

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, 2006

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

Common Stock
(\$0.01 par value)

Name of Each Exchange
on which Registered

New York and Philadelphia Stock Exchanges

Number of shares of Common Stock (\$0.01 par value) outstanding as of January 31, 2007: 2,166,483,163.

Aggregate market value of Common Stock (\$0.01 par value) held by non-affiliates on June 30, 2006 based on closing price on June 30, 2006: \$79,306,000,000.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

No ☒

Documents Incorporated by Reference:

Document

Part of Form 10-K

Part III

Proxy Statement for the Annual Meeting of
Stockholders to be held April 24, 2007, to be filed with the
Securities and Exchange Commission within 120 days after the
close of the fiscal year covered by this report

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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. The Company’s operations are principally managed on a products basis and are comprised of two reportable segments: the Pharmaceutical segment and the Vaccines segment. The Pharmaceutical segment includes human health pharmaceutical 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 pharmaceutical products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Vaccines segment includes human health vaccine products marketed either directly or through a joint venture. These products consist of preventative pediatric, adolescent and adult vaccines, primarily administered at physician offices. Merck sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company’s professional representatives communicate the effectiveness, safety and value of our pharmaceutical and vaccine products to health care professionals in private practice, group practices and managed care organizations.

For financial information and other information about the Pharmaceutical segment and the Vaccines segment, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8. “Financial Statements and Supplementary Data” below.

Overview — During 2006, Merck continued to execute its strategy to reclaim its leadership position in the pharmaceutical industry. This was made evident through the successful launches of five novel medicines and vaccines in areas such as cancer prevention and diabetes, the advancement of drug candidates through every phase of the Company’s pipeline and the continued success of its newer and in-line products. Additionally, the Company is developing a new commercial model which is designed to broaden its engagement with customers and scientific leaders, leverage alternative channels to complement the effectiveness of its sales force, and drive growth in key markets.

During 2006, five products received U.S. Food and Drug Administration (“FDA”) approval: *Gardasil* [Quadrivalent Human Papillomavirus (Types 6, 11, 16, 18) Recombinant Vaccine], the first vaccine for the prevention of cervical cancer and genital warts caused by certain types of human papillomavirus (“HPV”); *Januvia* (sitagliptin phosphate), the first medicine of its class that enhances a natural body system to improve blood sugar control in patients with type 2 diabetes; *Zostavax* [Zoster Vaccine Live (Oka/Merck)], the first vaccine for adults 60 years of age and older to reduce the incidence of shingles, a disease which every year afflicts an estimated one million people in the United States alone; *RotaTeq* (rotavirus vaccine, live, oral pentavalent), a pediatric vaccine to help prevent rotavirus gastroenteritis in infants and children, the effects of which take the lives of nearly 600,000 children under the age of five worldwide every year; and *Zolinza* (vorinostat), a novel medicine to treat patients suffering from advanced cutaneous T-cell lymphoma (“CTCL”).

In addition, the Company has three drug candidates currently under FDA review: *Janumet* (previously referred to as MK-0431A), an investigational oral medicine combining sitagliptin phosphate with metformin for type 2 diabetes that is designed to provide an additional treatment option for patients who need more than one oral agent to help control their blood sugar; *Emend For Injection* (MK-0517), an intravenous therapy for chemotherapy-induced nausea and vomiting (“CINV”); and *Arcoxia*, Merck’s selective Cox-2 inhibitor for osteoarthritis. Additionally, the Company anticipates filing three New Drug Applications (“NDA”) with the FDA in 2007: MK-0518, a first-in-class HIV integrase inhibitor; gaboxadol, a novel compound from Merck’s alliance with H. Lundbeck A/S for the treatment of insomnia; and MK-0524A, an extended-release (“ER”) niacin combined with laropiprant (a novel flushing pathway inhibitor) for cholesterol management. In addition, by mid-year 2007, Merck expects to have four products in Phase III development.

Additionally, targeted acquisitions made during the year of Sirna Therapeutics, Inc. (“Sirna”), GlycoFi, Inc. (“GlycoFi”) and Abmaxis, Inc. (“Abmaxis”), as well as other alliances and collaborations, will complement

Merck's strong internal research capabilities and should continue to help the Company build a pipeline that will support its long-term growth.

Merck is working to deliver innovative and differentiated products to the market faster and more efficiently. The Company has successfully reduced late development product cycle times and anticipates further reductions in the coming year. Additionally, Merck's new commercial model is expected to lower spending per primary care brand by 15% to 20% in the United States from 2005 through 2010 (an interim targeted 9% reduction is expected to be achieved through the end of 2007) while still appropriately supporting product launches, as illustrated in the successful launch of five new products in 2006. Through redeployment, the launches were achieved with no increase in sales force.

The initial phase of a global restructuring program designed to reduce the Company's cost structure, increase efficiency and enhance competitiveness is underway. The initial steps include the implementation of a new supply strategy by the Merck Manufacturing Division, which is intended to create a leaner, more cost-effective and customer-focused manufacturing model over a three-year period. As part of this program, in 2005, Merck announced plans to sell or close five manufacturing sites and two preclinical sites by the end of 2008 (three of the manufacturing sites were closed, sold or had ceased operations and the two preclinical sites were closed by the end of 2006), and eliminate approximately 7,000 positions company-wide (of which approximately 4,800 positions were eliminated by the end of 2006 comprised of actual headcount reductions, and the elimination of contractors and vacant positions). However, the Company continues to hire new employees as the Company's business requires it. The Company has also sold certain other facilities and related assets in connection with the restructuring program. The pre-tax costs of this restructuring program were \$935.5 million in 2006 (comprised of \$793.2 million primarily representing accelerated depreciation and asset impairment costs and \$142.3 million of separation and other restructuring related costs) and are expected to be \$300 million to \$500 million in 2007. Through the end of 2008, when the initial phase of the restructuring program relating to the manufacturing strategy is expected to be substantially complete, the cumulative pre-tax costs of the program are expected to range from \$1.9 billion to \$2.2 billion. Merck continues to expect the initial phase of its cost reduction program to yield cumulative pre-tax savings of \$4.5 to \$5.0 billion from 2006 through 2010.

