both the pension and other postretirement benefit plans, the discount rate is evaluated annually and modified to reflect the prevailing market rate at December 31 of a portfolio of high-quality fixed-income debt instruments that would provide the future cash flows needed to pay the benefits included in the benefit obligation as they come due. At December 31, 2004, the Company changed its discount rate to 6.0% and 5.75% from 6.25% for its U.S. pension and other postretirement benefit plans, respectively.

The expected rate of return for both the pension and other postretirement benefit plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of historical market data as well as actual returns on the Company's plan assets and applies adjustments that reflect more recent capital market experience. Using this reference information, the Company develops forward-looking return expectations for each asset category and a weighted average expected long-term rate of return for a targeted portfolio allocated across these investment categories. The expected portfolio performance reflects the contribution of active management as appropriate. As a result of this analysis, for 2005, the Company's expected rate of return of 8.75% remained unchanged from 2004 for its U.S. pension and other postretirement benefit plans.

The target investment portfolio of the Company's U.S. pension and other postretirement benefit plans is allocated 45% to 60% in U.S. equities, 20% to 30% in international equities, 13% to 18% in fixed-income investments, 2% to 6% in real estate, and up to 8% in cash and other investments. The portfolio's equity weighting is consistent with the long-term nature of the plans' benefit obligation. The expected annual standard deviation of returns of the target portfolio, which approximates 13%, reflects both the equity allocation and the diversification benefits among the asset classes in which the portfolio invests.

Actuarial assumptions are based upon management's best estimates and judgment. A reasonably possible change of plus (minus) 25 basis points in the discount rate assumption, with other assumptions held constant, would have an estimated $35.2 million favorable (unfavorable) impact on net pension and postretirement benefit cost. A reasonably possible change of plus (minus) 25 basis points in the expected rate of return assumption, with other assumptions held constant, would have an estimated $11.3 million favorable (unfavorable) impact on net pension and postretirement benefit cost. The Company does not expect to have a minimum pension funding requirement under the Internal Revenue Code during 2005. The preceding hypothetical changes in the discount rate and expected rate of return assumptions would not impact the Company's funding requirements.

Unrecognized net loss amounts reflect experience differentials primarily relating to differences between expected and actual returns on plan assets as well as the effects of changes in actuarial assumptions. Expected returns are based on a calculated market-related value of assets. Under this methodology, asset gains/losses resulting from actual returns that differ from the Company's expected returns are recognized in the market-related value of assets ratably over a five-year period. Total unrecognized net loss amounts in excess of certain thresholds are amortized into net pension and other postretirement benefit cost over the average remaining service life of employees. Amortization of total unrecognized net losses for the Company's U.S. plans at December 31, 2004 is expected to increase net pension and other postretirement benefit cost by approximately $125.0 million annually from 2005 through 2009.

Taxes on Income

The Company's effective tax rate is based on pre-tax income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. In the event that there is a significant unusual or one-time item recognized, or expected to be recognized, in the Company's operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item. Significant judgment is required in determining the Company's effective tax rate and in evaluating its tax positions. The Company establishes reserves when, despite its belief that the tax return positions are fully supportable, certain positions are likely to be challenged and that it may not succeed. (See Note 17 to the financial statements for further information.) The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit. The effective tax rate includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as related interest. This rate is then applied to the Company's quarterly operating results.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than that reported in the tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are timing differences, such as depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in the tax return in future years for which the Company has already recorded the tax benefit in the financial statements. The Company establishes valuation allowances for its deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which payment has been deferred or expense for which the Company has already taken a deduction on the tax return, but has not yet recognized as expense in the financial statements.

At December 31, 2004, foreign earnings of $20.1 billion and domestic earnings of $880.9 million have been retained indefinitely by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings. On October 22, 2004, the American Jobs Creation Act of 2004 (the AJCA) was signed into law. The AJCA creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the United States as of December 31, 2002. On December 21, 2004, the Financial Accounting Standards Board (the FASB) issued FASB Staff Position, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP No. 109-2). FSP No. 109-2 allows companies additional time to evaluate the effect of the law. Through December 31, 2004, the Company has not provided deferred taxes on foreign earnings because such earnings were intended to be indefinitely reinvested outside the United States. Whether the Company will ultimately take advantage of the temporary incentive depends on a number of factors including analyzing U.S. Internal Revenue Service guidance before a decision is made. The Company expects to be in a position to finalize its decisions regarding the temporary incentive during 2005. Until that time, the Company will make no change in its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries. If it becomes apparent that the Company will repatriate all or any of these earnings in an amount of up to $15 billion, a one-time tax charge to the Company's results of operations of up to approximately $1 billion could occur. The ultimate tax charge is dependent on a number of factors currently under consideration, including the passage of pending legislation, which contains certain technical corrections to the AJCA. The Company has not changed its intention to indefinitely reinvest accumulated earnings earned subsequent to December 31, 2002. No provision will be made for income taxes that would be payable upon the distribution of such earnings and it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

Recently Issued Accounting Standards

In November 2004, the FASB issued Statement No. 151, Inventory Costs–an amendment of ARB No. 43, Chapter 4 (FAS 151), which is effective beginning January 1, 2006. FAS 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material be recognized as current period charges. The Statement also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. The effect of this Statement on the Company's financial position or results of operations has not yet been determined.

In December 2004, the FASB issued Statement No. 123R, Share-Based Payment (FAS 123R), which is effective beginning July 1, 2005. FAS 123R requires all share-based payments to employees to be expensed over the requisite service period based on the grant-date fair value of the awards. The Statement allows for either prospective or retrospective adoption and requires that the unvested portion of all outstanding awards upon adoption be recognized using the same fair value and attribution methodologies previously determined under Statement No. 123, Accounting for Stock-Based Compensation. The Company is currently evaluating transition alternatives and valuation methodologies for future grants. As a result, pro forma compensation expense, as reflected in Note 2, may not be indicative of future expense to be recognized under FAS 123R. The effect of adoption of FAS 123R on the Company's financial position or results of operations has not yet been determined.

Cautionary Factors That May Affect Future Results

This annual report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forwardlooking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, product approvals and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

The Company does not assume the obligation to update any forward-looking statement. One should carefully evaluate such statements in light of factors described in the Company's filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q and 8-K. In Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2004, which will be filed in March 2005, the Company discusses in more detail various important factors that could cause actual results to differ from expected or historic results. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Prior to the filing of the Form 10-K for the year ended December 31, 2004, reference should be made to Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2003. One should understand that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties.

Cash Dividends Paid per Common Share

	Year	4th Q	3rd Q	2nd Q	1st Q
2004	$ 1.49	$ .38	$ .37	$ .37	$ .37
2003	$ 1.45	$ .37	$ .36	$ .36	$ .36

Common Stock Market Prices

2004	4th Q	3rd Q	2nd Q	1st Q
High	$ 34.32	$ 47.73	$ 48.78	$ 49.33
Low	25.60	32.46	44.28	42.85
2003				
High	$ 51.95	$ 62.69	$ 63.50	$ 60.24
Low	40.57	49.48	54.10	49.90

The principal market for trading of the common stock is the New York Stock Exchange (NYSE) under the symbol MRK. The common stock market price information above is based on historical NYSE market prices and has not been adjusted to reflect the spin-off of Medco Health, in which holders of Merck common stock at the close of business on August 12, 2003 received .1206 shares of Medco Health common stock for every one share of Merck common stock held on that date. On August 20, 2003, Merck common stock began to trade on a postdistribution basis.

Condensed Interim Financial Data

($ in millions except per share amounts)	4th Q [1]	3rd Q [2]	2nd Q	1st Q
2004				
Sales	$5,748.0	$5,538.1	$6,021.7	$5,630.8
Materials and production costs	1,283.6	1,364.2	1,163.7	1,148.2
Marketing and administrative expenses	2,365.8	1,752.9	1,616.2	1,611.4
Research and development expenses	1,108.6	919.3	986.0	996.3
Equity income from affiliates	(285.9)	(307.1)	(220.5)	(194.7)
Other (income) expense, net	(103.9)	(4.2)	37.5	(273.3)
Income from continuing operations before taxes	1,379.8	1,813.0	2,438.8	2,342.9
Net income	1,101.1	1,325.6	1,768.1	1,618.6
Basic earnings per common share	$ .50	$ .60	$ .80	$ .73
Earnings per common share assuming dilution	$ .50	$ .60	$ .79	$ .73
2003				
Sales	$5,627.1	$5,762.0	$5,525.4	$5,571.4
Materials and production costs	1,227.2	1,083.4	1,020.1	1,106.2
Marketing and administrative expenses	1,827.4	1,463.6	1,589.9	1,513.9
Research and development expenses	906.3	776.5	786.4	810.7
Equity income from affiliates	(6.0)	(183.4)	(187.4)	(97.3)
Other (income) expense, net	(88.7)	17.1	(153.4)	21.7
Income from continuing operations before taxes	1,760.9	2,604.8	2,469.8	2,216.2
Income from continuing operations	1,395.2	1,865.0	1,784.5	1,545.0
Income from discontinued operations, net of taxes	—	(6.7)	82.5	165.4
Net income	1,395.2	1,858.3	1,867.0	1,710.4
Basic earnings per common share Continuing operations	$ .63	$ .83	$ .80	$ .69
Discontinued operations	—	—	.04	.07
Net income	.63	.83	.83[3]	.76
Earnings per common share assuming dilution Continuing operations	$ .62	$ .83	$ .79	$ .68
Discontinued operations	—	—	.04	.07
Net income	.62	.82[3]	.83	.76[3]

[1] Amounts for 2003 include the impact of the implementation of a new distribution program for U.S. wholesalers and restructuring costs related to position eliminations.

[2] Amounts for 2004 include the impact of the withdrawal of Vioxx. (See Note 3.)

[3] Amount does not add as a result of rounding.

Consolidated Statement of Income

Merck & Co., Inc. and Subsidiaries
Years Ended December 31
($ in millions except per share amounts)

	2004	2003	2002
Sales	**$22,938.6**	$22,485.9	$21,445.8
Costs, Expenses and Other			
Materials and production	**4,959.8**	4,436.9	4,004.9
Marketing and administrative	**7,346.3**	6,394.9	5,652.2
Research and development	**4,010.2**	3,279.9	2,677.2
Equity income from affiliates	**(1,008.2)**	(474.2)	(644.7)
Other (income) expense, net	**(344.0)**	(203.2)	104.5
	14,964.1	13,434.3	11,794.1
Income from Continuing Operations Before Taxes	**7,974.5**	9,051.6	9,651.7
Taxes on Income	**2,161.1**	2,462.0	2,856.9
Income from Continuing Operations	**5,813.4**	6,589.6	6,794.8
Income from Discontinued Operations, Net of Taxes	**—**	241.3	354.7
Net Income	**$ 5,813.4**	$ 6,830.9	$ 7,149.5
Basic Earnings per Common Share			
Continuing Operations	**$ 2.62**	$ 2.95	$ 3.01
Discontinued Operations	**—**	.11	.16
Net Income	**$ 2.62**	$ 3.05*	$ 3.17
Earnings per Common Share Assuming Dilution			
Continuing Operations	**$ 2.61**	$ 2.92	$ 2.98
Discontinued Operations	**—**	.11	.16
Net Income	**$ 2.61**	$ 3.03	$ 3.14

**Amount does not add as a result of rounding.*

Consolidated Statement of Retained Earnings

Merck & Co., Inc. and Subsidiaries
Years Ended December 31
($ in millions)

	2004	2003	2002
Balance, January 1	**$34,142.0**	$35,434.9	$31,489.6
Net Income	**5,813.4**	6,830.9	7,149.5
Common Stock Dividends Declared	**(3,329.1)**	(3,264.7)	(3,204.2)
Spin-off of Medco Health	**—**	(4,859.1)	—
Balance, December 31	**$36,626.3**	$34,142.0	$35,434.9

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries
Years Ended December 31
($ in millions)

	2004	2003	2002
Net Income	**$5,813.4**	$6,830.9	$7,149.5
Other Comprehensive (Loss) Income			
Net unrealized loss on derivatives, net of tax and net income realization	**(31.7)**	(21.3)	(20.0)
Net unrealized (loss) gain on investments, net of tax and net income realization	**(100.9)**	(46.3)	73.1
Minimum pension liability, net of tax	**(4.9)**	231.9	(162.5)
Cumulative translation adjustment relating to equity investees, net of tax	**26.1**	—	—
	(111.4)	164.3	(109.4)
Comprehensive Income	**$5,702.0**	$6,995.2	$7,040.1

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

Merck & Co., Inc. and Subsidiaries
December 31
($ in millions)

	2004	2003
Assets		
Current Assets		
Cash and cash equivalents	**$ 2,878.8**	$ 1,201.0
Short-term investments	**4,211.1**	2,972.0
Accounts receivable	**3,627.7**	4,023.6
Inventories	**1,898.7**	2,554.7
Prepaid expenses and taxes	**858.9**	775.9
Total current assets	**13,475.2**	11,527.2
Investments	**6,727.1**	7,941.2
Property, Plant and Equipment (at cost)		
Land	**366.6**	356.7
Buildings	**8,874.3**	8,016.9
Machinery, equipment and office furnishings	**11,926.1**	11,018.2
Construction in progress	**1,641.6**	1,901.9
	22,808.6	21,293.7
Less allowance for depreciation	**8,094.9**	7,124.7
	14,713.7	14,169.0
Goodwill	**1,085.7**	1,085.4
Other Intangibles, Net	**679.2**	864.0
Other Assets	**5,891.9**	5,000.7
	$42,572.8	$40,587.5
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	**$ 2,181.2**	$ 1,700.0
Trade accounts payable	**421.4**	735.2
Accrued and other current liabilities	**5,288.1**	3,772.8
Income taxes payable	**3,012.3**	2,538.9
Dividends payable	**841.1**	822.7
Total current liabilities	**11,744.1**	9,569.6
Long-Term Debt	**4,691.5**	5,096.0
Deferred Income Taxes and Noncurrent Liabilities	**6,442.1**	6,430.3
Minority Interests	**2,406.9**	3,915.2
Stockholders' Equity		
Common stock, one cent par value		
Authorized - 5,400,000,000 shares		
Issued - 2,976,230,393 shares	**29.8**	29.8
Other paid-in capital	**6,869.8**	6,956.6
Retained earnings	**36,626.3**	34,142.0
Accumulated other comprehensive (loss) income	**(45.9)**	65.5
	43,480.0	41,193.9
Less treasury stock, at cost		
767,591,491 shares - 2004		
754,466,884 shares - 2003	**26,191.8**	25,617.5
Total stockholders' equity	**17,288.2**	15,576.4
	$42,572.8	$40,587.5

The accompanying notes are an integral part of this consolidated financial statement.

Consolidated Statement of Cash Flows

Merck & Co., Inc. and Subsidiaries
Years Ended December 31
($ in millions)

	2004	2003	2002
Cash Flows from Operating Activities of Continuing Operations			
Net income	**$ 5,813.4**	$ 6,830.9	$ 7,149.5
Less: Income from discontinued operations, net of taxes	**—**	(241.3)	(354.7)
Income from continuing operations	**5,813.4**	6,589.6	6,794.8
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	**1,450.7**	1,314.2	1,231.2
Deferred income taxes	**48.9**	131.7	387.5
Other	**(35.4)**	(98.1)	(116.9)
Net changes in assets and liabilities:			
Accounts receivable	**173.1**	320.9	130.2
Inventories	**331.9**	(435.3)	(41.5)
Trade accounts payable	**(323.8)**	(21.6)	325.4
Accrued and other current liabilities	**1,382.3**	505.4	97.0
Income taxes payable	**453.9**	494.1	459.9
Noncurrent liabilities	**(445.4)**	(255.3)	(359.9)
Other	**(50.5)**	(119.1)	(197.1)
Net Cash Provided by Operating Activities of Continuing Operations	**8,799.1**	8,426.5	8,710.6
Cash Flows from Investing Activities of Continuing Operations			
Capital expenditures	**(1,726.1)**	(1,915.9)	(2,128.1)
Purchase of securities, subsidiaries and other investments	**(82,256.4)**	(61,586.9)	(37,443.6)
Proceeds from sale of securities, subsidiaries and other investments	**82,363.8**	60,823.4	35,807.4
Acquisitions of Banyu shares	**(12.8)**	(1,527.8)	—
Other	**(6.6)**	(25.0)	(3.7)
Net Cash Used by Investing Activities of Continuing Operations	**(1,638.1)**	(4,232.2)	(3,768.0)
Cash Flows from Financing Activities of Continuing Operations			
Net change in short-term borrowings	**(252.4)**	(2,347.2)	(508.4)
Proceeds from issuance of debt	**405.1**	1,300.3	2,618.5
Payments on debt	**(37.3)**	(736.2)	(2,504.9)
Redemption of preferred units of subsidiary	**(1,500.0)**	—	—
Purchase of treasury stock	**(974.6)**	(2,034.1)	(2,091.3)
Dividends paid to stockholders	**(3,310.7)**	(3,250.4)	(3,191.6)
Proceeds from exercise of stock options	**240.3**	388.2	318.3
Other	**(161.8)**	(148.5)	(172.5)
Net Cash Used by Financing Activities of Continuing Operations	**(5,591.4)**	(6,827.9)	(5,531.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**108.2**	155.7	113.2
Discontinued Operations			
Net cash provided by Medco Health	**—**	248.0	575.1
Dividend received from Medco Health, net of intercompany settlements and cash transferred	**—**	1,187.9	—
Net Cash Provided by Discontinued Operations	**—**	1,435.9	575.1
Net Increase (Decrease) in Cash and Cash Equivalents	**1,677.8**	(1,042.0)	99.0
Cash and Cash Equivalents at Beginning of Year	**1,201.0**	2,243.0	2,144.0
Cash and Cash Equivalents at End of Year	**$ 2,878.8**	$ 1,201.0	$ 2,243.0

The accompanying notes are an integral part of this consolidated financial statement.

Merck & Co., Inc. and Subsidiaries
($ in millions except per share amounts)

1. Nature of Operations
Merck is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. The Company's products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders.

2. Summary of Accounting Policies
Principles of Consolidation — The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities, by majority exposure to expected losses, residual returns or both. For those consolidated subsidiaries where Merck ownership is less than 100%, the outside stockholders' interests are shown as Minority interests. Investments in affiliates over which the Company has significant influence but not a controlling interest, such as interests in entities owned equally by the Company and a third party that are under shared control, are carried on the equity basis.

Foreign Currency Translation — The U.S. dollar is the functional currency for the Company's foreign subsidiaries.

Cash and Cash Equivalents — Cash equivalents are comprised of certain highly liquid investments with original maturities of less than three months.

Inventories — Substantially all domestic pharmaceutical inventories are valued at the lower of last-in, first-out (LIFO) cost or market for both book and tax purposes. Foreign pharmaceutical inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Inventories consist of currently marketed products and certain products awaiting regulatory approval. In evaluating the recoverability of inventories produced in preparation for product launches, the Company considers the probability that revenue will be obtained from the future sale of the related inventory together with the status of the product within the regulatory approval process.

Investments — Investments classified as available-for-sale are reported at fair value, with unrealized gains or losses, to the extent not hedged, reported net of tax and minority interests, in Accumulated other comprehensive income. Investments in debt securities classified as held-to-maturity, consistent with management's intent, are reported at cost. Impairment losses are charged to Other (income) expense, net, for other-than-temporary declines in fair value. The Company considers available evidence in evaluating potential impairment of its investments, including the duration and extent to which fair value is less than cost and the Company's ability and intent to hold the investment.

Revenue Recognition — Revenues from sales of products are recognized when title and risk of loss passes to the customer. Revenues for domestic pharmaceutical sales are recognized at the time of shipment, while for many foreign subsidiaries, as well as for vaccine sales, revenues are recognized at the time of delivery. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Domestically, sales discounts are issued to customers as direct discounts at the point-of-sale or indirectly through an intermediary wholesale purchaser, known as chargebacks, or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provisions for sales discounts and returns, which are established at the time of sale. Accruals for chargebacks are reflected as a direct reduction to accounts receivable and accruals for rebates as accrued expenses. The accrued balances relative to these provisions included in Accounts receivable and Accrued and other current liabilities were $133.7 million and $896.6 million, respectively, at December 31, 2004 and $110.4 million and $641.8 million, respectively, at December 31, 2003.

Depreciation — Depreciation is provided over the estimated useful lives of the assets, principally using the straight-line method. For tax purposes, accelerated methods are used. The estimated useful lives primarily range from 10 to 50 years for Buildings, and from 3 to 15 years for Machinery, equipment and office furnishings.

Goodwill and Other Intangibles — Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses purchased. Goodwill is not amortized, but rather, assigned to reporting units within the Company's segments and evaluated for impairment on at least an annual basis, using a fair value based test. Other acquired intangibles are recorded at cost and are amortized on a straight-line basis over their estimated useful lives. (See Note 8.) When events or circumstances warrant a review, the Company will assess recoverability from future operations of other intangibles using undiscounted cash flows derived from the lowest appropriate asset groupings, generally the subsidiary level. Impairments are recognized in operating results to the extent that carrying value exceeds fair value, which is determined based on the net present value of estimated future cash flows.

Research and Development – Research and development is expensed as incurred. Upfront and milestone payments made to third parties in connection with research and development collaborations prior to regulatory approval are expensed as incurred. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the shorter of the remaining license or product patent life.

Stock-Based Compensation — Employee stock-based compensation is recognized using the intrinsic value method. Generally, employee stock options are granted to purchase shares of Company stock at the fair market value at the time of grant. Accordingly, no compensation expense is recognized for the Company's stock-based compensation plans other than for its performance-based awards, restricted stock units and options granted to employees of certain equity method investees.

The effect on net income and earnings per common share if the Company had applied the fair value method for recognizing employee stock-based compensation is as follows:

Years Ended December 31	**2004**	2003	2002
Net income, as reported	**$5,813.4**	$6,830.9	$7,149.5
Compensation expense, net of tax:			
Reported	**16.7**	4.9	1.2
Fair value method	**(491.8)**	(559.4)	(487.9)
Pro forma net income	**$5,338.3**	$6,276.4	$6,662.8
Earnings per common share from continuing operations:			
Assuming dilution – as reported	**$ 2.61**	$ 2.92	$ 2.98
Assuming dilution – pro forma	**$ 2.39**	$ 2.73	$ 2.81
Earnings per common share:			
Basic – as reported	**$ 2.62**	$ 3.05	$ 3.17
Basic – pro forma	**$ 2.41**	$ 2.81	$ 2.95
Assuming dilution – as reported	**$ 2.61**	$ 3.03	$ 3.14
Assuming dilution – pro forma	**$ 2.39**	$ 2.79	$ 2.93

Prior to 2004, pro forma compensation expense for options with graded vesting terms was calculated using the Black-Scholes model based on a single-option valuation approach using the straight-line method of amortization. In 2004, the Company revised the assumptions utilized by the Black-Scholes model in determining pro forma compensation expense based on historical data, such that expense is determined using separate expected term assumptions for each vesting tranche. As a result, pro forma compensation expense for any stock options granted since January 1, 2004 has been calculated using the accelerated amortization method prescribed in Financial Accounting Standards Board (FASB) Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

In 2003, in connection with the Medco Health Solutions, Inc. (Medco Health) spin-off, options granted to Medco Health employees prior to February 2002 and some options granted after February 2002 became fully vested in accordance with the original terms of the grants. As a result, 2003 pro forma compensation expense reflects the accelerated vesting of these options. In addition, certain stock options granted to Medco Health employees in 2003 and 2002 were converted to Medco Health options with terms and amounts that maintained the option holders' positions. Therefore, pro forma compensation expense for these options is reflected only through the date of the spin-off.

The average fair value of employee and non-employee director options granted during 2004, 2003 and 2002 was $10.50, $12.54 and $17.53, respectively. This fair value was estimated using the Black-Scholes option-pricing model based on the weighted average market price at grant date of $45.51 in 2004, $50.07 in 2003 and $61.16 in 2002 and the following weighted average assumptions:

Years Ended December 31	**2004**	2003	2002
Dividend yield	**3.4%**	2.7%	2.3%
Risk-free interest rate	**3.1%**	2.9%	4.3%
Volatility	**30%**	31%	31%
Expected life (years)	**5.7**	5.8	5.7

Legal Defense Costs — Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable.

Use of Estimates — The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) and, accordingly, include certain amounts that are based on management's best estimates and judgments. Estimates are used in determining such items as provisions for sales discounts and returns, depreciable and amortizable lives, recoverability of inventories produced in preparation for product launches, amounts recorded for contingencies, environmental liabilities and other reserves, pension and other postretirement benefit plan assumptions, and taxes on income. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform with current year presentation.

3. Voluntary Product Withdrawal
On September 30, 2004, the Company announced a voluntary worldwide withdrawal of *Vioxx* , its arthritis and acute pain medication. The Company's decision, which was effective immediately, was based on new three-year data from a prospective, randomized, placebo-controlled clinical trial, APPROVe (Adenomatous Polyp Prevention on *Vioxx*).

In connection with the withdrawal, the Company recorded an unfavorable adjustment to net income of $552.6 million, or $.25 per share. The adjustment to pre-tax income was $726.2 million. Of this amount, $491.6 million related to estimated customer returns of product previously sold and was recorded as a reduction of Sales, $93.2 million related to write-offs of inventory held by the Company and was recorded in Materials and production expense, and $141.4 million related to estimated costs to undertake the withdrawal of the product and was recorded in Marketing and administrative expense. The tax benefit of this adjustment was $173.6 million, which reflects the geographical mix of *Vioxx* returns and the cost of the withdrawal. The adjustment did not include charges for future legal defense costs. (See Note 11.) At December 31, 2004, $173.8 million of the remaining accrued balance was reported in Accrued and other current liabilities and $235.0 million was reported as a reduction to Accounts receivable.

4. Restructuring

In October 2003, the Company announced plans to eliminate 4,400 positions as part of a cost-reduction initiative that was completed at the end of 2004. As of December 31, 2004, the Company had eliminated 5,100 positions, as the Company identified additional opportunities to eliminate positions and reduce costs. Most of the additional eliminations came from contractor positions. The Company recorded restructuring costs of $104.6 million for 2004 and $194.6 million for 2003 in Marketing and administrative expense. Of these amounts, in 2004 and 2003, respectively, $82.0 million and $101.8 million related to employee severance benefits, $20.9 million and $86.0 million related to curtailment, settlement and termination charges on the Company's pension and other postretirement benefit plans (see Note 15) and $1.7 million and $6.8 million related to a modification in the terms of certain employees' stock option grants.

Summarized information relative to the employee severance benefits accrual is as follows:

	2004	2003
Balance, January 1	**$ 78.3**	$ —
Expense	**82.0**	101.8
Payments	**(115.5)**	(23.5)
Balance, December 31	**$ 44.8**	$ 78.3

At December 31, 2004, the accrued balance primarily relates to committed employee severance benefits obligations, which, in accordance with certain local laws, will be paid over time.

5. Strategic Initiatives

In November 2004, Merck and Ono Pharmaceutical Co., Ltd. (Ono) announced that they signed an agreement granting Merck the worldwide license for ONO-2506 (2 *R*)-2-propyloctanoic acid, a novel intravenous compound currently in Phase II development for the treatment of acute stroke. Under the terms of the agreement, Ono received an initial upfront payment and, during the term of the agreement, could receive milestone payments in addition to royalties on net sales. In addition, Ono received exclusive rights in Japan to develop and market *Emend* (aprepitant), Merck's drug for use in combination with other antiemetic agents for prevention of acute and delayed nausea and vomiting associated with initial and repeat courses of highly emetogenic cancer chemotherapy, including cisplatin. Ono also received rights in Japan to co-market a second brand of MK-431, Merck's investigational oral compound for the treatment of diabetes, under a yet to be determined trademark.

In April 2004, Merck and Bristol-Myers Squibb Company (BMS) entered into a worldwide collaborative agreement for muraglitazar, BMS's product for use in treating patients with Type 2 diabetes. Merck and BMS will globally develop and market muraglitazar. BMS submitted a New Drug Application (NDA) to the Food and Drug Administration (FDA) in December for muraglitazar. Under the terms of the agreement, BMS received a $100.0 million upfront payment and, during the term of the agreement, could receive up to $275.0 million in additional payments based upon the achievement of certain regulatory milestones. The Company recorded the upfront payment as Research and development expense. The companies will share equally in future development and commercialization costs.

In March 2004, the Company acquired Aton Pharma, Inc. (Aton), a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Aton's clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. Aton's lead product candidate, suberoylanilide hydroxamic acid, known as SAHA, has been extensively studied for the treatment of cutaneous T-cell lymphoma. Consideration for the acquisition consisted of an upfront payment and may include contingent payments based upon the regulatory filing, approval and sale of products. In connection with the transaction, the Company recorded a charge of $125.5 million for acquired research associated with products in development for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed. This charge was recorded in Research and development expense and was determined based upon the present value of projected future cash flows utilizing an income approach reflecting the appropriate risk-adjusted discount rate based on the product candidate's stage of completion and its probability of technical and marketing success. The remaining net assets acquired in this transaction were not material. Because Aton was a development stage company that had not commenced its planned principal operations, the transaction was accounted for as an acquisition of assets rather than as a business combination and, therefore, goodwill was not recorded. Aton's results of operations have been included with the Company's since the acquisition date.

In February 2004, Merck and H. Lundbeck A/S (Lundbeck) entered into an agreement for the exclusive U.S. development and commercialization of gaboxadol, a compound for the treatment of sleep disorders. Under the terms of the agreement, Lundbeck received an initial payment of $70.0 million and, during the term of the agreement, could receive up to $200.0 million in additional milestone payments in

the future. The Company recorded the upfront payment as Research and development expense. Merck will fund the majority of the remaining development activities. In June 2004, Merck and Lundbeck extended their agreement for the exclusive development and commercialization of gaboxadol to Japan.

In 2003, the Company, through its wholly owned subsidiary, MSD (Japan) Co., Ltd., launched tender offers to acquire the remaining 49% of the common shares of Banyu Pharmaceutical Co., Ltd. (Banyu) that it did not already own for an aggregate purchase price of approximately $1.5 billion. Substantially all shares were acquired in 2003 and on March 30, 2004, Merck completed its acquisition of Banyu. Full ownership of Banyu strengthens Merck's position in Japan, the world's second-largest pharmaceutical market.

The Company's acquisitions of the Banyu shares were accounted for under the purchase method. Pro forma information is not provided as the impact of the transactions does not have a material effect on the Company's consolidated results of operations. The aggregate purchase price was allocated based upon the fair values of the portion of assets and liabilities acquired. The allocation of the aggregate purchase price resulted in the reversal of $1.0 billion of minority interest liability and recognition of $332.0 million in other intangibles, $240.5 million in goodwill, $153.0 million in deferred income tax liabilities and $34.5 million in other net assets, principally property, plant and equipment. Other intangibles included $301.1 million of in-line product rights having a 10-year weighted average useful life and $30.9 million representing a 20-year life tradename. In connection with the transactions, the Company also incurred a charge of $101.8 million for acquired research, recorded as Research and development expense, associated with products in development for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed. Approximately $64.0 million of the total acquired research charge related to Merck products that Banyu was developing for sale in the Japanese market. For any of these products, Merck could choose not to exclusively license the rights to Banyu and, in that event, generally would reimburse Banyu for its associated research and development expenditures. Accordingly, these products were valued using a cost approach, adjusted to reflect the probability of regulatory approval. The remaining portion of the acquired research charge represented Banyu-developed product candidates. The fair value of each product was determined based upon the present value of projected future cash flows utilizing an income approach reflecting the appropriate risk-adjusted discount rate based on the applicable product's stage of completion and its probability of technical and marketing success.

On August 19, 2003, Merck completed the spin-off of Medco Health. The income of Medco Health is presented separately as discontinued operations. The spin-off was effected by way of a pro rata dividend to Merck stockholders. Holders of Merck common stock at the close of business on August 12, 2003, received a dividend of .1206 shares of Medco Health common stock for every one share of Merck common stock held on that date. No fractional shares of Medco Health common stock were issued. Shareholders entitled to a fractional share of Medco Health common stock in the distribution received the cash value instead. Based on a letter ruling Merck received from the U.S. Internal Revenue Service (IRS), receipt of Medco Health shares in the distribution was tax-free for U.S. federal income tax purposes, but any cash received in lieu of fractional shares was taxable.

Prior to the spin-off, Merck received a $2.0 billion dividend from Medco Health and Merck paid $564.7 million in settlement of the net intercompany payable to Medco Health. In addition, at the date of the spin-off, $247.4 million of cash and cash equivalents were included in the net assets of Medco Health that were spun off.

Summarized financial information for discontinued operations is as follows:

Years Ended December 31	2003*	2002
Total net revenues	$20,328.7	$30,344.5
Income before taxes	369.6	561.9
Taxes on income	128.3	207.2
Income, net of taxes	241.3	354.7

** Includes operations up through August 19, 2003.*

The following is a summary of the assets and liabilities of discontinued operations that were spun off:

	August 19, 2003
Assets	
Cash and cash equivalents	$ 247.4
Other current assets	2,728.4
Property, plant and equipment, net	816.3
Goodwill	3,310.2
Other intangibles, net	2,351.9
Other assets	138.4
	$9,592.6
Liabilities	
Current liabilities	$2,176.2
Long-term debt	1,362.3
Deferred income taxes	1,195.0
	$4,733.5
Net Assets Transferred	$4,859.1

6. Financial Instruments

Foreign Currency Risk Management

While the U.S. dollar is the functional currency of the Company's foreign subsidiaries, a significant portion of the Company's revenues are denominated in foreign currencies. Merck relies on sustained cash flows generated from foreign sources to support its long-term commitment to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of a strengthening dollar, the Company's ability to fund research and other dollar-based strategic initiatives at a consistent level may be impaired. The Company has established revenue hedging and balance sheet risk management programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates.