With respect to the *Vioxx* litigation, to date in the *Vioxx* Product Liability Lawsuits, of the 29 plaintiffs whose claims have been scheduled for trial, the claims of seven were dismissed, the claims of seven were withdrawn from the trial calendar by plaintiffs, and juries have decided in Merck's favor nine times and in plaintiffs' favor four times. In addition, in the recent California trial involving two plaintiffs, the jury could not reach a verdict for either plaintiff and a mistrial was declared. A New Jersey state judge set aside one of the nine Merck verdicts. With respect to the four plaintiffs' verdicts, Merck already has filed an appeal or sought judicial review in each of those cases, and in one of those four, a federal judge overturned the damage award shortly after trial. In addition, a consolidated trial with two plaintiffs is currently ongoing in the coordinated proceeding in New Jersey Superior Court before Judge Carol E. Higbee and another trial has commenced in state court in Illinois. During 2006, the Company spent \$500 million in the aggregate, including \$175 million in the fourth quarter, in *Vioxx* legal defense costs worldwide. During 2006, the Company recorded charges of \$673 million to increase the reserve solely for its future legal defense costs related to *Vioxx* litigation and at December 31, 2006 the balance of the reserve was \$858 million. This reserve is based on certain assumptions and is the best estimate of the amount the Company believes, at this time, will be spent through 2008. The *Vioxx* litigation is more fully discussed in Item 3. "Legal Proceedings" below.

Earnings per common share assuming dilution for 2006 were \$2.03, including the impact of the global restructuring program of \$0.28 per share, the acquired research charge related to the acquisition of Sirna of \$0.21 per share and the acquired research charge related to the acquisition of GlycoFi of \$0.14 per share (as discussed in "Acquisitions" below), additional reserves established solely for future legal defense costs for *Vioxx* litigation (as discussed in Item 3. "Legal Proceedings" below) and the impact of adopting a new accounting standard requiring the expensing of stock options (as discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" below).

Product Sales

Sales ¹ of the Company's products were as follows:

<u>(\$ in millions)</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Singulair	\$ 3,579.0	\$ 2,975.6	\$ 2,622.0
Cozaar/Hyzaar	3,163.1	3,037.2	2,823.7
Fosamax	3,134.4	3,191.2	3,159.7
Zocor	2,802.7	4,381.7	5,196.5
Primaxin	704.8	739.6	640.6
Cosopt/Trusopt	697.1	617.2	558.8
Proscar	618.5	741.4	733.1
Vasotec/Vaseretic	547.2	623.1	719.2
Cancidas	529.8	570.0	430.0
Maxalt	406.4	348.4	309.9
Propecia	351.8	291.9	270.2
Vioxx	-	-	1,489.3
Vaccines/Biologicals ²	1,859.4	1,103.3	1,070.3
Other	4,241.8	3,391.3	2,949.5
Total	<u>\$ 22,636.0</u>	<u>\$ 22,011.9</u>	<u>\$ 22,972.8</u>

¹ Presented net of discounts and returns.

² These amounts do not reflect sales of vaccines sold in most major European markets through the Company's joint venture, Sanofi Pasteur MSD, the results of which are reflected in equity income from affiliates.

The Company's pharmaceutical products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are *Singulair* (montelukast sodium), a leukotriene receptor antagonist respiratory product for the chronic treatment of asthma and for the relief of symptoms of allergic rhinitis; *Cozaar* (losartan potassium)/ *Hyzaar* (losartan potassium and hydrochlorothiazide) and *Vasotec* (enalapril maleate), the Company's most significant hypertension and/or heart failure products; *Fosamax* (alendronate sodium) and *Fosamax Plus D* (alendronate sodium/cholecalciferol), Merck's osteoporosis products for treatment and, in the case of *Fosamax*, prevention of osteoporosis; *Zocor* (simvastatin), Merck's atherosclerosis product; *Primaxin* (imipenem and cilastatin sodium) and *Cancidas* (caspofungin acetate), anti-bacterial/anti-fungal products; *Cosopt* (dorzolamide hydrochloride and timolol maleate ophthalmic solution), the largest-selling ophthalmological products; *Proscar* (finasteride), a urology product for the treatment of symptomatic benign prostate enlargement; *Maxalt* (rizatriptan benzoate), an acute migraine product; and *Propecia* (finasteride), a product for the treatment of male pattern hair loss.

Among the products included within vaccines/biologicals are *Varivax* (varicella virus vaccine live [Oka/Merck]), a vaccine to help prevent chickenpox, *M-M-R II* (measles, mumps and rubella virus vaccine live), a vaccine against measles, mumps and rubella, *ProQuad* [measles, mumps, rubella, varicella (Oka/Merck) virus vaccine live], a pediatric combination vaccine against measles, mumps, rubella and varicella, *Gardasil*, a vaccine for the prevention of cervical cancer and genital warts caused by certain types of HPV, *Pneumovax* (pneumococcal vaccine polyvalent), a vaccine for the prevention of pneumococcal disease, *RotaTeq*, a vaccine to help protect against rotavirus gastroenteritis in infants and children, and *Zostavax*, a vaccine to help prevent shingles (herpes zoster).