The objective of the revenue hedging program is to reduce the potential for longer-term unfavorable changes in foreign exchange to decrease the U.S. dollar value of future cash flows derived from foreign currency denominated sales, primarily the euro and Japanese yen. To achieve this objective, the Company will partially hedge anticipated third-party sales that are expected to occur over its planning cycle, typically no more than three years into the future. The Company will layer in hedges over time, increasing the portion of sales hedged as it gets closer to the expected date of the transaction, such that it is probable that the hedged transaction will occur. The portion of sales hedged is based on assessments of cost-benefit profiles that consider natural offsetting exposures, revenue and exchange rate volatilities and correlations, and the cost of hedging instruments. The hedged anticipated sales are a specified component of a portfolio of similarly denominated foreign currency-based sales transactions, each of which responds to the hedged risk in the same manner. Merck manages its anticipated transaction exposure principally with purchased local currency put options, which provide the Company with a right, but not an obligation, to sell foreign currencies in the future at a predetermined price. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, total changes in the options' cash flows fully offset the decline in the expected future U.S. dollar cash flows of the

hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the options' value reduces to zero, but the Company benefits from the increase in the value of the anticipated foreign currency cash flows.

The designated hedge relationship is based on total changes in the options' cash flows. Accordingly, the entire fair value change in the options is deferred in Accumulated other comprehensive income (AOCI) and reclassified into Sales when the hedged anticipated revenue is recognized. The hedge relationship is perfectly effective and therefore no hedge ineffectiveness is recorded. The fair values of currency options are reported in Accounts receivable or Other assets.

The primary objective of the balance sheet risk management program is to protect the U.S. dollar value of foreign currency denominated net monetary assets from the effects of volatility in foreign exchange that might occur prior to their conversion to U.S. dollars. Merck principally utilizes forward exchange contracts, which enable the Company to buy and sell foreign currencies in the future at fixed exchange rates and economically offset the consequences of changes in foreign exchange on the amount of U.S. dollar cash flows derived from the net assets. Merck routinely enters into contracts to fully offset the effects of exchange on exposures denominated in developed country currencies, primarily the euro and Japanese yen. For exposures in developing country currencies, the Company will enter into forward contracts on a more limited basis, and only when it is deemed economical to do so based on a cost-benefit analysis that considers the magnitude of the exposure, the volatility of the exchange rate and the cost of the hedging instrument. The Company will also minimize the effect of exchange on monetary assets and liabilities by managing operating activities and net asset positions at the local level.

Foreign currency denominated monetary assets and liabilities are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in Other (income) expense, net. The forward contracts are not designated as hedges and are marked to market through Other (income) expense, net. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not significant due to the short-term nature of the contracts, which typically have average maturities at inception of less than one year.

The Company also uses forward contracts to hedge the changes in fair value of certain foreign currency denominated available-for-sale securities attributable to fluctuations in foreign currency exchange rates. Changes in the fair value of the hedged securities due to fluctuations in spot rates are offset in Other (income) expense, net, by the fair value changes in the forward contracts attributable to spot rate fluctuations. Hedge ineffectiveness was not material during 2004, 2003 and 2002. Changes in the contracts' fair value due to spot-forward differences are excluded from the designated hedge relationship and recognized in Other (income) expense, net. These amounts were not significant for the years ended December 31, 2004, 2003 and 2002.

The fair values of forward exchange contracts are reported in the following four balance sheet line items: Accounts receivable (current portion of gain position), Other assets (non-current portion of gain position), Accrued and other current liabilities (current portion of loss position), or Deferred income taxes and noncurrent liabilities (non-current portion of loss position).

Interest Rate Risk Management

The Company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and, in general, does not leverage any of its investment activities that would put principal capital at risk.

At December 31, 2004, the Company was a party to four pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes maturing in 2005, 2006, 2007 and 2013, respectively. The notional amounts of these swaps, which match the amount of the hedged fixed-rate notes, were $500 million, $500 million, $350 million and $500 million, respectively. The swaps effectively convert the fixed-rate obligations to floating-rate instruments. The fair value changes in the notes are fully offset in interest expense by the fair value changes in the swap contracts.

In July 2004, a seven-year combined interest rate and currency swap contract that the Company was a party to matured, with an immaterial impact. This contract was used to convert a foreign currency denominated investment to a U.S. dollar investment. The interest rate component of the swap was not designated as a hedge. The currency swap component was designated as a hedge of the changes in fair value of the investment attributable to exchange. Accordingly, changes in the fair value of the investment due to fluctuations in spot rates were offset in Other (income) expense, net, by fair value changes in the currency swap. Hedge ineffectiveness was not significant during 2004, 2003 and 2002.

The fair values of these contracts are reported in Accounts receivable, Other assets, Accrued and other current liabilities, or Deferred income taxes and noncurrent liabilities.

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the Company's financial instruments at December 31, 2004 and 2003. Fair values were estimated based on market prices, where available, or dealer quotes.

	2004		2003	
	Carrying	**Fair**	Carrying	Fair

	Value	**Value**	Value	Value
Assets				
Cash and cash equivalents	**$2,878.8**	**$2,878.8**	$1,201.0	$1,201.0
Short-term investments	**4,211.1**	**4,211.1**	2,972.0	2,972.0
Long-term investments	**6,727.1**	**6,727.1**	7,941.2	7,941.2
Purchased currency options	**34.0**	**34.0**	19.4	19.4
Forward exchange contracts	**13.4**	**13.4**	7.5	7.5
Interest rate swaps	**59.1**	**59.1**	100.3	100.3
Liabilities				
Loans payable and current portion of long-term debt	**$2,181.2**	**$2,201.5**	$1,700.0	$1,714.1
Long-term debt	**4,691.5**	**4,820.9**	5,096.0	5,375.7
Written currency options	**3.8**	**3.8**	—	—
Forward exchange contracts and currency swap	**75.5**	**75.5**	153.6	153.6

A summary of the carrying values and fair values of the Company's investments at December 31 is as follows:

	2004		2003	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Available-for-sale				
Debt securities	**$10,524.0**	**$10,524.0**	$10,042.6	$10,042.6
Equity securities	**404.2**	**404.2**	837.5	837.5
Held-to-maturity securities	**10.0**	**10.0**	33.1	33.1

A summary at December 31 of the gross unrealized gains and losses on the Company's available-for-sale investments recorded, net of tax and minority interests, in AOCI is as follows:

	2004		2003	
	Gross Unrealized		Gross Unrealized	
	Gains	**Losses**	Gains	Losses
Debt securities	**$ 20.7**	**$ (38.5)**	$ 71.9	$ (19.3)
Equity securities	**35.1**	**(0.7)**	108.9	(16.9)

Available-for-sale debt securities and held-to-maturity securities maturing within one year totaled $4.2 billion and $10.0 million, respectively, at December 31, 2004. Of the remaining debt securities, $6.1 billion mature within five years.

Concentrations of Credit Risk
As part of its ongoing control procedures, the Company monitors concentrations of credit risk associated with corporate issuers of securities and financial institutions with which it conducts business. Credit risk is minimal as credit exposure limits are established to avoid a concentration with any single issuer or institution. Four U.S. customers represented, in aggregate, approximately one-fourth of the Company's accounts receivable at December 31, 2004. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

7. Inventories
Inventories at December 31 consisted of:

	2004	2003
Finished goods	**$ 376.8**	$ 552.5
Raw materials and work in process	**2,166.8**	2,309.8
Supplies	**94.7**	90.5
Total (approximates current cost)	**2,638.3**	2,952.8
Reduction to LIFO cost	**(100.9)**	—
	$2,537.4	$2,952.8
Recognized as:		
Inventories	**$1,898.7**	$2,554.7
Other assets	**638.7**	398.1

Inventories valued under the LIFO method comprised approximately 57% and 51% of inventories at December 31, 2004 and 2003, respectively. Amounts recognized as Other assets are comprised entirely of raw materials and work in process inventories, which include vaccine inventories produced in preparation for product launches, and inventories for other products, principally vaccines and *Arcoxia* , not expected to be sold within one year.

8. Other Intangibles
Other intangibles at December 31 consisted of:

	2004	2003
Patents and product rights	**$1,656.3**	$1,656.3
Other	**177.0**	169.8
Total acquired cost	**$1,833.3**	$1,826.1
Patents and product rights	**$1,042.5**	$ 865.4
Other	**111.6**	96.7
Total accumulated amortization	**$1,154.1**	$ 962.1

Aggregate amortization expense, substantially all of which is recorded in Materials and production expense, was $192.0 million in 2004, $184.6 million in 2003, and $163.7 million in 2002. The estimated aggregate amortization expense for each of the next five years is as follows:

2005, $163.6 million; 2006, $142.1 million; 2007, $136.5 million; 2008, $85.4 million; and 2009, $35.7 million.

9. Joint Ventures and Other Equity Method Affiliates

In 2000, the Company and Schering-Plough Corporation (Schering-Plough) entered into agreements to create separate equally-owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In 2001, the cholesterol-management partnership agreements were expanded to include all the countries of the world, excluding Japan. In 2002, ezetimibe, the first in a new class of cholesterol-lowering agents, was launched in the United States as *Zetia* (branded *Ezetrol* outside the United States). As of December 2004, *Ezetrol* has been launched in more than 50 countries outside the United States. Sales totaled $1.1 billion in 2004, $469.4 million in 2003 and $25.3 million in 2002. In July 2004, the combination product containing the active ingredients of both *Zetia* and *Zocor* , was approved in the United States as *Vytorin* (marketed as *Inegy* in many countries outside of the United States). *Vytorin* has been approved in 15 countries outside the United States. Sales totaled $132.4 million in 2004. The results from the Company's interest in the Merck/Schering-Plough partnership are recorded in Equity income from affiliates and were income of $132.0 million in 2004 and losses of $92.5 million and $147.4 million in 2003 and 2002, respectively.

In 2002, Merck's respiratory partnership with Schering-Plough reported on results of Phase III clinical trials of a fixed combination tablet containing *Singulair* and *Claritin* , Schering-Plough's nonsedating antihistamine, which did not demonstrate sufficient added benefits in the treatment of seasonal allergic rhinitis.

In 1982, Merck entered into an agreement with Astra AB (Astra) to develop and market Astra's products under a royalty-bearing license. In 1993, the Company's total sales of Astra products reached a level that triggered the first step in the establishment of a joint venture business carried on by Astra Merck Inc. (AMI), in which Merck and Astra each owned a 50% share. This joint venture, formed in 1994, developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec*, the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, Merck and Astra completed the restructuring of the ownership and operations of the joint venture whereby the Company acquired Astra's interest in AMI, renamed KBI Inc. (KBI), and contributed KBI's operating assets to a new U.S. limited partnership, Astra Pharmaceuticals L.P. (the Partnership), in exchange for a 1% limited partner interest. Astra contributed the net assets of its wholly owned subsidiary, Astra USA, Inc., to the Partnership in exchange for a 99% general partner interest. The Partnership, renamed AstraZeneca LP (AZLP) upon Astra's 1999 merger with Zeneca Group Plc (the AstraZeneca merger), became the exclusive distributor of the products for which KBI retained rights.

While maintaining a 1% limited partner interest in AZLP, Merck has consent and protective rights intended to preserve its business and economic interests, including restrictions on the power of the general partner to make certain distributions or dispositions. Furthermore, in limited events of default, additional rights will be granted to the Company, including powers to direct the actions of, or remove and replace, the Partnership's chief executive officer and chief financial officer. Merck earns ongoing revenue based on sales of current and future KBI products and such revenue was $1.5 billion, $1.9 billion and $1.5 billion in 2004, 2003 and 2002, respectively, primarily relating to sales of *Nexium* and *Prilosec* . In addition, Merck earns certain Partnership returns, which are recorded in Equity income from affiliates. Such returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing Merck's share of undistributed AZLP GAAP earnings. These returns aggregated $646.5 million, $391.5 million and $640.2 million in 2004, 2003 and 2002, respectively. The decrease in 2003 is attributable to a reduction in the preferential return, primarily resulting from the impact of generic competition for *Prilosec.* The AstraZeneca merger triggers a partial redemption of Merck's limited partnership interest in 2008. Upon this redemption, AZLP will distribute to KBI an amount based primarily on a multiple of Merck's average annual variable returns derived from sales of the former Astra USA, Inc. products for the three years prior to the redemption (the Limited Partner Share of Agreed Value).

In conjunction with the 1998 restructuring, for a payment of $443.0 million, which was deferred, Astra purchased an option (the Asset Option) to buy Merck's interest in the KBI products, excluding the gastrointestinal medicines *Nexium* and *Prilosec* . The Asset Option is exercisable in 2010 at an exercise price equal to the net present value as of March 31, 2008 of projected future pretax revenue to be received by the Company from the KBI products (the Appraised Value). Merck also has the right to require Astra to purchase such interest in 2008 at the Appraised Value. In addition, the Company granted Astra an option to buy Merck's common stock interest in KBI at an exercise price based on the net present value of estimated future net sales of *Nexium* and *Prilosec* . This option is exercisable two years after Astra's purchase of Merck's interest in the KBI products.

The 1999 AstraZeneca merger constituted a Trigger Event under the KBI restructuring agreements. As a result of the merger, in exchange for Merck's relinquishment of rights to future Astra products with no existing or pending U.S. patents at the time of the merger, Astra paid $967.4 million (the Advance Payment), which is subject to a true-up calculation in 2008 that may require repayment of all or a portion of this amount. The True-Up Amount is directly dependent on the fair market value in 2008 of the Astra product rights retained by the Company. Accordingly, recognition of this contingent income has been deferred until the realizable amount, if any, is determinable, which is not anticipated prior to 2008.

Under the provisions of the KBI restructuring agreements, because a Trigger Event has occurred, the sum of the Limited Partner Share of Agreed Value, the Appraised Value and the True-Up Amount is guaranteed to be a minimum of $4.7 billion. Distribution of the Limited Partner Share of Agreed Value and payment of the True-Up Amount will occur in 2008. AstraZeneca's purchase of Merck's interest in the KBI products is contingent upon the exercise of either Merck's option in 2008 or AstraZeneca's option in 2010 and, therefore, payment of the Appraised Value may or may not occur.

In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited (Merial), a fully integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species. Merial sales were $2.0 billion for 2004, $1.8 billion for 2003 and $1.7 billion for 2002.

In 1994, Merck and Pasteur Mérieux Connaught (now Sanofi Pasteur S.A.) established an equally-owned joint venture to market vaccines in Europe and to collaborate in the development of combination vaccines for distribution in Europe. Joint venture vaccine sales were $807.0 million for 2004, $669.0 million for 2003 and $546.4 million for 2002.

In 1989, Merck formed a joint venture with Johnson & Johnson to develop and market a broad range of nonprescription medicines for U.S. consumers. This 50% owned venture was expanded into Europe in 1993, and into Canada in 1996. In March 2004, Merck sold its 50% equity

stake in its European joint venture to Johnson & Johnson for $244.0 million and recorded a $176.8 million gain as Other (income) expense, net. (See Note 16.) Merck will continue to benefit through royalties on certain products and also regained the rights to potential future products that switch from prescription to over-the-counter status in Europe. Sales of product marketed by the joint venture, including sales of the European joint venture up through March 2004, were $315.3 million for 2004, $445.8 million for 2003 and $413.0 million for 2002.

Investments in affiliates accounted for using the equity method, including the above joint ventures, totaled $2.5 billion at December 31, 2004 and $2.2 billion at December 2003. These amounts are reported in Other assets. Dividends and distributions received from these affiliates were $587.0 million in 2004, $553.4 million in 2003 and $488.6 million in 2002.

Summarized information for those affiliates is as follows:

Years Ended December 31	**2004**	2003	2002
Sales	**$9,821.1**	$9,067.2	$8,819.2
Materials and production costs	**4,140.9**	3,946.1	3,473.6
Other expense, net	**3,691.4**	3,745.6	3,495.1
Income before taxes	**1,988.8**	1,375.5	1,850.5

December 31	**2004**	2003
Current assets	**$5,906.0**	$5,806.3
Noncurrent assets	**1,447.5**	1,624.9
Current liabilities	**3,401.4**	3,868.0
Noncurrent liabilities	**433.1**	785.0

10. Loans Payable, Long-Term Debt and Other Commitments

Loans payable at December 31, 2004 and 2003 included $299.6 million and $549.7 million, respectively, of commercial paper borrowings, $345.9 million and $296.0 million, respectively, of long-dated notes that are subject to repayment at the option of the holders on an annual basis and $500.0 million of notes with annual interest rate resets and a final maturity in 2011. On an annual basis, these notes will either be repurchased from the holders at the option of the remarketing agent and remarketed, or redeemed by the Company. At December 31, 2004, loans payable also included $1.0 billion of fixed-rate notes due in 2005, and at December 31, 2003, loans payable also included a $300.0 million variable-rate borrowing due in 2004. In December 2004, this variable-rate borrowing was extended for an additional five years. The weighted average interest rate for all of these borrowings was 3.9% and 2.5% at December 31, 2004 and 2003, respectively.

Long-term debt at December 31 consisted of:

	2004	2003
6.0% Astra note due 2008	**$1,380.0**	$1,380.0
4.4% notes due 2013	**527.2**	526.9
5.3% notes due 2006	**526.8**	548.5
6.4% debentures due 2028	**499.2**	499.1
6.0% debentures due 2028	**496.7**	496.6
2.5% notes due 2007	**345.9**	—
Variable-rate borrowing due 2009	**300.0**	—
6.3% debentures due 2026	**247.5**	247.4
4.1% notes due 2005	**—**	523.9
6.8% euronotes due 2005	**—**	499.8
Other	**368.2**	373.8
	$4,691.5	$5,096.0

The Company was a party to interest rate swap contracts which effectively convert the 4.4%, 5.3%, 2.5% and 4.1% fixed-rate notes to floating-rate instruments. (See Note 6.)

Other at December 31, 2004 and 2003 consisted primarily of $328.6 million and $332.6 million, respectively, of borrowings at variable rates averaging 2.0% and 0.8%, respectively. Of these borrowings, $158.7 million are subject to repayment at the option of the holders beginning in 2011 and $106.0 million are subject to repayment at the option of the holders beginning in 2010. In both years, Other also included foreign borrowings at varying rates up to 13.0%.

The aggregate maturities of long-term debt for each of the next five years are as follows: 2005, $1.0 billion; 2006, $540.1 million; 2007, $355.7 million; 2008, $1.4 billion; 2009, $307.5 million.

Rental expense under the Company’s operating leases, net of sublease income, was $215.0 million in 2004. The minimum aggregate rental commitments under noncancellable leases are as follows: 2005, $91.7 million; 2006, $58.2 million; 2007, $35.9 million; 2008, $28.0 million; 2009, $23.0 million and thereafter, $68.4 million. The Company has no significant capital leases.

11. Contingencies and Environmental Liabilities

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property and commercial litigation, as well as additional matters such as antitrust actions. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted

periodically as assessments change or additional information becomes available. For product liability claims, a portion of the overall accrual is actuarially determined and considers such factors as past experience, number of claims reported and estimates of claims incurred but not yet reported. Individually significant contingent losses are accrued when probable and reasonably estimable. Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable.

The Company's decision to obtain insurance coverage is dependent on market conditions, including cost and availability, existing at the time such decisions are made. As a result of a number of factors, product liability insurance has become less available while the cost has increased significantly. The Company has evaluated its risks and has determined that the cost of obtaining product liability insurance outweighs the likely benefits of the coverage that is available and as such, has no insurance for certain product liabilities effective August 1, 2004, including liability for products first sold after that date. The Company will continue to evaluate its insurance needs and the costs, availability and benefits of product liability insurance in the future.

Vioxx Litigation

Product Liability Lawsuits

As previously disclosed, federal and state product liability lawsuits involving individual claims, as well as several putative class actions have been filed against the Company with respect to *Vioxx* . As of January 31, 2005 the Company has been served or is aware that it has been named as a defendant in approximately 850 lawsuits, which include approximately 2,425 plaintiff groups alleging personal injuries resulting from the use of *Vioxx* . Certain of these lawsuits include allegations regarding gastrointestinal bleeding, cardiovascular events, thrombotic events or kidney damage. The Company has also been named as a defendant in approximately 90 putative class actions alleging personal injuries or seeking (i) medical monitoring as a result of the putative class members' use of *Vioxx* , (ii) disgorgement of certain profits under common law unjust enrichment theories, and/or (iii) various remedies under state consumer fraud and fair business practice statutes, including recovering the cost of *Vioxx* purchased by individuals and third-party payors such as union health plans (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Product Liability Lawsuits"). The actions filed in the state courts of California and New Jersey, respectively, have been transferred to a single judge in each state for coordinated proceedings. In addition, the Company filed a motion with the Judicial Panel on Multidistrict Litigation (the "JPML") seeking to transfer to a single federal judge and coordinate for pre-trial purposes all federal cases alleging personal injury and/or economic loss relating to the purchase or use of *Vioxx* ; several plaintiffs in certain *Vioxx* Product Liability Lawsuits pending in federal court have made similar requests. On February 16, 2005, the JPML granted the motions to transfer all *Vioxx* Product Liability Lawsuits pending in federal courts nationwide into one Multidistrict Litigation ("MDL") for coordinated pre-trial proceedings. The MDL has been transferred to the United States District Court for the Eastern District for Louisiana before District Judge Eldon E. Fallon.

Shareholder Lawsuits

As previously disclosed, in addition to the *Vioxx* Product Liability Lawsuits, a number of purported class action lawsuits were filed in late 2003 and early 2004 by several shareholders in the United States District Court for the Eastern District of Louisiana naming as defendants the Company and several current or former officers and directors of the Company. These cases have been consolidated. After the announcement of the withdrawal of *Vioxx* , the Company was named as a defendant in additional purported securities class action lawsuits filed in federal courts in New Jersey, Pennsylvania, and Louisiana. These actions allege that the defendants made false and misleading statements regarding *Vioxx* in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, including with respect to the withdrawal of *Vioxx* , and seek unspecified compensatory damages and the costs of suit, including attorneys' fees. Plaintiffs request certification of a class of purchasers of Company stock during various periods between May 21, 1999 and October 29, 2004. In addition, two shareholders filed an individual securities action in the United States District Court for the Central District of Illinois seeking compensatory damages and costs. Certain complaints include allegations under Sections 11, 12 and 15 of the Securities Act of 1933 that certain officers and directors made incomplete and misleading statements in a registration statement and certain prospectuses filed in connection with the Merck Stock Investment Plan, a dividend reinvestment plan (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Securities Lawsuits"). Several plaintiffs have dismissed their complaints without prejudice. As of January 31, 2005, a total of 14 *Vioxx* Securities Lawsuits were pending in various federal courts.

As previously disclosed, in March 2004, two shareholder derivative actions were filed in the United States District Court for the Eastern District of Louisiana naming the Company as a nominal defendant and certain members of the Board (past and present), together with certain executive officers, as defendants. The complaints arise out of substantially the same factual allegations that are made in the *Vioxx* Securities Lawsuits. The derivative suits, which are purportedly brought to assert rights of the Company, assert claims against the Board members and officers for breach of fiduciary duty, waste of corporate assets, unjust enrichment, abuse of control and gross mismanagement. After the withdrawal of *Vioxx* , additional shareholder derivative actions were filed in the New Jersey Superior Court for Hunterdon County and in the United States District Court for the District of New Jersey against the Company and certain officers and members of the Board (past and present) (all of the actions discussed in this paragraph are collectively referred to as the " *Vioxx* Derivative Lawsuits"). Two of the *Vioxx* Derivative Lawsuits include allegations that certain directors made false and misleading statements in connection with certain Proxy Statements filed with the SEC in violation of Section 14(a) of the Securities Act of 1933. As of January 31, 2005, a total of seven *Vioxx* Derivative Lawsuits were pending.

On October 29, 2004, two individual shareholders made a demand on the Board to take legal action against Mr. Raymond Gilmartin, Chairman, President and Chief Executive Officer and other individuals for allegedly causing damage to the Company with respect to the allegedly improper marketing of *Vioxx* . In response to that demand letter, the Board of Directors determined at its November 23, 2004 meeting that the Board would take the shareholders' request under consideration and it remains under consideration.

In addition to these shareholder actions, since the announcement of the withdrawal of *Vioxx* , putative class actions have been filed against the Company in the United States District Court for the Eastern District of Louisiana and in the United States District Court for the District of New Jersey (the " *Vioxx* ERISA Lawsuits" and, together with the *Vioxx* Securities Lawsuits and the *Vioxx* Derivative Lawsuits, the " *Vioxx* Shareholder Lawsuits") on behalf of certain of the Company's current and former employees who are participants in certain of the Company's retirement plans asserting claims under the Employee Retirement Income Security Act ("ERISA"). The lawsuits make similar allegations to the allegations contained in the *Vioxx* Securities Lawsuits. As of January 31, 2005, a total of eleven *Vioxx* ERISA Lawsuits were pending.

In October 2004, the plaintiff in one of the *Vioxx* ERISA Lawsuits filed a motion with the JPML to transfer to a single federal judge and coordinate for pretrial purposes all of the *Vioxx* ERISA Lawsuits. In November 2004, the Company responded to that motion and filed its own motion seeking coordination of all of the *Vioxx* Shareholder Lawsuits. The hearing on those motions was held on January 27, 2005.

International Lawsuits

In addition to the lawsuits discussed above, the Company has been named as a defendant in actions in various countries in Europe, Australia, Canada, Brazil and Israel related to *Vioxx* .

Additional Lawsuits
Based on media reports and other sources, the Company anticipates that additional *Vioxx* Product Liability Lawsuits and *Vioxx* Shareholder Lawsuits (collectively, the " *Vioxx* Lawsuits") will be filed against it and/or certain of its current and former officers and directors in the future.

Insurance
The Company has product liability insurance for claims brought in the *Vioxx* Product Liability Lawsuits of up to approximately $630 million after deductibles and co-insurance. This insurance provides coverage for legal defense costs and potential damage amounts that have been or will be incurred in connection with the *Vioxx* Product Liability Lawsuits. The Company believes that this insurance coverage extends to additional *Vioxx* Product Liability Lawsuits that may be filed in the future. Certain of the Company's insurers have reserved their rights to take a contrary position with respect to certain coverage and there could be disputes with insurers about coverage matters. The Company currently believes that it has at least approximately $190 million of Directors and Officers insurance coverage for the *Vioxx* Securities Lawsuits and *Vioxx* Derivative Lawsuits, and at least approximately $275 million of insurance coverage for the *Vioxx* ERISA Lawsuits. Additional insurance coverage for these claims may also be available under upper level excess policies that provide coverage for a variety of risks. There may be disputes with insurers about the availability of some or all of this insurance coverage. At this time, the Company believes it is reasonably possible its insurance coverage with respect to the *Vioxx* Lawsuits will not be adequate to cover its defense costs and any losses.

Investigations
In November 2004, the Company was advised by the staff of the Securities and Exchange Commission ("SEC") that it was commencing an informal inquiry concerning *Vioxx* . On January 28, 2005, the Company announced that it received notice that the SEC issued a formal notice of investigation. Also, the Company received a subpoena from the U.S. Department of Justice requesting information related to the Company's research, marketing and selling activities with respect to *Vioxx* in a federal health care investigation under criminal statutes. There are also ongoing investigations by certain Congressional committees. Also, the District Attorney's Office in Munich, Germany notified the Company's subsidiary in Germany that it received complaints and commenced an investigation in order to determine whether any criminal charges should be brought in Germany concerning *Vioxx* (together with the previously mentioned investigations, the " *Vioxx* Investigations"). The Company will cooperate with all of the *Vioxx* Investigations. The Company cannot predict the outcome of these inquiries; however, they could result in a potential civil disposition from the SEC and/or potential civil or criminal dispositions from the Justice Department.

Reserves
The Company currently anticipates that one or more of the *Vioxx* Product Liability Lawsuits may go to trial in the first half of 2005. The Company cannot predict the timing of any trials with respect to the *Vioxx* Shareholder Lawsuits. The Company believes that it has meritorious defenses to the *Vioxx* Lawsuits and will vigorously defend against them. In view of the inherent difficulty of predicting the outcome of litigation, particularly where there are many claimants and the claimants seek indeterminate damages, the Company is unable to predict the outcome of these matters, and at this time cannot reasonably estimate the possible loss or range of loss with respect to the *Vioxx* Lawsuits. The Company has not established any reserves for any potential liability relating to the *Vioxx* Lawsuits or the *Vioxx* Investigations (collectively the " *Vioxx* Litigation"). The Company has established a reserve of $675 million solely for its future legal defense costs related to the *Vioxx* Litigation. This reserve is based on certain assumptions and is the minimum amount that the Company believes at this time it can reasonably estimate will be spent over a multi-year period. The Company significantly increased the reserve when it had the ability to reasonably estimate its future legal defense costs for the *Vioxx* Litigation. Some of the significant factors that were considered in the establishment of the reserve for the *Vioxx* Litigation were as follows: the actual costs incurred by the Company up to that time; the development of the Company's legal defense strategy and structure in light of the expanded scope of the *Vioxx* Litigation; the number of cases being brought against the Company; and the anticipated timing, progression, and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. Unfavorable outcomes in the *Vioxx* Lawsuits or resulting from the *Vioxx* Investigations could have a material adverse effect on the Company's financial position, liquidity and results of operations.

Commercial Litigation
Beginning in 1993, the Company was named in a number of antitrust suits, certain of which were certified as class actions, instituted by most of the nation's retail pharmacies and consumers in several states. In 1994, these actions, except for those pending in state courts, were consolidated for pre-trial purposes in the federal court in Chicago, Illinois. In 1996, the Company and several other defendants settled the federal class action, which represented the single largest group of claims. Since that time, the Company has settled substantially all of the remaining cases on satisfactory terms; the few remaining cases have been inactive for several years. The Company has not engaged in any conspiracy and no admission of wrongdoing was made nor was included in any settlement agreements.

As previously disclosed, the Company was joined in ongoing litigation alleging manipulation by pharmaceutical manufacturers of Average Wholesale Prices (AWP), which are sometimes used in calculations that determine public and private sector reimbursement levels. In 2002, the Judicial Panel on Multi-District Litigation ordered the transfer and consolidation of all pending federal AWP cases to federal court in Boston, Massachusetts. Plaintiffs filed one consolidated class action complaint, which aggregated the claims previously filed in various federal district court actions and also expanded the number of manufacturers to include some which, like the Company, had not been defendants in any prior pending case. In May 2003, the court granted the Company's motion to dismiss

the consolidated class action and dismissed the Company from the class action case. Subsequent to the Company's dismissal, the plaintiffs filed an amended consolidated class action complaint, which did not name the Company as a defendant. The Company and thirty other pharmaceutical manufacturers remain defendants in six similar complaints pending in federal court in Massachusetts filed by the New York Counties of Suffolk, Rockland, Nassau, Westchester, Onondaga and New York City and three cases pending in Kentucky, Alabama and Wisconsin. The Company and the other defendants have filed and argued their motion to dismiss the Suffolk case and are awaiting the court's final decision on the motion. In addition, the Company is a defendant in cases brought on behalf of the citizens of Kentucky and Wisconsin alleging fraudulent practices regarding AWP, which the Company will vigorously defend.

As previously disclosed, the Company has been named as a defendant in antitrust cases in federal court in Minnesota and in state court in California, each alleging an unlawful conspiracy among different sets of pharmaceutical manufacturers to protect high prices in the United States by impeding importation into the United States of lower-priced pharmaceuticals from Canada. The Company and the other defendants have filed a motion to dismiss the action.

As previously disclosed, a suit in federal court in Alabama by two providers of health services to needy patients alleges that 15 pharmaceutical companies overcharged the plaintiffs and a class of those similarly situated, for pharmaceuticals purchased by the plaintiffs under the program established by Section 340B of the Public Health Service Act. The Company and the other defendants have filed a motion to dismiss the complaint on numerous grounds.

As previously disclosed, in January 2003, the U.S. Department of Justice notified the federal court in New Orleans, Louisiana that it was not going to intervene at that time in a pending Federal False Claims Act case that was filed under seal in December 1999 against the Company. The court issued an order unsealing the complaint, which was filed by a physician in Louisiana, and ordered that the complaint be served. The complaint, which alleged that the Company's discounting of *Pepcid* in certain Louisiana hospitals led to increases in costs to Medicaid, was dismissed. An amended complaint was filed under seal and the case has been administratively closed by the Court until the seal is lifted. The allegations contained in the amended complaint are unknown.

Governmental Proceedings

As previously disclosed, the Company has received a subpoena from the U.S. Department of Justice in connection with its investigation of the Company's marketing and selling activities. The Company has also reported that it has received a Civil Investigative Demand from the Attorney General of Texas regarding the Company's marketing and selling activities relating to Texas. In April 2004, the Company received a subpoena from the office of the Inspector General for the District of Columbia in connection with an investigation of the Company's interactions with physicians in the District of Columbia, Maryland, and Virginia. In November 2004, the Company received a letter request from the Department of Justice in connection with its investigation of the Company's pricing of *Pepcid* . The Company is cooperating with all of these investigations. The Company cannot predict the outcome of these investigations; however, it is possible that unfavorable outcomes could have a material adverse effect on the Company's financial position, liquidity and results of operations. In addition, from time to time, other federal or state regulators may seek information about practices in the pharmaceutical industry in inquiries other than the investigations discussed in this paragraph. It is not feasible to predict the outcome of any such inquiries.

Vaccine Litigation

The Company is a party in claims brought under the Consumer Protection Act of 1987 in the United Kingdom, which allege that certain children suffer from a variety of conditions as a result of being vaccinated with various bivalent vaccines for measles and rubella and/or trivalent vaccines for measles, mumps and rubella, including the Company's *M-M-R* II. The conditions include autism, with or without inflammatory bowel disease, epilepsy, diabetes, encephalitis, encephalopathy, deafness, chronic fatigue syndrome and transverse myelitis. In early September 2003, the Legal Services Commission (the "LSC") announced its decision to withdraw public funding of the litigation brought by the claimants. This decision was confirmed on appeal by the Funding Review Committee ("FRC") on September 30, 2003. The claimants' application for judicial review of the decision to withdraw public funding was dismissed in February 2004 and the April 2004 trial date was vacated. The lead claimants have decided not to apply to the Court of Appeal for permission to appeal the decision. As a result, legal aid for all lead claimants has now been discharged. The non-lead claimants were subject to a "show cause" procedure to withdraw legal aid unless the claimants could show cause as to why it should not be withdrawn. The FRC heard 37 of the "show cause" appeals by the non-lead claimants in October 2004. The appeals involving autism (26) were unsuccessful, but funding was reinstated for 11 appeals involving other non-autism conditions, such as epilepsy, deafness, encephalitis and transverse myelitis. In light of the 11 successful appeals, the LSC has reconsidered the cases of some other claimants and, to date, funding has been reinstated in an additional 86 non-lead, non-autism cases, to the limited extent necessary to allow solicitors to provide a report on the individual cases to the LSC. It is not yet known how many of the 97 appeals involve claimants suing the Company. All claimants for all conditions have until February 28, 2005 to give notice of their intention to continue or discontinue with their claims, irrespective of whether or not they have secured legal aid funding. Directions for further conduct of the litigation will be made at a case management hearing scheduled to take place on March 17 and 18, 2005. The Company will vigorously defend against these lawsuits.