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).

U.S. Product Approvals — On February 3, 2006, the FDA approved *RotaTeq*, a pediatric vaccine to prevent rotavirus gastroenteritis in infants and children. *RotaTeq* is an oral pentavalent three-dose liquid vaccine that

contains five reassortant rotaviruses. Merck has also submitted applications for licensure of *RotaTeq* in more than 100 countries including Australia, Canada and countries in Asia and Latin America and, through Sanofi Pasteur MSD (“SPMSD”), Merck’s vaccine joint venture with Sanofi Pasteur, in the European Union (“EU”). *RotaTeq* also received regulatory approval in Mexico in November 2005.

On May 26, 2006, the FDA approved *Zostavax* for the prevention of herpes zoster (shingles) in individuals 60 years of age and older. It was also approved by regulatory authorities in the EU and Australia in May. *Zostavax* is the first and only medical option approved for the prevention of shingles.

On June 8, 2006, the FDA approved *Gardasil*, the first and only vaccine to prevent cervical cancer and vulvar and vaginal pre-cancers caused by HPV types 16 and 18 and to prevent low-grade and pre-cancerous lesions and genital warts caused by HPV types 6, 11, 16 and 18. In the United States, it is estimated that approximately 9,700 women will be diagnosed with cervical cancer this year, and approximately 3,700 women will die.

On October 6, 2006, the FDA approved oral *Zolinza* for the treatment of cutaneous manifestations in patients with CTCL, a form of non-Hodgkin’s lymphoma, who have progressive, persistent or recurrent disease on or following two systemic therapies. CTCL is a cancer of the T-cells, a type of white blood cell, which affects the skin.

On October 17, 2006, the FDA approved *Januvia*, the first and only dipeptidyl peptidase-4 (“DPP-4”) inhibitor available in the United States for the treatment of type 2 diabetes. *Januvia* has been approved as monotherapy and as add-on therapy to either of two other types of oral diabetes medications, metformin or thiazolidinediones, to improve blood sugar (glucose) control in patients with type 2 diabetes when diet and exercise is not enough.

On June 29, 2006, the U.S. Centers for Disease Control and Prevention’s (“CDC”) Advisory Committee on Immunization Practices (“ACIP”) unanimously voted to recommend that children 4 to 6 years of age routinely receive a second dose of varicella-containing vaccine to help protect against chickenpox. The Committee also recommended that children, adolescents and adults who received only one dose of varicella-containing vaccine receive a second, “catch-up” dose, which can be accomplished through routine health-care visits and school- and college-entry requirements. Merck’s *Varivax* and its combination vaccine *ProQuad* are the only vaccines to help protect against chickenpox available in the United States.

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, in combination with two other trials, 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, which became apparent beginning after about 18 months of treatment in the patients taking *Vioxx* compared to those taking placebo. For approximately the first 18 months of the APPROVe study the *Vioxx* and placebo curves appeared to be similar and, in this respect, the APPROVe results were similar to the results of two placebo-controlled studies described in the U.S. labeling for *Vioxx* as of the time of withdrawal.

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 has cooperated with these inquiries and has continued 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.

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 further 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. In December 2004, the Special Committee retained the Honorable John S. Martin, Jr. of Debevoise & Plimpton LLP to conduct an independent investigation of senior management's conduct with respect to the cardiovascular safety profile of *Vioxx* during the period *Vioxx* was developed and marketed. The review was completed in the third quarter of 2006 and the full report (including appendices) was made public in September 2006. The Company has provided a copy of the full report and appendices at its website at www.merck.com/newsroom/vioxx/martin_report.html. The Company has included its website address only as an inactive textual reference and does not intend it to be an active link to its website nor does it incorporate by reference the information contained therein.

Acquisitions — In May 2006, Merck acquired Abmaxis, a privately-held biopharmaceutical company dedicated to the discovery and optimization of monoclonal antibody (MAb) products for human therapeutics and diagnostics, for approximately \$80 million.

In June 2006, Merck acquired GlycoFi, a privately-held biotechnology company, a leader in the field of yeast glycoengineering, which is the addition of specific carbohydrate modifications to the proteins in yeast, and optimization of biologic drug molecules, for approximately \$373 million.

In December 2006, Merck acquired Sirna, a publicly-held biotechnology company and a leader in developing a new class of medicines based on RNA interference ("RNAi") technology for a total value of approximately \$1.1 billion. The acquisition of Sirna is expected to increase Merck's ability to use RNAi technology to turn off a targeted gene in a human cell, potentially rendering inoperative a gene responsible for triggering a specific disease.

Joint Ventures — The Company has a number of joint ventures relating to its Pharmaceutical and Vaccines segments.

Pharmaceutical

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) (marketed as *Ezetrol* outside the United States), the first in a new class of cholesterol-lowering agents, was launched in the United States. In July 2004, *Vytorin* (marketed as *Inegy* outside the United States), a combination product containing the active ingredients of both *Zetia* and *Zocor*, was approved in the United States.

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 in 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 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. The exercise of this option by Astra is also provided for in the year 2017 or if combined annual sales of the two products fall below a minimum amount provided, in each case, only so long as either the Merck option in 2008 or AstraZeneca's option in 2010 has been exercised. The exercise price is based on the present value of estimated future net sales of *Nexium* and *Prilosec* as determined at the time of exercise.

In 1989, the Company 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. 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.

Vaccines

In 1992, the Company 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. While combination vaccine development efforts continue under this agreement, no vaccines are currently being promoted.

In 1994, the Company 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 maintains a presence, directly or through affiliates or branches in Belgium, Italy, Germany, Spain, France, Austria, Ireland, Sweden, Portugal, the Netherlands, Switzerland and the United Kingdom, and through distributors in the rest of its territory.

Other

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 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.

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 *Zocor*, which lost market exclusivity in the U.S. in 2006 and the Company experienced a significant decline in *Zocor* sales thereafter.

Distribution — The Company sells its human health pharmaceutical products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions. Human health vaccines are sold primarily to physicians, wholesalers, physician distributors and government entities. The Company's professional representatives communicate the effectiveness, safety and value of the Company's pharmaceutical and vaccine 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 sales caused by wholesaler investment buying 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 Pharmaceutical and Vaccines segments.

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 expanded health care access by enacting the Medicare Prescription Drug Improvement and Modernization Act of 2003, which was signed into law in December 2003. Prescription drug coverage began on January 1, 2006. This legislation supports 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 legislation will ensure that prescription drug costs will be controlled by competitive

pressures and by encouraging the appropriate use of medicines. In addressing cost-containment pressure, the Company has made a continuing effort to demonstrate that its medicines can help save costs in overall patient health care.

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 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 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 April 2006 which is in effect until March 2007 for the supply of pediatric vaccines for the Vaccines for Children program that had an aggregate estimated value of \$550 million at signing. As of January 1, 2006, patients previously eligible for Medicaid who are also Medicare beneficiaries (65 years and older or disabled) left 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 or reimbursement for 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 (“EC”) 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 subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing amount of focus on privacy and data protection issues with the potential to affect directly the Company’s business.

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 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: *Cancidas*, *Comvax* (*Haemophilus b* conjugate and hepatitis B [recombinant] vaccine), *Cosopt*, *Cozaar*, *Crixivan*, *Emend*, *Fosamax*, *Gardasil*, *Hyzaar*, *Invanz* (ertapenem sodium), *Maxalt*, *Primaxin*, *Propecia*, *Recombivax HB* (hepatitis B vaccine [recombinant]), *RotaTeq*, *Singulair*, *Januvia*, *Trusopt*, *Zolinza* and *Zostavax*. 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* (efavirenz). Bristol-Myers Squibb ("BMS"), 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* (tifofiban hydrochloride) in the United States was divested with the product in 2003. The Company retains basic patents for *Aggrastat* outside the United States.

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 2005, the FDA granted an additional six months of market exclusivity in the United States to *Invanz* until August 2013. In 2004, the FDA granted an additional six months of market exclusivity in the United States to *Trusopt* until October 2008. In 2002, the FDA granted an additional six months of market exclusivity in the United States to *Cozaar/Hyzaar* until February 2010. In 2005, the FDA granted an additional six months of market exclusivity in the United States to *Singulair* until August 2012. For further information with respect to the Company's patents, see "Patent Litigation" on page 32.

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.

In June 2006, *Zocor* lost its market exclusivity in the United States and the Company experienced a significant decline in U.S. *Zocor* sales after that time.

In June 2006, the basic patent in the United States covering *Proscar* expired. As a result, the Company experienced a significant decline in U.S. *Proscar* sales after that time. The basic patent for *Proscar* also covers *Propecia*; however, *Propecia* is protected by additional patents which expire in October 2013.

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. The Company exhausted all options to appeal this decision in 2005. Based on the Court of Appeals' decision, *Fosamax* will lose its market exclusivity in the United States in February 2008.

Fosamax Plus D will lose its U.S. market exclusivity in April 2008. The Company expects significant declines in each product's sales after each product's respective loss of market exclusivity.

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 2006 on patent and know-how licenses and other rights amounted to \$83.8 million. The Company also paid royalties amounting to \$900.5 million in 2006 under patent and know-how licenses it holds.

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 11,400 people are employed in the Company's research activities. Expenditures for the Company's research and development programs were \$4.8 billion in 2006, \$3.8 billion in 2005 and \$4.0 billion in 2004. The Company maintains its ongoing commitment to research over a broad range of therapeutic areas and clinical development in support of new products.

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. Merck's new research and development model is designed to increase productivity and improve the probability of success by prioritizing the Company's research and development resources on nine priority disease areas — Alzheimer's disease, atherosclerosis, cardiovascular disease, diabetes, novel vaccines, obesity, oncology (targeted therapies), pain and sleep disorders. These therapeutic areas were carefully chosen based on a set of criteria including unmet medical needs, scientific opportunity and commercial opportunity. Within these therapeutic areas, Merck will commit resources to achieve research breadth and depth and to develop best-in-class targeted and differentiated products that are valued highly by patients, payers and physicians.

The Company will also make focused investments to pursue specific mechanisms in the following selected disease areas: antibiotics, antifungals, antivirals (hepatitis C virus, human immunodeficiency virus), asthma, chronic obstructive pulmonary disease, neurodegeneration, ophthalmology, osteoporosis, schizophrenia and stroke. In addition, the Company will capitalize on selected opportunities outside these areas by continuing to commercialize attractive clinical development candidates in the pipeline and by pursuing appropriate external licensing opportunities.