As previously disclosed, the Company is also a party to individual and class action product liability lawsuits and claims in the United States involving pediatric vaccines (i.e., hepatitis B vaccine and *haemophilus influenza* type b vaccine) that contained thimerosal, a preservative used in vaccines. Merck has not distributed thimerosal-containing pediatric vaccines in the United States since the fall of 2001. As of December 31, 2004, there were approximately 300 active thimerosal related lawsuits with approximately 820 plaintiffs. Other defendants include vaccine manufacturers who produced pediatric vaccines containing thimerosal as well as manufacturers of thimerosal. In these actions, the plaintiffs allege, among other things, that they have suffered neurological injuries as a result of exposure to thimerosal from pediatric vaccines. Two state court cases and two Federal District Court cases are scheduled for trial in 2005. The Company will vigorously defend against these lawsuits;

however, it is possible that unfavorable outcomes could have a material adverse effect on the Company’s financial position, liquidity and results of operations.

The Company has been successful in having cases of this type either dismissed or stayed on the ground that the action is prohibited under the National Vaccine Injury Compensation Program (NVICP). The NVICP prohibits any person from filing or maintaining a civil action (in state or federal court) seeking damages against a vaccine manufacturer for vaccine-related injuries unless a petition is first filed in the United States Court of Federal Claims (hereinafter "the Vaccine Court"). Under the NVICP, before filing a civil action against a vaccine manufacturer, the petitioner must either (a) pursue his or her petition to conclusion in Vaccine Court and then timely file an election to proceed with a civil action in lieu of accepting the Vaccine Court's adjudication of the petition or (b) timely exercise a right to withdraw the petition prior to Vaccine Court adjudication in accordance with certain statutorily prescribed time periods. The Company is aware that there are numerous cases pending in Vaccine Court involving allegations that thimerosal-containing vaccines and/or the *M-M-R* II vaccine cause autism spectrum disorders. The Company is not a party to these Vaccine Court proceedings because the petitions are brought against the Department of Health and Human Services.

Patent Litigation

From time to time, generic manufacturers of pharmaceutical products file Abbreviated New Drug Applications (ANDAs) with the FDA seeking to market generic forms of the Company's products prior to the expiration of relevant patents owned by the Company. Generic pharmaceutical manufacturers have submitted ANDAs to the FDA seeking to market in the United States a generic form of *Fosamax* , *Prilosec* and *Propecia* prior to the expiration of the Company's (and AstraZeneca's in the case of *Prilosec*) patents concerning these products. The generic companies' ANDAs generally include allegations of non-infringement, invalidity and unenforceability of the patents. Generic manufacturers have received FDA approval to market a generic form of *Prilosec* . The Company has filed patent infringement suits in federal court against companies filing ANDAs for generic alendronate and finasteride, and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDAs for generic omeprazole. Similar patent challenges exist in certain foreign jurisdictions. The Company intends to vigorously defend its patents, which it believes are valid, against infringement by generic companies attempting to market products prior to the expiration dates of such patents. As with any litigation, there can be no assurance of the outcomes, which, if adverse, could result in significantly shortened periods of exclusivity for these products.

A trial in the United States with respect to the alendronate daily product concluded in November 2001. In November 2002, a decision was issued by the U.S. District Court in Delaware finding the Company's patent valid and infringed. On October 30, 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the validity and infringement of the Company's basic U.S. patent covering the use of alendronate in any form. A request for rehearing was denied. A trial in the United States involving the alendronate weekly product was held in March 2003. On August 28, 2003, the U.S. District Court in Delaware, upheld the validity of the Company's U.S. patent covering the weekly administration of alendronate. However, on January 28, 2005, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. found the Company's patent claims for once-weekly administration of *Fosamax* to be invalid. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008 and the Company expects a decline in U.S. *Fosamax* sales at that time. Prior to the decision, Merck's patent for once-weekly administration of *Fosamax* was set to expire in July 2018. Merck disagrees with the decision of the Court of Appeals and will request reconsideration by the Court of Appeals.

In January 2003, the High Court of Justice for England and Wales held that patents of the Company protecting the alendronate daily and weekly products were invalid in the United Kingdom. On November 6, 2003, the Court of Appeals of England and Wales affirmed the ruling by the High Court of Justice for England and Wales. European countries permit companies seeking approval of a generic product to reference data of the innovative product in certain circumstances under data exclusivity regulations. The Company has been granted leave to appeal a decision of the UK regulatory authority that its data for weekly alendronate may be referenced by companies seeking approval of generic weekly alendronate products. The Company has also filed an appeal of a grant by the Swedish regulatory authority of approval of generic weekly alendronate products which referenced the Company's data on weekly alendronate for their approval.

As previously announced by the Company, on July 20, 2004, the Opposition Division (the "Opposition Division") of the European Patent Office (the "EPO") rendered an oral decision to revoke the Company's patent in Europe that covers the weekly administration of alendronate. On August 19, 2004, the written opinion was issued confirming the oral decision revoking the Company's patent. On September 16, 2004, the Company filed an appeal of this decision. Based on other patents, the alendronate weekly product is protected in most major European markets until at least 2007.

On October 5, 2004, in an action in Australia challenging the validity of the Company's Australian patent for the weekly administration of alendronate, the patent was found to be invalid. The Company has appealed the decision.

In addition, in Japan a proceeding has been filed challenging the validity of the Company's Japanese patent for the weekly administration of alendronate.

In the case of omeprazole, the trial court in the United States rendered an opinion in October 2002 upholding the validity of the Company's and AstraZeneca's patents covering the stabilized formulation of omeprazole and ruling that one defendant's omeprazole product did not infringe those patents. The other three defendants' products were found to infringe the formulation patents. In December 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the trial court. With respect to certain other generic manufacturers' omeprazole products, no trial date has yet been set.

In the case of finasteride, an ANDA has been filed seeking approval of a generic version of *Propecia* and alleging invalidity of the Company's patents. The Company filed a patent infringement lawsuit in the District Court of Delaware in September 2004. A trial is not

anticipated before 2006.

Other Litigation

As previously disclosed, on July 6, 2004, the United States District Court for the District of New Jersey granted a motion by the Company, Medco Health Solutions, Inc. ("Medco Health") and certain officers and directors to dismiss a purported class action complaint involving claims related to the Company's revenue recognition practice for retail co-payments paid by individuals to whom Medco Health provides pharmaceutical benefits as well as other allegations. The complaint was dismissed with prejudice. On August 20, 2004 the same court granted the Company's motion to dismiss with prejudice a related shareholder derivative action. Plaintiffs in both actions have appealed the decisions.

Prior to the spin-off of Medco Health, the Company and Medco Health agreed to settle, on a class action basis, a series of lawsuits asserting violations of ERISA (the Gruer Cases). The Company, Medco Health and certain plaintiffs' counsel filed the settlement agreement with the federal district court in New York, where cases commenced by a number of plaintiffs, including participants in a number of pharmaceutical benefit plans for which Medco Health is the pharmacy benefit manager, as well as trustees of such plans, have been consolidated. The proposed class settlement has been agreed to by plaintiffs in five of the cases filed against Medco Health and the Company. Under the proposed settlement, the Company and Medco Health have agreed to pay a total of $42.5 million, and Medco Health has agreed to modify certain business practices or to continue certain specified business practices for a period of five years. The financial compensation is intended to benefit members of the settlement class, which includes ERISA plans for which Medco Health administered a pharmacy benefit at any time since December 17, 1994. In 2003, the district court preliminarily approved the settlement and held hearings to hear objections to the fairness of the proposed settlement. The district court approved the settlement in 2004, but has not yet determined the number of class member plans that have properly elected not to participate in the settlement. The settlement becomes final only if and when all appeals have been resolved. Three notices of appeal have been filed and the appellate court is expected to hear arguments regarding the appeals in March 2005 and decide the appeals thereafter. Currently, certain class member plans have indicated that they will not participate in the settlement. Cases initiated by three such plans and two individuals remain pending in the Southern District of New York. Plaintiffs in these cases have asserted claims based on ERISA as well as other federal and state laws that are the same as or similar to the claims that had been asserted by settling class members in the Gruer Cases. The Company and Medco Health are named as defendants in these cases. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of prolonged litigation.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing paragraph. These cases are being defended by Medco Health.

There are various other legal proceedings, principally product liability and intellectual property suits involving the Company, which are pending. While it is not feasible to predict the outcome of such proceedings or the proceedings discussed in this Note, in the opinion of the Company, all such proceedings, are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability that would have a material adverse effect on the financial position, liquidity or results of operations of the Company, other than proceedings for which a separate assessment is provided in this Note.

Environmental Matters

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. When a legitimate claim for contribution is asserted, a liability is initially accrued based upon the estimated transaction costs to manage the site. Accruals are adjusted as feasibility studies and related cost assessments of remedial techniques are completed, and as the extent to which other potentially responsible parties (PRPs) who may be jointly and severally liable can be expected to contribute is determined.

The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites and takes an active role in identifying and providing for these costs. A worldwide survey was initially performed to assess all sites for potential contamination resulting from past industrial activities. Where assessment indicated that physical investigation was warranted, such investigation was performed, providing a better evaluation of the need for remedial action. Where such need was identified, remedial action was then initiated. Estimates of the extent of contamination at each site were initially made at the pre-investigation stage and liabilities for the potential cost of remediation were accrued at that time. As more definitive information became available during the course of investigations and/or remedial efforts at each site, estimates were refined and accruals were adjusted accordingly. These estimates and related accruals continue to be refined annually.

In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled $127.5 million and $158.1 million at December 31, 2004 and 2003, respectively. These liabilities are undiscounted, do not consider potential recoveries from insurers or other parties and will be paid out over the periods of remediation for the applicable sites, which are expected to occur primarily over the next 15 years. Although it is not possible to predict with certainty the outcome of these matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of the liabilities accrued should exceed $75.0 million in the aggregate. Management also does not believe that these expenditures should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources for any year.

12. Preferred Stock of Subsidiary Companies

In December 2004, the Company redeemed variable-rate preferred units of a subsidiary at $1.5 billion of par value plus accrued dividends. Because these preferred securities were held at the subsidiary level, they were previously included in Minority interests in the consolidated financial statements for 2003.

In connection with the 1998 restructuring of AMI (see Note 9), the Company assumed a $2.4 billion par value preferred stock obligation with a dividend rate of 5% per annum, which is carried by KBI and included in Minority interests. While a small portion of the preferred stock carried by KBI is convertible into KBI common shares, none of the preferred securities are convertible into the Company's common shares and, therefore, they are not included as common shares issuable for purposes of computing Earnings per common share assuming dilution. (See Note 18.)

13. Stockholders' Equity

Other paid-in capital decreased by $86.8 million in 2004, and increased by $12.9 million and $36.5 million in 2003 and 2002, respectively. The changes primarily reflect the impact of shares issued upon exercise of stock options and related income tax benefits.

A summary of treasury stock transactions (shares in millions) is as follows:

	2004		2003		2002	
	Shares	**Cost**	Shares	Cost	Shares	Cost
Balance, Jan. 1	**754.5**	**$25,617.5**	731.2	$24,109.1	703.4	$22,387.1
Purchases	**24.9**	**974.6**	39.0	2,034.1	39.2	2,091.3
Issuances [(1)]	**(11.8)**	**(400.3)**	(15.7)	(525.7)	(11.4)	(369.3)
Balance, Dec. 31	**767.6**	**$26,191.8**	754.5	$25,617.5	731.2	$24,109.1

[(1)] *Issued primarily under stock option plans.*

At December 31, 2004 and 2003, 10 million shares of preferred stock, without par value, were authorized; none were issued.

14. Stock-Based Compensation Plans

The Company has stock-based compensation plans under which employees, non-employee directors and employees of certain of the Company's equity method investees may be granted options to purchase shares of Company common stock at the fair market value at the time of the grant. These plans were approved by the Company's shareholders. Option grants beginning in 2002 generally vest ratably over three years, while grants prior to 2002 generally vest after five years. The options expire ten years from the date of grant, subject to terms applicable to such awards.

In 2004, as part of an ongoing compensation review, the Company made certain changes to its stock-based compensation plans. Under the new approach, the Company began granting performance share units (PSUs) and restricted stock units (RSUs), in addition to stock options, to certain management level employees. The financial value of individual stock-based incentive grants under the new approach was designed to be equivalent to the prior approach, only the mix of stock-based compensation awards changed. Both PSU and RSU payouts will be in shares of Company stock after the end of a three-year period, subject to terms applicable to such awards. Additionally, PSU payouts will be contingent on the Company's performance against a pre-set objective or set of objectives. The Company granted 509,062 PSUs with a weighted-average grant date fair value of $48.23 and 2,472,794 RSUs with a weighted-average grant date fair value of $41.09 in 2004.

In 2003, in connection with the Medco Health spin-off, the number and exercise prices of outstanding options were proportionately adjusted to maintain the option holders' positions before and after the spin-off. As a result of the adjustment, the number of outstanding options increased by 12.6 million and the average exercise price decreased by approximately $3.22. In addition, certain stock options granted to Medco Health employees in 2003 and 2002 were converted to Medco Health options with terms and amounts that maintained the option holders' positions.

Summarized information relative to the Company's stock option plans (options in thousands) is as follows:

	Number of Options	Average Price [1]
Outstanding at December 31, 2001	197,200.7	$ 56.98
Granted	37,809.4	61.18
Exercised	(11,048.3)	28.82
Forfeited	(5,852.5)	69.20
Outstanding at December 31, 2002	218,109.3	58.80
Granted	32,595.7	52.74
Exercised	(15,482.2)	25.07
Forfeited or converted [2]	(11,970.7)	63.18
Medco Health spin-off adjustment	12,626.2	(3.22)
Outstanding at December 31, 2003	235,878.3	56.80
Granted	**31,377.9**	**45.58**
Exercised	**(11,668.0)**	**20.60**
Forfeited	**(10,824.1)**	**59.78**
Outstanding at December 31, 2004	**244,764.1**	**$ 56.96**

[1] Weighted average exercise price.
[2] Includes 4.8 million options that were converted to Medco Health options.

The number of options and average price of options exercisable at December 31, 2004, 2003 and 2002 were 129.1 million options at $55.83, 101.4 million options at $47.47 and 70.7 million options at $35.97, respectively. At December 31, 2004 and 2003, 99.9 million shares and 120.4 million shares, respectively, were available for future grants under the terms of the Company's stock-based compensation plans.

Summarized information about stock options outstanding and exercisable at December 31, 2004 (options in thousands) is as follows:

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	Average Life [1]	Average Price [2]	Number of Options	Average Price [2]
Under $15	**2,199.0**	**3.54**	**$ 11.75**	**2,199.0**	**$ 11.75**
$15 to 25	**5,290.0**	**0.42**	**19.92**	**5,241.1**	**19.91**
$25 to 40	**16,051.2**	**3.41**	**30.51**	**11,876.4**	**31.05**
$40 to 50	**77,542.9**	**6.96**	**48.31**	**30,652.5**	**47.52**
$50 to 65	**84,344.4**	**5.32**	**60.12**	**46,380.8**	**59.49**
$65 to 80	**58,214.6**	**4.99**	**75.69**	**32,227.0**	**75.91**
Over $80	**1,122.0**	**3.84**	**86.20**	**555.1**	**87.27**
	244,764.1			**129,131.9**	

[1] Weighted average contractual life remaining in years.
[2] Weighted average exercise price.

15. Pension and Other Postretirement Benefit Plans

The Company has defined benefit pension plans covering eligible employees in the United States and in certain of its international subsidiaries. Pension benefits in the United States are based on a formula that considers final average pay and years of credited service. In addition, the Company provides medical, dental and life insurance benefits, principally to its eligible U.S. retirees and similar benefits to their dependents, through its other postretirement benefit plans. The Company uses a December 31 measurement date for substantially all of its pension plans and for its other postretirement benefit plans.

In 2004, in accordance with FASB Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), the Company began accounting for the effect of the federal subsidy under the Act, which reduced the benefit obligation of certain of its other postretirement benefit plans by $169.0 million. The service cost, interest cost and net amortization components of net postretirement benefit cost were reduced by $7.9 million, $10.5 million and $12.6 million, respectively. While the Company is recognizing the subsidy in accordance with current accounting requirements, it will continue to evaluate the Act and regulations that follow to determine the optimal approach to incorporating the impact of the Act.