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 Biologics License Application 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.

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. Pending acceptable preclinical data, the Company will initiate clinical testing in accordance with established regulatory requirements. The clinical testing begins with Phase I studies, which are designed to assess safety, tolerability, pharmacokinetics, and preliminary pharmacodynamic activity of the compound in humans. If favorable, additional, larger Phase II studies are initiated to determine the efficacy of the compound in the affected population, define appropriate dosing for the compound, as well as identify any adverse effects that could limit the compound's usefulness. If data 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. 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.

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 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. Once the review timelines are defined, 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 FDA can act on an application by issuing an approval letter, a non-approvable letter, or an approvable letter. Based on FDA statistics, drug development time from initiation of preclinical testing to NDA approval can range from 5 to 20 years with an average of 8.5 years.

The Company has three drug candidates currently under FDA review:

In June 2006, the FDA accepted for standard review an NDA for MK-0517, the intravenous prodrug of *Emend*, for the treatment of CINV. The Company anticipates a decision on the NDA in the second quarter of 2007.

In July 2006, the FDA accepted for standard review the NDA for *Janumet*, the Company's investigational oral medicine combining *Januvia* with metformin, which is designed to provide an additional treatment for patients needing more than one oral agent to help control blood sugar for treatment of type 2 diabetes. The Company expects FDA action on the NDA by the end of March 2007. The Company is also moving forward as planned with regulatory filings in countries outside the United States.

Arcoxia, the Company's investigational selective COX-2 inhibitor, remains under standard review by the FDA in the United States. In response to the FDA's approvable letter, Merck included results of the MEDAL (Multinational Etoricoxib and Diclofenac Arthritis Long-Term) Program that showed the rate of confirmed thrombotic cardiovascular events was similar between *Arcoxia* and diclofenac, the most widely used nonsteroidal anti-inflammatory drug in the world. The Company anticipates FDA action in April 2007. The Company expects that an FDA Advisory Committee meeting will be held prior to FDA action. *Arcoxia* is currently available in more than 60 countries in Europe, Latin America, the Asia-Pacific region and Middle East/Northern Africa.

The Company anticipates filing three NDAs with the FDA in 2007:

The Company plans to file an NDA for MK-0518 with the FDA in the second quarter of 2007 and has received fast track designation for an indication in treatment-experienced patients.

Interim 16-week data from the dose-ranging Phase II trial of MK-0518, the Company's investigational HIV integrase inhibitor, in patients with advanced HIV infection were presented at the 13th Annual Conference on Retroviruses and Opportunistic Infections in February 2006. The results showed that the oral investigational medication at all three doses studied in combination with optimized background therapy ("OBT") had greater antiretroviral activity than OBT alone. Study results also showed that MK-0518 in combination with OBT was generally well tolerated in these patients who were failing antiretroviral therapy ("ART"), who were resistant to at least one drug of each of the three available classes of oral ARTs, and who had limited active ARTs as options for treatment. At the American Society for Microbiology's 46th Annual International Conference on Antimicrobial Agents and Chemotherapy in September 2006, the Company presented interim 24-week data from this ongoing study in treatment-experienced patients, which demonstrated MK-0518 maintaining viral load regression.

In August 2006 at the 16th International AIDS conference, the Company presented interim 24-week data from the Phase II dose-ranging trial of MK-0518 conducted in treatment-naïve, HIV-infected patients. The data showed that MK-0518 twice daily, when used in combination with tenofovir and lamivudine, achieved a comparable viral load reduction to efavirenz combined with the same agents in previously untreated patients. In September 2006 at the American Society for Microbiology's 46th Annual International Conference on Antimicrobial Agents and Chemotherapy, the Company presented additional interim 24-week data from this Phase II dose-ranging study in treatment-naïve patients that demonstrated no increase in lipid levels in patients taking MK-0518 with tenofovir and lamivudine.

The Company has entered into Phase III clinical trials with MK-0524A and to support MK-0524B, investigational therapies for lipid management. MK-0524A represents a novel approach to lowering LDL-C, raising HDL-C and lowering triglycerides. MK-0524B combines MK-0524A with the proven benefits of simvastatin to potentially reduce the risk of coronary heart disease beyond what statins provide alone. The Company plans to file MK-0524A with the FDA in 2007 and to file MK-0524B in 2008.

In November 2006, the Company presented data from a Phase II study at the American Heart Association's Scientific Sessions 2006 in Chicago that showed co-administration of MK-0524 with ER niacin significantly reduced flushing in patients with dyslipidemia compared to those patients who took ER niacin alone. Flushing, characterized by redness of the skin with warming or burning on the face and neck caused by the dilation of blood vessels near the skin, is a common niacin-induced side effect that can cause discomfort to patients and is a significant factor leading to discontinuation of niacin therapy.

In October 2006, the Company and H. Lundbeck A/S of Denmark announced that the submission of an NDA for gaboxadol, a novel investigational drug in Phase III development for the treatment of insomnia, will occur in mid-2007. Phase II clinical studies of gaboxadol showed improved sleep quality as well as increased slow-wave sleep without suppressing REM sleep. In December 2006, Merck announced that gaboxadol will likely be a scheduled compound.

Also, by mid-year 2007, Merck expects to have four products in Phase III development (including MK-0524B discussed above):

The Company has initiated a targeted Phase III program with its investigational compound for the treatment of obesity, MK-0364, which is an investigational cannabinoid-1 receptor inverse agonist. Results of early clinical studies indicate that MK-0364 demonstrated significant weight-loss efficacy versus placebo and was generally safe and well-tolerated, however, as reported with another cannabinoid-1 receptor inverse agonist, some psychiatric adverse experiences have been observed.