The Company changed participant contributions and the service recognized for eligibility for its other postretirement benefit plans. These amendments generated curtailment gains of $12.3 million in 2004, $10.2 million in 2003 and $54.2 million in 2002.

The Company recorded a settlement loss of $28.3 million on its pension plans and a curtailment loss of $11.7 million on its other postretirement benefit plans in 2003 resulting from reductions in employment levels primarily in connection with restructuring activities. The Company also recorded termination charges in 2004 and 2003 of $18.4 million and $37.9 million, respectively, on its pension plans and $3.1 million and $8.1 million, respectively, on its other postretirement benefit plans related to expanded eligibility for certain employees exiting primarily under the restructuring action. (See Note 4.)

In addition, the Company recorded a settlement loss of $23.0 million in 2004 on certain of its domestic pension plans resulting from employees electing to receive their pension benefits as lump sum payments.

The net cost for the Company's pension plans consisted of the following components:

Years Ended December 31	**2004**	2003	2002
Service cost	**$ 307.7**	$ 263.4	$ 218.8
Interest cost	**286.0**	260.6	229.9
Expected return on plan assets	**(367.7)**	(341.2)	(314.3)
Net amortization	**130.0**	115.9	49.1
Settlements	**23.0**	28.3	—
Termination benefits	**18.4**	37.9	—
Net pension cost	**$ 397.4**	$ 364.9	$ 183.5

The net pension cost attributable to U.S. plans included in the above table was $283.0 million in 2004, $264.8 million in 2003 and $108.0 million in 2002.

The net cost of postretirement benefits other than pensions consisted of the following components:

Years Ended December 31	**2004**	2003	2002
Service cost	**$ 86.0**	$ 68.3	$ 46.6
Interest cost	**105.7**	90.4	71.4
Expected return on plan assets	**(89.4)**	(62.0)	(78.6)
Net amortization	**31.0**	28.0	(11.7)
Curtailments	**(12.3)**	1.5	(54.2)
Termination benefits	**3.1**	8.1	—
Net postretirement benefit cost	**$ 124.1**	$ 134.3	$ (26.5)

The cost of health care and life insurance benefits for active employees was $295.3 million in 2004, $273.0 million in 2003 and $241.7 million in 2002.

Summarized information about the changes in plan assets and benefit obligation is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	**2004**	2003
Fair value of plan assets at January 1	**$4,282.7**	$3,105.4	**$ 949.5**	$ 678.8
Actual return on plan assets	**718.8**	1,033.3	**150.7**	223.7
Company contributions	**761.5**	641.3	**94.4**	63.5

Benefits paid from plan assets	**(296.1)**	(425.3)	**(29.3)**	(16.5)
Discontinued operations	**—**	(80.5)	**—**	—
Other	**14.0**	8.5	**—**	—
Fair value of plan assets at December 31	**$5,480.9**	$4,282.7	**$1,165.3**	$ 949.5
Benefit obligation at January 1	**$5,071.9**	**$**4,410.1	**$1,840.4**	$1,329.6
Subsidy under the Act	—	—	**(169.0)**	—
Service cost	**307.7**	263.4	**86.0**	68.3
Interest cost	**286.0**	260.6	**105.7**	90.4
Actuarial losses	**511.2**	624.0	**152.0**	486.9
Benefits paid	**(327.1)**	(466.0)	**(65.1)**	(58.2)
Plan amendments	**4.6**	27.3	**(60.7)**	—
Curtailments	**—**	—	**—**	19.4
Termination benefits	**18.4**	37.9	**3.1**	8.1
Discontinued operations	**—**	(85.2)	**—**	(104.1)
Other	**6.8**	(0.2)	**—**	—
Benefit obligation at December 31	**$5,879.5**	$5,071.9	**$1,892.4**	$1,840.4

The fair value of U.S. pension plan assets included in the preceding table was $3.5 billion in 2004 and $2.7 billion in 2003. The pension benefit obligation of U.S. plans included in this table was $3.7 billion in 2004 and $3.2 billion in 2003.

A reconciliation of the plans' funded status to the net asset (liability) recognized at December 31 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	**2004**	2003
Plan assets less than benefit obligation	**$ (398.6)**	$ (789.2)	**$ (727.0)**	$ (890.9)
Unrecognized net loss	**2,200.2**	2,155.0	**755.1**	879.5
Unrecognized plan changes	**99.2**	105.2	**(201.3)**	(171.0)
Net asset (liability)	**$1,900.8**	$1,471.0	**$ (173.2)**	$ (182.4)
Recognized as:				
Other assets	**$2,281.3**	$1,789.9	**$ —**	$ —
Accrued and other current liabilities	**(15.8)**	(24.4)	**(24.9)**	(24.9)
Deferred income taxes and noncurrent liabilities	**(387.7)**	(310.2)	**(148.3)**	(157.5)
Accumulated other comprehensive loss	**23.0**	15.7	**—**	—

The weighted average asset allocations of the investment portfolio for the pension and other postretirement benefit plans at December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	**2004**	2003
U.S. equities	**41%**	41%	**55%**	56%
International equities	**30**	30	**27**	26
Fixed income investments	**21**	21	**16**	16
Real estate	**6**	7	**1**	1
Cash and other investments	**2**	1	**1**	1
	100%	100%	**100%**	100%

The target investment portfolios for the Company's pension plans are determined by country based on the nature of the liabilities and considering the demographic composition of the plan participants (average age, years of service and active versus retiree status) and in accordance with local regulations. The weighted average target allocation was 40% in U.S. equities, 30% in international equities, 22% in fixed income investments, 7% in real estate and other investments, and 1% in cash. Other investments include insurance contracts for certain international pension plans.

The target investment portfolio for the Company's other postretirement benefit plans is allocated 45% to 60% in U.S. equities, 20% to 30% in international equities, 13% to 17% in fixed-income investments, and up to 8% in cash and other investments. The portfolio's asset allocation is consistent with the long-term nature of the plans' benefit obligation, and is well diversified among the asset classes in which the portfolio invests.

Contributions to the pension plans and other postretirement benefit plans during 2005 are expected to be $415.0 million and $106.3 million, respectively.

Expected benefit payments are as follows:

	Pension Benefits	Other Postretirement Benefits
2005	$ 203.5	$ 76.9
2006	231.2	83.6
2007	241.0	90.4
2008	263.6	97.1
2009	292.3	104.6
2010-2014	1,906.4	650.3

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service. Expected receipts of the subsidy under the Act, which are not reflected in the expected other postretirement benefit payments included in the preceding table, are as follows: 2006, $5.4 million; 2007, $6.1 million; 2008, $6.7 million; 2009, $7.4 million; 2010-2014, $47.9 million.

At December 31, 2004 and 2003, the accumulated benefit obligation was $4.5 billion and $3.8 billion, respectively, for all pension plans and $2.7 billion and $2.3 billion, respectively, for U.S. pension plans. The Company had a minimum pension liability of $24.6 million and $19.8 million at December 31, 2004 and 2003, respectively, representing the extent to which the accumulated benefit obligation exceeded plan assets for certain of the Company's pension plans.

For pension plans with benefit obligations in excess of plan assets at December 31, 2004 and 2003, the fair value of plan assets was $1.1 billion and $3.4 billion, respectively, and the benefit obligation was $1.8 billion and $4.2 billion, respectively. For those plans with accumulated benefit obligations in excess of plan assets at December 31, 2004 and 2003, the fair value of plan assets was $106.0 million and $92.2 million, respectively, and the accumulated benefit obligation was $393.9 million and $327.2 million, respectively.

Unrecognized net loss amounts reflect experience differentials primarily relating to differences between expected and actual returns on plan assets as well as the effects of changes in actuarial assumptions. Unrecognized net loss amounts in excess of certain thresholds are amortized into net pension and other postretirement benefit cost over the average remaining service life of employees. Amortization of unrecognized net losses for the Company's U.S. plans at December 31, 2004 is expected to increase net pension and other postretirement benefit cost by approximately $125.0 million annually from 2005 through 2009.

The Company reassesses its benefit plan assumptions on a regular basis. The weighted average assumptions used in determining pension plan information are as follows:

December 31	**2004**	2003	2002
Net cost			
Discount rate	**5.65%**	5.90%	6.40%
Expected rate of return on plan assets	**7.70**	7.70	8.90
Salary growth rate	**4.1**	4.1	4.2
Benefit obligation			
Discount rate	**5.40%**	5.65%	5.90%
Salary growth rate	**4.1**	4.1	4.2

Assumptions used in determining U.S. pension plan and other postretirement benefit plan information are as follows:

December 31	**2004**	2003	2002
Net cost			
Discount rate	**6.25%**	6.50%	7.25%
Expected rate of return on plan assets	**8.75**	8.75	10.0
Salary growth rate	**4.5**	4.5	4.5
Benefit obligation			
Discount rate	**6.00%***	6.25%	6.50%
Salary growth rate	**4.5**	4.5	4.5

* 5.75% used for other postretirement benefit plans.

The expected rate of return for both the pension and other postretirement benefit plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid and is determined on a country basis. In developing the expected rate of return within each country, the long-term historical returns data is considered as well as actual returns on the plan assets and other capital markets experience. Using this reference information, the long-term return expectations for each asset category and a weighted average expected return for each country's target portfolio is developed, according to the allocation among those investment categories. The expected portfolio performance reflects the contribution of active management as appropriate. For 2005, the Company's expected rate of return of 8.75% will remain unchanged from 2004 for its U.S. pension and other postretirement benefit plans.

The health care cost trend rate assumptions for other postretirement benefit plans are as follows:

December 31	**2004**	2003
Health care cost trend rate assumed for next year	**10.0%**	11.0%
Rate to which the cost trend rate is assumed to decline	**5.0%**	5.0%
Year that the rate reached the ultimate trend rate	**2013**	2013

A one percentage point change in the health care cost trend rate would have had the following effects:

	One Percentage Point	
	Increase	**Decrease**
Effect on total service and interest cost components	**$ 36.7**	**$ (28.8)**
Effect on benefit obligation	**302.4**	**(243.5)**

16. Other (Income) Expense, Net

Years Ended December 31	**2004**	2003	2002
Interest income	**$ (300.1)**	$ (308.7)	$ (415.1)
Interest expense	**293.7**	350.9	390.6
Exchange gains	**(18.4)**	(28.4)	(7.8)
Minority interests	**154.2**	168.7	214.2
Other, net	**(473.4)**	(385.7)	(77.4)
	$ (344.0)	$ (203.2)	$ 104.5

Minority interests include third parties' share of exchange gains and losses arising from translation of the financial statements into U.S. dollars. Reduced minority interests in 2004 and 2003 is attributable to the effect of the Banyu shares acquisitions. (See Note 5.)

Other, net in 2004 reflects the $176.8 million gain from the sale of the Company's 50-percent equity stake in its European joint venture with Johnson & Johnson. The increase in other, net in 2003 primarily reflects an $84.0 million gain on the sale of *Aggrastat* product rights in the United States and realized gains on the Company's investment portfolios relating to the favorable interest rate environment.

Interest paid was $284.6 million in 2004, $359.4 million in 2003 and $401.4 million in 2002.

17. Taxes on Income

A reconciliation between the Company's effective tax rate and the U.S. statutory rate is as follows:

	2004 Amount	Tax Rate		
		2004	2003	2002
U.S. statutory rate applied to income from continuing operations before taxes	**$2,791.1**	**35.0%**	35.0%	35.0%
Differential arising from:				
Foreign earnings	**(794.9)**	**(10.0)**	(10.2)	(6.5)
Tax exemption for Puerto Rico operations	**(129.0)**	**(1.6)**	(0.9)	(0.9)
State taxes	**101.5**	**1.3**	1.7	1.9
Other	**192.4**	**2.4**	1.6	0.1
	$2,161.1	**27.1%**	27.2%	29.6%

Domestic companies contributed approximately 30% in 2004, 34% in 2003 and 47% in 2002 to consolidated income from continuing operations before taxes.

Taxes on income from continuing operations consisted of:

Years Ended December 31	**2004**	2003	2002
Current provision			
Federal	**$1,420.0**	$1,464.2	$1,563.8
Foreign	**530.9**	611.3	609.3
State	**161.3**	254.8	296.3
	2,112.2	2,330.3	2,469.4
Deferred provision			
Federal	**95.6**	21.3	361.8
Foreign	**(32.3)**	96.5	(8.0)
State	**(14.4)**	13.9	33.7
	48.9	131.7	387.5
	$2,161.1	$2,462.0	$2,856.9

Deferred income taxes at December 31 consisted of:

	2004		2003	
	Assets	**Liabilities**	Assets	Liabilities
Other intangibles	**$ 60.7**	**$ 286.1**	$ 84.7	$ 306.0
Inventory related	**749.7**	**473.0**	639.0	355.2
Accelerated depreciation	**—**	**1,479.7**	—	1,353.9
Advance payment	**338.6**	**—**	338.6	—
Equity investments	**189.3**	**548.7**	260.0	565.6
Pensions and OPEB	**168.6**	**811.9**	122.3	602.0
Compensation related	**182.5**	**—**	156.9	—
Vioxx legal cost reserve	**205.2**	**—**	35.7	—
Net operating losses	**212.3**	**—**	155.2	—
Other	**1,144.4**	**314.2**	1,042.5	287.5
Subtotal	**3,251.3**	**3,913.6**	2,834.9	3,470.2
Valuation allowance	**—**	**—**	(2.2)	—
Total deferred taxes	**$3,251.3**	**$3,913.6**	$2,832.7	$3,470.2
Net deferred tax liabilities		**$ 662.3**		$ 637.5
Recognized as:				
Prepaid expenses and taxes		**$ (652.6)**		$ (590.8)
Other assets		**(10.5)**		(7.5)
Income taxes payable		**156.2**		110.2
Deferred income taxes and noncurrent liabilities		**1,169.2**		1,125.6

Income taxes paid in 2004, 2003 and 2002 were $1.9 billion, $2.0 billion and $1.8 billion, respectively. Stock option exercises reduced income taxes paid in 2004, 2003 and 2002 by $121.7 million, $167.8 million and $82.5 million, respectively.

At December 31, 2004, foreign earnings of $20.1 billion and domestic earnings of $880.9 million have been retained indefinitely by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings. These earnings include income from manufacturing operations in Ireland, which were tax-exempt through 1990 and are taxed at 10% thereafter. In addition, the Company has subsidiaries operating in Puerto Rico and Singapore under tax incentive grants that expire in 2015 and 2026, respectively.

On October 22, 2004, the American Jobs Creation Act of 2004 (the AJCA) was signed into law. The AJCA creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the United States as of December 31, 2002. On December 21, 2004, the FASB issued FASB Staff Position, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FSP No. 109-2). FSP No. 109-2 allows companies additional time to evaluate the effect of the law. Through December 31, 2004, the Company has not provided deferred taxes on foreign earnings because such earnings were intended to be indefinitely reinvested outside the United States. Whether the Company will ultimately take advantage of the temporary incentive depends on a number of factors including analyzing IRS guidance before a decision is made. The Company expects to be in a position to finalize its decisions regarding the temporary incentive during 2005. Until that time, the Company will make no change in its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries. If it becomes apparent that the Company will repatriate all or any of these earnings in an amount of up to $15 billion, a one-time tax charge to the Company's consolidated results of operations of up to approximately $1 billion could occur. The ultimate tax charge is dependent on a number of factors currently under consideration, including the passage of pending legislation, which contains certain technical corrections to the AJCA. The Company has not changed its intention to indefinitely

reinvest accumulated earnings earned subsequent to December 31, 2002. No provision will be made for income taxes that would be payable upon the distribution of such earnings and it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

The Company's federal income tax returns have been audited through 1992. As previously disclosed, the IRS has substantially completed its examination of the Company's tax returns for the years 1993 to 1996 and on April 28, 2004 issued a preliminary notice of deficiency with respect to a partnership transaction entered into in 1993. Specifically, the IRS is proposing to disallow certain royalty and other expenses claimed as deductions on the 1993-1996 tax returns of the Company. The Company anticipates receiving a similar notice for 1997-1999, shortly. If the IRS ultimately prevails in its positions, the Company's income tax due for the years 1993-1999 would increase by approximately $970 million plus interest of approximately $490 million. The IRS will likely make similar claims for years subsequent to 1999 in future audits with respect to this transaction. The potential disallowance for these later years, computed on a similar basis to the 1993-1999 disallowances, would be approximately $540 million plus interest of approximately $40 million. The IRS has proposed penalties on the Company with respect to all periods that have been examined and the Company anticipates the IRS would seek to impose penalties on all other periods.

The Company vigorously disagrees with the proposed adjustments and intends to aggressively contest this matter through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain and involves unsettled areas of the law, based on currently available information, the Company has provided for the best estimate of the probable tax liability for this matter. While the resolution of the issue may result in tax liabilities which are significantly higher or lower than the reserves established for this matter, management currently believes that the resolution will not have a material effect on the Company's financial position or liquidity. However, an unfavorable resolution could have a material effect on the Company's results of operations or cash flows in the quarter in which an adjustment is recorded or the tax is due or paid.

18. Earnings per Share

The weighted average common shares used in the computations of basic earnings per common share and earnings per common share assuming dilution (shares in millions) are as follows:

Years Ended December 31	**2004**	2003	2002
Average common shares outstanding	**2,219.0**	2,236.7	2,257.5
Common shares issuable [(1)]	**7.4**	16.4	19.5
Average common shares outstanding assuming dilution	**2,226.4**	2,253.1	2,277.0

[(1)] *Issuable primarily under stock-based compensation plans.*

In 2004, 2003 and 2002, 233.1 million, 203.4 million and 149.9 million common shares issuable under the Company's stock-based compensation plans were excluded from the computation of earnings per common share assuming dilution because the effect would have been antidilutive.

19. Comprehensive Income

The components of Other comprehensive (loss) income are as follows:

	Pretax [(1)]	Tax	After Tax
Year Ended December 31, 2004			
Net unrealized loss on derivatives	**$ (117.8)**	**$ 48.2**	**$ (69.6)**
Net loss realization	**64.2**	**(26.3)**	**37.9**
Derivatives	**(53.6)**	**21.9**	**(31.7)**
Net unrealized gain on investments	**(38.4)**	**(9.6)**	**(48.0)**
Net income realization	**(89.7)**	**36.8**	**(52.9)**
Investments	**(128.1)**	**27.2**	**(100.9)**
Minimum pension liability	**(7.2)**	**2.3**	**(4.9)**
Cumulative translation adjustment relating to equity investees	**40.2**	**(14.1)**	**26.1**
	$ (148.7)	**$ 37.3**	**$ (111.4)**
Year Ended December 31, 2003			
Net unrealized loss on derivatives	$ (87.6)	$ 35.9	$ (51.7)
Net loss realization	51.5	(21.1)	30.4
Derivatives	(36.1)	14.8	(21.3)
Net unrealized gain on investments	105.0	(33.8)	71.2
Net income realization	(114.3)	(3.2)	(117.5)
Investments	(9.3)	(37.0)	(46.3)
Minimum pension liability	424.5	(192.6)	231.9
	$ 379.1	$ (214.8)	$ 164.3
Year Ended December 31, 2002			
Net unrealized loss on derivatives	$ (31.8)	$ 13.0	$ (18.8)
Net income realization	(2.0)	0.8	(1.2)
Derivatives	(33.8)	13.8	(20.0)
Net unrealized gain on investments	128.6	24.5	153.1
Net income realization	(86.6)	6.6	(80.0)
Investments	42.0	31.1	73.1
Minimum pension liability	(263.2)	100.7	(162.5)
	$ (255.0)	$ 145.6	$ (109.4)

[(1)] *Net of applicable minority interest.*

The components of Accumulated other comprehensive (loss) income are as follows:

December 31	**2004**	2003
Net unrealized loss on derivatives	**$ (65.7)**	$ (34.0)
Net unrealized gain on investments	**9.2**	110.1
Minimum pension liability	**(15.5)**	(10.6)
Cumulative translation adjustment relating to equity investees	**26.1**	—
	$ (45.9)	$ 65.5

At December 31, 2004, $37.6 million of the net unrealized loss on derivatives is associated with options maturing in the next 12 months, which hedge anticipated foreign currency denominated sales over that same period.

20. Segment Reporting

The Company's operations are principally managed on a products basis. The Merck Pharmaceutical segment includes products marketed either directly or through joint ventures. These products consist of therapeutic and preventive agents, sold by prescription, for the treatment of human disorders. Merck sells these human health products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions.

All Other includes other non-reportable human and animal health segments. Revenues and profits for these segments are as follows:

	Merck Pharm-aceutical	All Other	Total
Year Ended December 31, 2004			
Segment revenues	**$21,493.5**	**$1,221.2**	**$22,714.7**
Segment profits	**13,507.1**	**1,184.5**	**14,691.6**
Included in segment profits:			
Equity income from affiliates	**512.8**	**307.7**	**820.5**
Depreciation and amortization	**(151.8)**	**(4.3)**	**(156.1)**
Year Ended December 31, 2003			
Segment revenues	$21,038.1	$1,218.8	$22,256.9
Segment profits	13,451.7	1,131.4	14,583.1
Included in segment profits:			
Equity income from affiliates	304.0	245.8	549.8
Depreciation and amortization	(143.5)	(4.0)	(147.5)
Year Ended December 31, 2002			
Segment revenues	$19,946.2	$1,244.5	$21,190.7
Segment profits	12,868.0	1,111.5	13,979.5
Included in segment profits:			
Equity income from affiliates	203.0	217.6	420.6
Depreciation and amortization	(137.8)	(3.9)	(141.7)

Segment profits are comprised of segment revenues less certain elements of materials and production costs and operating expenses, including components of equity income (loss) from affiliates and depreciation and amortization expenses. For internal management reporting presented to the chief operating decision maker, the Company does not allocate the vast majority of indirect production costs, research and development expenses and general and administrative expenses, as well as the cost of financing these activities. Separate divisions maintain responsibility for monitoring and managing these costs, including depreciation related to fixed assets utilized by these divisions and, therefore, they are not included in segment profits.

A reconciliation of total segment revenues to consolidated Sales is as follows:

Years Ended December 31	**2004**	2003	2002
Segment revenues	**$22,714.7**	$22,256.9	$21,190.7
Other revenues	**223.9**	229.0	255.1
	$22,938.6	$22,485.9	$21,445.8

Other revenues are primarily comprised of miscellaneous corporate revenues, sales related to divested products or businesses and other supply sales.

Sales [(1)] by category of the Company's products were as follows:

	2004	2003	2002
Atherosclerosis	**$ 5,223.0**	$ 5,077.9	$ 5,552.1
Hypertension/heart failure	**3,646.7**	3,421.6	3,477.8
Osteoporosis	**3,159.6**	2,676.6	2,243.1
Respiratory	**2,622.0**	2,009.4	1,489.8
Anti-inflammatory/analgesics [(2)]	**1,779.6**	2,677.3	2,587.2
Anti-bacterial/anti-fungal	**1,200.9**	1,028.5	821.0
Vaccines/biologicals	**1,036.1**	1,056.1	1,028.3
Urology	**733.1**	605.5	547.3
Ophthalmologicals	**726.5**	675.1	621.5
Human immunodeficiency virus (HIV)	**255.5**	290.6	294.3
Other	**2,555.6**	2,967.3	2,783.4
	$22,938.6	$22,485.9	$21,445.8

[(1)] Presented net of discounts and returns.
[(2)] Includes Vioxx, which was voluntarily withdrawn worldwide on September 30, 2004.

Other primarily includes sales of other human pharmaceuticals, pharmaceutical and animal health supply sales to the Company's joint ventures and revenue from the Company's relationship with AZLP, primarily relating to sales of *Nexium* and *Prilosec* . Revenue from AZLP was $1.5 billion, $1.9 billion and $1.5 billion in 2004, 2003 and 2002, respectively.

Consolidated revenues by geographic area where derived are as follows:

Years Ended December 31	**2004**	2003	2002
United States	**$13,472.0**	$13,321.1	$13,156.6
Europe, Middle East and Africa	**5,440.8**	5,341.3	4,707.7
Japan	**1,668.2**	1,600.9	1,438.7
Other	**2,357.6**	2,222.6	2,142.8
	$22,938.6	$22,485.9	$21,445.8

A reconciliation of total segment profits to consolidated Income from continuing operations before taxes is as follows:

Years Ended December 31	**2004**	2003	2002
Segment profits	**$14,691.6**	$14,583.1	$13,979.5
Other profits	**24.6**	156.6	197.9
Adjustments	**481.3**	453.5	432.3
Unallocated:			
Interest income	**300.1**	308.7	415.1
Interest expense	**(293.7)**	(350.9)	(390.6)
Equity income (loss) from affiliates	**187.7**	(75.6)	224.1
Depreciation and amortization	**(1,294.6)**	(1,166.7)	(1,089.5)
Research and development	**(4,010.2)**	(3,279.9)	(2,677.2)
Other expenses, net	**(2,112.3)**	(1,577.2)	(1,439.9)
	$ 7,974.5	$ 9,051.6	$ 9,651.7

Other profits are primarily comprised of miscellaneous corporate profits as well as operating profits related to divested products or businesses and other supply sales. Adjustments represent the elimination of the effect of double counting certain items of income and expense. Equity income (loss) from affiliates includes taxes paid at the joint venture level and a portion of equity income that is not reported in segment profits. Other expenses, net, include expenses from corporate and manufacturing cost centers and other miscellaneous income (expense), net.

Property, plant and equipment, net by geographic area where located is as follows:

December 31	**2004**	2003	2002
United States	**$10,712.9**	$10,383.3	$10,757.7
Europe, Middle East and Africa	**2,012.8**	1,846.3	1,659.7
Japan	**605.8**	599.1	499.8
Other	**1,382.2**	1,340.3	1,278.4
	$14,713.7	$14,169.0	$14,195.6

The Company does not disaggregate assets on a products and services basis for internal management reporting and, therefore, such information is not presented.

Management's Report

Management's Responsibility For Financial Statements

Responsibility for the integrity and objectivity of the Company's financial statements rests with management. The financial statements report on management's stewardship of Company assets. These statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Nonfinancial information included in the Annual Report has also been prepared by management and is consistent with the financial statements.

To assure that financial information is reliable and assets are safeguarded, management maintains an effective system of internal controls and procedures, important elements of which include: careful selection, training and development of operating and financial managers; an organization that provides appropriate division of responsibility; and communications aimed at assuring that Company policies and procedures are understood throughout the organization. A staff of internal auditors regularly monitors the adequacy and application of internal controls on a worldwide basis.

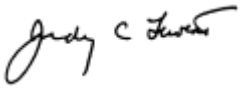
To ensure that personnel continue to understand the system of internal controls and procedures, and policies concerning good and prudent business practices, the Company periodically conducts the Management's Stewardship Program for key management and financial personnel. This program reinforces the importance and understanding of internal controls by reviewing key corporate policies, procedures and systems. In addition, the Company has compliance programs, including an ethical business practices program to reinforce the Company's long-standing commitment to high ethical standards in the conduct of its business.

The financial statements and other financial information included in the Annual Report fairly present, in all material respects, the Company's financial condition, results of operations and cash flows. Our formal certification to the Securities and Exchange Commission is included in the Company's Form 10-K filing.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2004 based on criteria in *Internal Control–Integrated Framework* issued by COSO. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and PricewaterhouseCoopers LLP has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting, which is included herein.

Raymond V. Gilmartin
Chairman, President and Chief Executive Officer



Judy C. Lewent
Executive Vice President & Chief Financial Officer
President, Human Health Asia

Audit Committee's Report

The Audit Committee, comprised of independent directors, met with the independent registered public accounting firm (the independent auditors), management and internal auditors to assure that all were carrying out their respective responsibilities. The Audit Committee discussed with and received a letter from the independent auditors confirming their independence. Both the independent auditors and the internal auditors had full access to the Committee, including regular meetings without management present.

The Audit Committee met with the independent auditors to discuss their fees and the scope and results of their audit work, including the adequacy of internal controls and the quality of financial reporting. The Committee also discussed with the independent auditors their judgments regarding the quality and acceptability of the Company's accounting principles, the clarity of its disclosures and the degree of aggressiveness or conservatism of its accounting principles and underlying estimates. The Audit Committee reviewed and discussed the audited financial statements with management and recommended to the Board of Directors that these financial statements be included in the Company's Form 10-K filing with the Securities and Exchange Commission.

Peter C. Wendell
Chairperson

Thomas E. Shenk
Samuel O. Thier
Wendell P. Weeks

Report of Independent Registered Public Accounting Firm

To the Stockholders and the
Board of Directors of Merck & Co., Inc.:

We have completed an integrated audit of Merck & Co., Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of retained earnings, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Merck & Co., Inc. and its subsidiaries (the "Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control–Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
February 22, 2005

PricewaterhouseCoopers LLP

Compensation and Benefits Committee's Report

The Compensation and Benefits Committee, comprised of independent directors, approves compensation objectives and policies for all employees and sets compensation for the Company's executive officers. The Committee seeks to ensure that rewards are closely linked to Company, division, team and individual performances. The Committee also seeks to ensure that compensation and benefits are set at levels that enable Merck to attract and retain highly qualified employees. The Committee views stock ownership as a vehicle to align the interests of employees with those of the Company's stockholders. Consistent with the long-term focus inherent in the Company's R&D-based pharmaceutical business, it is the policy of the Committee to make a high proportion of executive officer compensation dependent on long-term performance and on enhancing stockholder value.

Lawrence A. Bossidy
Chairperson

William G. Bowen
Johnnetta B. Cole
William N. Kelley

Selected Financial Data

Merck & Co., Inc. and Subsidiaries
($ in millions except per share amounts)

	2004 [1]	2003 [2]	2002	2001	2000	1999
Results for Year:						
Sales	$22,938.6	$22,485.9	$21,445.8	$21,199.0	$20,009.5	$17,294.4
Materials and production costs	4,959.8	4,436.9	4,004.9	3,722.6	3,273.0	3,032.0
Marketing and administrative expenses	7,346.3	6,394.9	5,652.2	5,700.6	5,725.5	4,808.1
Research and development expenses	4,010.2	3,279.9	2,677.2	2,456.4	2,343.8	2,068.3
Equity income from affiliates	(1,008.2)	(474.2)	(644.7)	(685.9)	(764.9)	(762.0)
Other (income) expense, net	(344.0)	(203.2)	104.5	57.2	69.8	(222.1)
Income from continuing operations before taxes	7,974.5	9,051.6	9,651.7	9,948.1	9,362.3	8,370.1
Taxes on income	2,161.1	2,462.0	2,856.9	2,894.9	2,766.7	2,578.1
Income from continuing operations	5,813.4	6,589.6	6,794.8	7,053.2	6,595.6	5,792.0
Income from discontinued operations, net of taxes	—	241.3	354.7	228.6	226.1	98.5
Net income	5,813.4	6,830.9	7,149.5	7,281.8	6,821.7	5,890.5
Basic earnings per common share						
Continuing operations	$ 2.62	$ 2.95	$ 3.01	$ 3.08	$ 2.86	$ 2.47
Discontinued operations	—	.11	.16	.10	.10	.04
Net income	$ 2.62	$ 3.05[3]	$ 3.17	$ 3.18	$ 2.96	$ 2.51
Earnings per common share assuming dilution						
Continuing operations	$ 2.61	$ 2.92	$ 2.98	$ 3.04	$ 2.80	$ 2.41
Discontinued operations	—	.11	.16	.10	.10	.04
Net income	$ 2.61	$ 3.03	$ 3.14	$ 3.14	$ 2.90	$ 2.45
Cash dividends declared	3,329.1	3,264.7	3,204.2	3,156.1	2,905.7	2,629.3
Cash dividends paid per common share	$ 1.49	$ 1.45	$ 1.41	$ 1.37	$ 1.21	$ 1.10
Capital expenditures	1,726.1	1,915.9	2,128.1	2,401.8	2,471.0	2,369.1
Depreciation	1,258.7	1,129.6	1,067.5	949.7	803.0	682.8
Year-End Position:						
Working capital	$ 1,731.1	$ 1,957.6	$ 2,011.2	$ 1,417.4	$ 3,643.8	$ 2,500.4
Property, plant and equipment (net)	14,713.7	14,169.0	14,195.6	13,103.4	11,482.1	9,676.7
Total assets	42,572.8	40,587.5[4]	47,561.2	44,021.2	40,154.9	35,933.7
Long-term debt	4,691.5	5,096.0	4,879.0	4,798.6	3,600.7	3,143.9
Stockholders' equity	17,288.2	15,576.4[4]	18,200.5	16,050.1	14,832.4	13,241.6
Financial Ratios:						
Income from continuing operations as a % of sales	25.3%	29.3%	31.7%	33.3%	33.0%	33.5%
Net income as a % of average total assets	14.0%	14.9%	15.5%	17.3%	17.9%	17.4%
Year-End Statistics:						
Average common shares outstanding (millions)	2,219.0	2,236.7	2,257.5	2,288.3	2,306.9	2,349.0
Average common shares outstanding assuming dilution (millions)	2,226.4	2,253.1	2,277.0	2,322.3	2,353.2	2,404.6
Number of stockholders of record	216,100	233,000	246,300	256,200	265,700	280,500
Number of employees	62,600	63,200[4]	77,300	78,100	69,300	62,300

[1] *Amounts for 2004 include the impact of the withdrawal of Vioxx.*
[2] *Amounts for 2003 include the impact of the implementation of a new distribution program for U.S. wholesalers and restructuring costs related to position eliminations.*
[3] *Amount does not add as a result of rounding.*
[4] *Decrease in 2003 primarily reflects the impact of the spin-off of Medco Health.*

Exhibit 21

MERCK & CO., INC. SUBSIDIARIES
as of 12/31/04

The following is a list of subsidiaries of the Company, doing business under the name stated.