As announced in December 2006, the Company plans to start Phase III testing of MK-0974, the calcitonin gene related peptide receptor antagonist for the treatment of migraine headaches. The Phase III program is expected to commence in first quarter 2007.

Also announced in December 2006, the Company anticipates that MK-0822, a Cathepsin K inhibitor for the treatment of osteoporosis, will enter Phase III testing in mid-2007.

The Company's clinical pipeline includes candidates in each of the following areas: arthritis, atherosclerosis, cancer, cardiovascular disease, diabetes, endocrine disorders, glaucoma, infectious diseases, insomnia, neurodegenerative disease, obesity, osteoporosis, psychiatric disease, pain, respiratory disease and urogenital disorders. 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. The Company completed 53 transactions in 2006, including targeted acquisitions, research collaborations, preclinical and clinical compounds, and technology transactions across a broad range of therapeutic categories.

In March 2006, Neuromed Pharmaceuticals Ltd. ("Neuromed") and Merck signed a research collaboration and license agreement to research, develop and commercialize novel compounds for the treatment of pain and other neurological disorders, including Neuromed's lead compound, NMED-160 (MK-6721), which is currently in Phase II development for the treatment of pain.

Also in March 2006, Merck signed an agreement with NicOx S.A. ("NicOx") to collaborate on the development of new antihypertensive drugs using NicOx's proprietary nitric oxide-donating technology.

In September 2006, the Company announced that it had expanded the scope of its existing strategic collaboration with FoxHollow Technologies, Inc. ("FoxHollow") for atherosclerotic plaque analysis. In addition, Merck acquired a stake in FoxHollow with the purchase of \$95 million in common stock.

In October 2006, Ambrilia Biopharma Inc. ("Ambrilia"), a biopharmaceutical company developing innovative therapeutics in the fields of cancer and infectious diseases, and Merck announced that Ambrilia has entered into an exclusive licensing agreement granting Merck the worldwide rights to Ambrilia's HIV/AIDS protease inhibitor program.

In November 2006, the J. David Gladstone Institutes and Merck announced a major collaboration and license agreement for research and development of drugs to treat neurodegenerative diseases, including Alzheimer's disease, that are linked to apoE-regulated mechanisms in the body.

Also in November 2006, Advinus Therapeutics (P) Ltd. ("Advinus") and Merck announced that they have formed a drug discovery and clinical development collaboration in the area of metabolic disorders. Advinus and Merck will work together to develop clinically validated drug candidates for metabolic disorders, with Merck retaining the right to advance the most promising of these candidates into late-stage clinical trials.

In December 2006, Merck and Idera Pharmaceuticals ("Idera") announced that they have formed a broad collaboration to research, develop and commercialize Idera's Toll-like Receptor agonists by incorporating them in therapeutic and prophylactic vaccines being developed by Merck for oncology, infectious diseases and Alzheimer's disease.

The chart below reflects the Company's current research pipeline as of February 15, 2007. 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 area and additional line extensions or formulations for in-line products are not shown.

Phase I	
Alzheimer's Disease	MK-0952
Atherosclerosis	MK-6213
Cancer	MK-0429
	MK-0646*
	MK-0731
	MK-0752
	MK-4721*
	V930
Cardiovascular	MK-0448
	MK-8141*
Diabetes	MK-0941
	MK-0893
	MK-1642
	MK-3887
Phase I	
Endocrine	MK-0867*
	MK-0974
Glaucoma	MK-0994
Infectious Disease	MK-0608
	MK-7009
	MK-8122*
	V710 (<i>S. aureus</i>)
	V512 (Flu)
Insomnia	MK-0454
	MK-8998
Osteoporosis	MK-0773
Parkinson's Disease	MK-0657
Psychiatric Disease	MK-2637
	MK-0249
	MK-5757
Phase II	
Alzheimer's Disease	MK-0249
Arthritis	MK-0822

Atherosclerosis MK-0859 MK-0633 Cancer MK-0457* MK-0822 Diabetes MK-0533 Endocrine MK-0677 HIV V526 HPV V502** Infectious Disease (Pediatric) V419* Migraine MK-0974 Osteoporosis MK-0822 Overactive Bladder MK-0634 MK-0594 Pain MK-0759 MK-6721* MK-2295*/*** Respiratory Disease MK-0633 Stroke MK-0724*
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Phase III

Atherosclerosis MK-0524B MK-0524A (ER niacin/ laropiprant) HIV MK-0518 (raltegravir) Insomnia Gaboxadol* Obesity MK-0364 (taranabant)

Under FDA Review

CINV <i>Emend</i> For Injection (MK-0517) Diabetes <i>Janumet</i> Osteoarthritis <i>Arcoxia</i>
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2006 U.S. Approvals

Rotavirus Gastroenteritis <i>RotaTeq</i> Shingles <i>Zostavax</i> Cervical Cancer and Genital Warts <i>Gardasil</i> ** Diabetes <i>Januvia</i> Cancer (CTCL) <i>Zolinza</i> *

* Licensed, alliance, or acquisition (pipeline)

** Multiple licenses, including CSL, Ltd.

*** Proof-of-Concept Molecule



All product or service marks appearing in type form different from that of the surrounding text are trademarks or service marks owned by or licensed to Merck, its subsidiaries or affiliates (including *Zetia* and *Vytorin* , trademarks owned by entities of the Merck/Schering-Plough partnership), except as noted. *Cozaar* and *Hyzaar* are registered trademarks of E.I. du Pont de Nemours and Company, Wilmington, DE and *Prilosec* and *Nexium* are trademarks of the AstraZeneca group. The U.S. trademarks for *Vasotec* and *Vaseretic* are owned by Biovail Laboratories Incorporated. The U.S. trademark for *Aggrastat* is owned by Guilford Pharmaceuticals Inc.