Name	Country or State of Incorporation
Algonquin SarL	Luxembourg
AMRAD Pharmaceuticals Pty. Ltd.	Australia
Aton Pharma, Inc.	Delaware
Banyu Pharmaceutical Company, Ltd.	Japan
Banyu-A.S.C. Co., Ltd.	Japan
Blue Jay Investments C.V.	Netherlands
BRC Ltd	Bermuda
British United Turkeys Limited [1]	Great Britain
BUT France s.a.r.l. [1]	France
Charles E. Frosst (New Zealand) Ltd	New Zealand
Charles E. Frosst (U.K.) Limited	Great Britain
Chibret A/S	Denmark
Chibret Pharmazeutische GmbH	Germany
Chippewa Holdings LLC	Delaware
Cloverleaf International Holdings S.A.	Luxembourg
CM Delaware LLC	Delaware
Comsort, Inc.	Delaware
Coophavet S.A.S. [1]	France
Coordinated Patient Care Scandinavia AS	Norway
Crosswinds B.V.	Netherlands
Dieckmann Arzneimittel GmbH	Germany
European Insurance Risk Excess Limited	Ireland
Farmacox-Companhia Farmaceutica, Lda	Portugal
Farmasix-Produtos Farmaceuticos, Lda	Portugal
Financiere MSD S.A.S.	France
Fontelabor-Produtos Farmaceuticos, Lda.	Portugal
Fregenal Holdings S.A.	Panama
Frosst Iberica, S.A.	Spain
Frosst Laboratories, Inc.	Delaware
Frosst Portuguesa — Produtos Farmaceuticos, Lda.	Portugal
Hangzhou MSD Pharmaceutical Company Limited [1]	China
Hawk and Falcon L.L.C.	Delaware
Hubbard Nederland B.V. [1]	Netherlands
Infodoc AS [1]	Norway
International Indemnity Ltd.	Bermuda
Istituto Di Richerche Di Biologia Molecolare S.p.A.	Italy
Istituto Gentili S.p.A./Inc.	Italy/Delaware
Johnson & Johnson — Merck Consumer Pharmaceuticals Company [1]	New Jersey
KBI Inc.	Delaware

KBI Sub Inc.	Delaware
KBI-E Inc.	Delaware
KBI-P Inc.	Delaware
Kiinteisto Oy Viistotie 11	Finland
Laboratoires Merck Sharp & Dohme-Chibret SNC	France
Laboratorios Abello, S.A.	Spain
Laboratorios Biopat, S.A.	Spain
Laboratorios Chibret, S.A.	Spain
Laboratorios Frosst, S.A.	Spain
Laboratorios Neurogard, S.A.	Spain
Laboratorios Quimico-Farmaceuticos Chibret, Lda.	Portugal
Maple Leaf Holdings SRL	Barbados
MCM Vaccine Co. [1]	Pennsylvania
Medco de Mexico Managed Care S. de R.L. de C.V.	Mexico
Medco Holdings S. de R.L. de C.V.	Mexico
Medco Managed Care S.L.	Spain
Medco Servicios de Mexico, S. de R.L. de C.V.	Mexico
Merck and Company, Incorporated	Delaware
Merck Borinquen Holdings, Inc.	Delaware
Merck Capital Resources, Inc.	Delaware
Merck Capital Ventures, LLC	Delaware
Merck Cardiovascular Health Company	Nevada
Merck Enterprises Canada, Ltd.	Canada
Merck Finance Co., Inc.	Delaware
Merck Foreign Sales Corporation Ltd.	Bermuda
Merck Frosst Canada & Co.	Canada
Merck Frosst Canada Ltd.	Canada
Merck Hamilton, Inc.	California
Merck Holdings II Corp.	Delaware
Merck Holdings, Inc.	Delaware
Merck Institute for Vaccinology	Delaware
Merck Investment Co., Inc.	Delaware
Merck Liability Management Company	Delaware
Merck LMC Cash Management (Bermuda) Ltd.	Bermuda
Merck LMC Cash Management, Inc.	Delaware
Merck Oncology Holdings, Inc.	Delaware
Merck Resource Management, Inc.	Delaware
Merck Respiratory Health Company	Nevada
Merck SH Inc.	Delaware
Merck Sharp & Dohme	France
Merck Sharp & Dohme — Lebanon S.A.L.	Lebanon
Merck Sharp & Dohme (Argentina) Inc.	Delaware
Merck Sharp & Dohme (Asia) Limited	Hong Kong
Merck Sharp & Dohme (Australia) Pty. Limited	Australia
Merck Sharp & Dohme (China) Limited	Hong Kong
Merck Sharp & Dohme (Enterprises) B.V.	Netherlands
Merck Sharp & Dohme (Europe) Inc.	Delaware

Merck Sharp & Dohme (Holdings) B.V.	Netherlands
Merck Sharp & Dohme (Holdings) Limited	Great Britain
Merck Sharp & Dohme (I.A.) Corp.	Delaware
Merck Sharp & Dohme (International) Limited	Bermuda
Merck Sharp & Dohme (Investments) B.V.	Netherlands
Merck Sharp & Dohme (Ireland) Ltd.	Bermuda
Merck Sharp & Dohme (Israel — 1996) Company Ltd.	Israel
Merck Sharp & Dohme (Italia) S.p.A.	Italy
Merck Sharp & Dohme (Middle East) Limited	Cyprus
Merck Sharp & Dohme (New Zealand) Limited	New Zealand
Merck Sharp & Dohme (Panama) S.A.	Panama
Merck Sharp & Dohme (Philippines) Inc.	Philippines
Merck Sharp & Dohme (Puerto Rico) Ltd.	Bermuda
Merck Sharp & Dohme (Singapore) Ltd.	Bermuda
Merck Sharp & Dohme (Sweden) A.B.	Sweden
Merck Sharp & Dohme Asia Pacific Services Pte Ltd.	Singapore
Merck Sharp & Dohme B.V.	Netherlands
Merck Sharp & Dohme Chibret A.G.	Switzerland
Merck Sharp & Dohme Comercializadora, S. de R.L. de C.V.	Mexico
Merck Sharp & Dohme d.o.o.	Croatia
Merck Sharp & Dohme de Espana, S.A.	Spain
Merck Sharp & Dohme de Mexico, S.A. de C.V.	Mexico
Merck Sharp & Dohme de Venezuela S.R.L.	Venezuela
Merck Sharp & Dohme Farmaceutica Ltda.	Brazil
Merck Sharp & Dohme Finance Europe Limited	Great Britain
Merck Sharp & Dohme GmbH	Austria
Merck Sharp & Dohme Holdings de Mexico, S.A. de C.V.	Mexico
Merck Sharp & Dohme IDEA, Inc.	Switzerland
Merck Sharp & Dohme Industria Quimica e Veterinaria Limitada	Brazil
Merck Sharp & Dohme inovativna zdravila d.o.o.	Slovenia
Merck Sharp & Dohme International Services B.V.	Netherlands
Merck Sharp & Dohme Ireland (Human Health) Ltd	Ireland
Merck Sharp & Dohme Ísland hf	Iceland
Merck Sharp & Dohme L.L.C.	Russian Federation
Merck Sharp & Dohme Limited	Great Britain
Merck Sharp & Dohme of Pakistan Limited	Pakistan
Merck Sharp & Dohme O.U.	Estonia
Merck Sharp & Dohme Overseas Finance N.V.	Neth. Antilles
Merck Sharp & Dohme Peru SRL	Peru
Merck Sharp & Dohme Quimica de Puerto Rico, Inc.	Delaware
Merck Sharp & Dohme S. de R.L. de C.V.	Mexico
Merck Sharp & Dohme SIA	Latvia
Merck Sharp & Dohme Tunisie Sarl	Tunisia
Merck Sharp & Dohme, Limitada	Portugal
Merck Sharp Dohme Ilaclari Limited Sirketi	Turkey
Merck Technology (U.S.) Company, Inc.	Nevada
Merck Ventures, Inc.	Delaware

Merial Animal Health Co. Ltd. [1]	China
Merial Animal Health Ltd [1]	Great Britain
Merial Australia PTY LTD [1]	Australia
Merial Argentina SA [1]	Argentina
Merial Asia PTE, Ltd. [1]	Singapore
Merial Belgium [1]	Belgium
Merial B.V. [1]	Netherlands
Merial Colombia S.A. [1]	Colombia
Merial Distribution SAS [1]	France
Merial GmbH [1]	Germany
Merial Hong Kong Limited [1]	Hong Kong
Merial (IA) LLP [1]	Puerto Rico
Merial Inc. [1]	Delaware
Merial International Trading (Shanghai) Co., Ltd. [1]	China
Merial Italia SpA [1]	Italy
Merial Japan, Limited [1]	Japan
Merial Korea Ltd [1]	Korea
Merial Laboratorios SA [1]	Spain
Merial Limited/LLC [1]	Great Britain/Delaware
Merial Nanjing Animal Health Co. Ltd. [1]	China
Merial New Zealand Limited [1]	New Zealand
Merial Norden A/S [1]	Denmark
Merial Philippines, Inc. [1]	Philippines
Merial Portuguesa — Saude Animal LDA [1]	Portugal
Merial SA [1]	Uruguay
Merial SAS [1]	France
Merial Saude Animal LTDA [1]	Brazil
Merial Taiwan Co., Ltd. [1]	Taiwan
Merial (Thailand) Ltd [1]	Thailand
Merial Venezuela , C.A. [1]	Venezuela
MSD (Japan) Co., Ltd.	Japan
MSD (Nippon Holdings) BV	Netherlands
MSD (Norge) A/S	Norway
MSD (Proprietary) Limited	South Africa
MSD (Thailand) Ltd.	Thailand
MSD Australia Pty Ltd	Australia
MSD Chibropharm GmbH	Germany
MSD Finance B.V.	Netherlands
MSD Finance Mexico, LLC	Delaware
MSD International Holdings, Inc.	Delaware
MSD Ireland (Holdings) S.A.	Luxembourg
MSD Ireland (Investment) Ltd.	Bermuda
MSD Korea Ltd.	Korea/Delaware
MSD Lakemedel (Scandinavia) Aktiebolog	Sweden
MSD Latin America Services Ltd.	Bermuda
MSD Latin America Services S. de R.L. de C.V.	Mexico
MSD Magyarország Kereskedelmi és Szolgáltató Kft	Hungary

MSD Overseas Manufacturing Co. (Ireland)	Ireland
MSD Overseas Manufacturing Co.	Bermuda
MSD Pembroke Ltd.	Bermuda
MSD Pharmaceuticals Private Limited	India
MSD Polska Sp z.o.o.	Poland
MSD S.A. Morocco	Morocco
MSD Sharp & Dohme GmbH	Germany
MSD Somerset Ltd.	Bermuda
MSD Technology Singapore Pte. Ltd.	Singapore
MSD Technology, L.P.	Delaware
MSD Unterstutzungskasse GmbH	Germany
MSD Ventures Singapore Pte. Ltd.	Singapore
MSD Warwick (Manufacturing) Ltd.	Bermuda
MSD-Essex GmbH	Switzerland
MSD-SP Ltd.	Great Britain
MSP Distribution Services (C) LLC [1]	Nevada
MSP Distribution Services (R) LLC [1]	Nevada
MSP Marketing Services (C) LLC [1]	Nevada
MSP Marketing Services (R) LLC [1]	Nevada
MSP Singapore Company, LLC [1]	Delaware
MSP Singapore-Sub, LLC	Delaware
MSP Technology (U.S.) Company, LLC [1]	Delaware
Neopharmed S.p.A.	Italy
Nippon Merck-Banyu Co., Ltd.	Japan
Pasteur Vaccins S.A. [1]	France
PT Merck Sharp & Dohme Indonesia	Indonesia
Readington Holdings, Inc.	New Jersey
Readington Investments, Inc.	New Jersey
Rosetta Inpharmatics LLC	Delaware
Ruskin Limited	Bermuda
Sanofi Pasteur MSD A/S	Denmark
Sanofi Pasteur MSD Gestion S.A. [1]	France
Sanofi Pasteur MSD GmbH	Austria
Sanofi Pasteur MSD GmbH	Germany
Sanofi Pasteur MSD Ltd.	Great Britain
Sanofi Pasteur MSD Ltd.	Ireland
Sanofi Pasteur MSD N.V./S.A.	Belgium
Sanofi Pasteur MSD S.A.	Spain
Sanofi Pasteur MSD S.p.A.	Italy
Sanofi Pasteur MSD SNC [1]	France
Seneca I LLC	Delaware
Sharp & Dohme, S.A.	Spain
STELLARx, Inc.	Nevada
Suomen MSD Oy	Finland
TELERx Marketing Inc.	Pennsylvania
The MSD Foundation Limited	Great Britain
Thomas Morson & Son Limited	Great Britain

Tradewinds Manufacturing SRL	Barbados
Transrow Manufacturing Ltd. [1]	Bermuda
UAB Merck Sharp & Dohme	Lithuania
Varipharm Arzneimittel GmbH	Germany

[1] own less than 100%

EXHIBIT 24.1

POWER OF ATTORNEY

Each of the undersigned does hereby appoint CELIA A. COLBERT and KENNETH C. FRAZIER and each of them, severally, his/her true and lawful attorney or attorneys to execute on behalf of the undersigned (whether on behalf of the Company, or as an officer or director thereof, or by attesting the seal of the Company, or otherwise) the Form 10-K Annual Report of Merck & Co., Inc. for the fiscal year ended December 31, 2004 under the Securities Exchange Act of 1934, including amendments thereto and all exhibits and other documents in connection therewith.

IN WITNESS WHEREOF, this instrument has been duly executed as of the 22 nd day of February, 2005.

MERCK & CO., Inc.

By /s/ Raymond V. Gilmartin
Raymond V. Gilmartin
(Chairman of the Board, President and Chief Executive Officer)

/s/ Raymond V. Gilmartin Raymond V. Gilmartin	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer; Director)
/s/ Judy C. Lewent Judy C. Lewent	Executive Vice President & Chief Financial Officer President, Human Health Asia; (Principal Financial Officer)
/s/ Richard C. Henriques, Jr. Richard C. Henriques, Jr.	Vice President, Controller (Principal Accounting Officer)

DIRECTORS

/s/ Lawrence A. Bossidy Lawrence A. Bossidy	/s/ Thomas E. Shenk Thomas E. Shenk
/s/ William G. Bowen William G. Bowen	/s/ Anne M. Tatlock Anne M. Tatlock
/s/ Johnnetta B. Cole Johnnetta B. Cole	/s/ Samuel O. Thier Samuel O. Thier
/s/ William B. Harrison, Jr. William B. Harrison, Jr.	Wendell P. Weeks
/s/ William N. Kelley William N. Kelley	/s / Peter C. Wendell Peter C. Wendell
/s/ Rochelle B. Lazarus Rochelle B. Lazarus	

Exhibit 24.2

I, Debra A. Bollwage, Senior Assistant Secretary of Merck & Co., Inc., a Corporation duly organized and existing under the laws of the State of New Jersey, do hereby certify that the following is a true copy of a resolution adopted at a meeting of the Directors of said Corporation held in New York City, New York, on February 22, 2005, duly called in accordance with the provisions of the By-Laws of said Corporation, and at which a quorum of Directors was present:

" Special Resolution No. - 2005

RESOLVED, that the proposed form of Form 10-K Annual Report of the Company for the fiscal year ended December 31, 2004 presented to this meeting is hereby approved with such changes as the proper officers of the Company, with the advice of counsel, deem appropriate; and

RESOLVED, that each officer and director who may be required to execute the aforesaid Form 10-K Annual Report or any amendments thereto (whether on behalf of the Company or as an officer or director thereof, or by attesting the seal of the Company, or otherwise) is hereby authorized to execute a power of attorney appointing Celia A. Colbert and Kenneth C. Frazier and each of them, severally, his/her true and lawful attorney or attorneys to execute in his/her name, place and stead (in any such capacity) such Form 10-K Annual Report and any and all amendments thereto and any and all exhibits and other documents necessary or incidental in connection therewith and to file the same with the Securities and Exchange Commission, each of said attorneys to have power to act with or without the others, and to have full power and authority to do and perform in the name and on behalf of each of said officers and directors, or both, as the case may be, every act whatsoever necessary or advisable to be done in the premises as fully and to all intents and purposes as any such officer or director might or could do in person."

IN WITNESS WHEREOF, I have hereunto subscribed my signature and affixed the seal of the Corporation this 10 th day of March 2005.

[Corporate Seal]

/s/ Debra A. Bollwage

Debra A. Bollwage
Senior Assistant Secretary

Exhibit 31.1

CERTIFICATION

I, Raymond V. Gilmartin, certify that:

1. I have reviewed this annual report on Form 10-K of Merck & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

By: /s/ Raymond V. Gilmartin

RAYMOND V. GILMARTIN
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Judy C. Lewent, certify that:

1. I have reviewed this annual report on Form 10-K of Merck & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

By: /s/ Judy C. Lewent

JUDY C. LEWENT
Executive Vice President & Chief Financial Officer
President, Human Health Asia

Exhibit 32.1

Section 1350
Certification of Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Merck & Co., Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 11, 2005

/s/ Raymond V. Gilmartin

Name: Raymond V. Gilmartin
Title: Chairman, President and Chief Executive Officer

Exhibit 32.2

Section 1350
Certification of Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Merck & Co., Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 11, 2005

/s/ Judy C. Lewent

Name: Judy C. Lewent
Title: Executive Vice President & Chief Financial Officer
President, Human Health Asia