Employees

At the end of 2006, the Company had approximately 60,000 employees worldwide, with approximately 31,800 employed in the United States, including Puerto Rico. Approximately 21% of worldwide employees of the Company are represented by various collective bargaining groups.

As part of a cost-reduction initiative announced in October 2003 and completed at the end of 2004, the Company had eliminated 5,100 positions. The Company completed a similar program in 2005 with 900 positions being eliminated through December 31, 2005.

On November 28, 2005, the Company announced the first phase of a global restructuring program designed to reduce the Company's cost structure, increase efficiency, and enhance competitiveness. The initial steps will include the implementation of a new supply strategy by the Merck Manufacturing Division, which is intended to create a leaner, more cost-effective and customer-focused manufacturing model over a three-year period.

As a result, Merck will incur certain costs associated with exit or disposal activities. As part of the global restructuring program, the Company expects to eliminate approximately 7,000 positions in manufacturing and other divisions worldwide, representing about 11% of its global work force, by the end of 2008. About half of the position reductions are expected to occur in the United States, with the remainder in other countries. As of December 31, 2006, there have been approximately 4,800 positions eliminated throughout the Company since inception of the program (approximately 3,700 of which were eliminated during 2006 comprised of actual headcount reductions, and the elimination of contractors and vacant positions). However, the Company continues to hire new employees as the Company's business requires it. Merck intends to sell or close five of its 31 manufacturing facilities worldwide and two preclinical sites and to reduce operations at a number of other sites. Through the end of 2006, three of the manufacturing facilities have been closed, sold, or had ceased operations, and the two preclinical sites were closed. The Company has also sold certain other facilities and related assets in connection with the restructuring program. The remaining sites identified for sale/closure are expected to be closed by the end of 2008, subject to compliance with legal obligations.

The pretax costs of the restructuring were \$935.5 million in 2006, \$401.2 million in 2005 and are expected to be \$300 million to \$500 million in 2007. Through the end of 2008, when the initial phase of the restructuring program is substantially complete, the cumulative pretax costs of the restructuring activities announced on November 28, 2005 are expected to range from \$1.9 billion to \$2.2 billion. Approximately 70% of the cumulative pretax costs are non-cash, relating primarily to accelerated depreciation for those facilities scheduled for closure.

Environmental Matters

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations. In 2006, the Company incurred capital expenditures of approximately \$7.9 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 \$12.6 million in 2006, and are estimated at \$94.2 million for the years 2007 through 2011. 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 and totaled \$129.0 million at December 31, 2006. 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 the liabilities accrued should exceed \$62.0 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.

Geographic Area Information

The Company's operations outside the United States are conducted primarily through subsidiaries. Sales worldwide by subsidiaries outside the United States were 39% of sales in 2006, 42% of sales in 2005 and 41% of sales in 2004.

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 of the Company's business is discussed in Item 8. "Financial Statements and Supplementary Data" below.

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 Securities and Exchange Commission ("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 1A. Risk Factors.

You should carefully consider all of the information set forth in this Form 10-K, including the following risk factors, before deciding to invest in any of the Company's securities. The risks below are not the only ones the Company faces. Additional risks not currently known to the Company or that the Company presently deems immaterial may also impair its business operations. The Company's business, financial condition, results of operations or prospects could be materially adversely affected by any of these risks. This Form 10-K also contains forward-looking statements that involve risks and uncertainties. The Company's results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks it faces as described below and elsewhere. See "Cautionary Factors that May Affect Future Results" on page 21.

The Company faces significant litigation related to Vioxx.

On September 30, 2004, the Company voluntarily withdrew *Vioxx*, its arthritis and acute pain medication, from the market worldwide. As of December 31, 2006, approximately 27,400 product liability lawsuits, involving approximately 46,100 plaintiff groups, alleging personal injuries resulting from the use of *Vioxx*, have been filed against the Company in state and federal courts in the United States. The Company is also a defendant in approximately 264 purported class actions related to the use of *Vioxx*. (All of these suits are referred to as the "*Vioxx* Product Liability Lawsuits".) In addition to the *Vioxx* Product Liability Lawsuits, various purported class actions and individual lawsuits 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 and state securities laws (all of these suits are referred to as the "*Vioxx* Securities Lawsuits"). In addition, various putative class actions have been brought against the Company and several current and former

employees, officers, and directors of the Company alleging violations of the Employee Retirement Income Security Act ("ERISA"). (All of these suits are referred to as the "Vioxx ERISA Lawsuits".) In addition, shareholder derivative suits that were previously filed and dismissed are now on appeal and several shareholders have filed demands with the Company asserting claims against the Board members and Company officers. (All of these suits and demands are referred to as the "Vioxx Derivative Lawsuits" and, together with the Vioxx Securities Lawsuits and the Vioxx ERISA Lawsuits, the "Vioxx Shareholder Lawsuits".) The Company has also been named as a defendant in actions in various countries outside the United States. (All of these suits are referred to as the "Vioxx Foreign Lawsuits".) The Company has also been sued by four states with respect to the marketing of Vioxx. The Company anticipates that additional lawsuits relating to Vioxx will be filed against it and/or certain of its current and former officers and directors in the future.

The SEC is conducting a formal investigation of the Company concerning Vioxx. The U.S. Department of Justice has issued a subpoena requesting information relating 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 and local authorities in Europe. A group of Attorneys General from thirty-one states and the District of Columbia are conducting an investigation of the Company's sales and marketing of Vioxx. The Company is cooperating with authorities in all of these investigations. (All of these investigations are referred to as the "Vioxx Investigations".) The Company can not predict the outcome of any of these investigations; however, they could result in potential civil and/or criminal liability.

To date, in the Vioxx Product Liability litigation, of the 29 plaintiffs whose claims have been scheduled for trial, the claims of seven were dismissed, the claims of seven were withdrawn from the trial calendar by plaintiffs, and juries have decided in Merck's favor nine times and in plaintiffs' favor four times. In addition, in the recent California trial involving two plaintiffs, the jury could not reach a verdict for either plaintiff and a mistrial was declared. A New Jersey state judge set aside one of the nine Merck verdicts. With respect to the four plaintiffs' verdicts, Merck already has filed an appeal or sought judicial review in each of those cases, and in one of those four, a federal judge overturned the damage award shortly after trial. In addition, a consolidated trial with two plaintiffs is currently ongoing in the coordinated proceeding in New Jersey Superior Court before Judge Higbee and another trial has commenced in state court in Illinois. The Vioxx Product Liability litigation is discussed more fully below in Item 3. "Legal Proceedings" below.

The outcomes of these Vioxx Product Liability trials should not be interpreted to indicate any trend or what outcome may be likely in future Vioxx trials.

The Company currently anticipates that a number of Vioxx Product Liability Lawsuits will be tried in 2007. A trial in the Oregon securities case is scheduled for 2007, but the Company cannot predict whether this trial will proceed on schedule or the timing of any of the other Vioxx Shareholder Lawsuit trials. The Company believes that it has meritorious defenses to the Vioxx Product Liability Lawsuits, Vioxx Shareholder Lawsuits and Vioxx Foreign Lawsuits (collectively, the "Vioxx Lawsuits") and will vigorously defend against them. The Company's insurance coverage with respect to the Vioxx Lawsuits will not be adequate to cover its defense costs and any losses.

During 2006, the Company spent \$500 million, including \$175 million in the fourth quarter, in the aggregate in legal defense costs worldwide related to (i) the Vioxx Product Liability Lawsuits, (ii) the Vioxx Shareholder Lawsuits, (iii) the Vioxx Foreign Lawsuits, and (iv) the Vioxx Investigations (collectively, the "Vioxx Litigation"). In the third quarter of 2006, the Company recorded a charge of \$598 million and in the fourth quarter it recorded another charge of \$75 million, to increase the reserve solely for its future legal defense costs related to the Vioxx Litigation from \$685 million at December 31, 2005 to \$858 million at December 31, 2006. This reserve is based on certain assumptions, described below under "Legal Proceedings", and is the best estimate of the amount that the Company believes, at this time, will be spent through 2008.

The Company is not currently able to estimate any amount of damages that it may be required to pay in connection with the Vioxx Lawsuits or Vioxx Investigations. These proceedings, which are expected to continue for years, are currently at an early stage and the Company has very little information as to the course the proceedings will take. In view of the inherent difficulty of predicting the outcome of litigation, particularly where there are many claimants and the claimants seek unspecified 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.

A series of unfavorable outcomes in the *Vioxx* Lawsuits or the *Vioxx* Investigations, resulting in the payment of substantial damages or fines or resulting in criminal penalties, could have a material adverse effect on the Company's business, cash flow, results of operations, financial position and prospects.

Certain of the Company's major products are going to lose patent protection in the near future and, when that occurs, the Company expects a significant decline in sales of those products.

The Company depends upon patents to provide it with exclusive marketing rights for its products for some period of time. As product patents for several of the Company's products have recently expired, or are about to expire, in the United States and in other countries, the Company faces strong competition from lower price generic drugs. Loss of patent protection for one of the Company's products typically leads to a rapid loss of sales for that product, as lower priced generic versions of that drug become available. In the case of products that contribute significantly to the Company's sales, the loss of patent protection can have a material adverse effect on the Company's results of operations.

In June 2006, *Zocor*, the Company's statin for modifying cholesterol, lost its market exclusivity in the United States. *Zocor* had already lost its basic patent protection in many markets throughout the world. The Company has experienced a significant decline in *Zocor* sales. Worldwide sales of *Zocor* were \$2.8 billion in 2006, compared to \$4.4 billion in 2005. Worldwide sales of *Zocor* are expected to be \$0.6 billion to \$0.9 billion in 2007.

In September 2004, the Company appealed a decision of the Opposition Division (the "Opposition Division") of the European Patent Office (the "EPO") that revoked the Company's patent in Europe that covers the once-weekly administration of alendronate. That decision was upheld and, therefore, presently the Company is not entitled to market exclusivity for *Fosamax* in most major European markets after 2007. In addition, Merck's basic patent covering the use of alendronate has been challenged in several European countries. The Company has received adverse decisions in Germany, Holland and the United Kingdom. The decision in the United Kingdom was upheld on appeal. The Company has appealed the decisions in Germany and Holland. The Company expects a significant decline in European sales of *Fosamax* after loss of exclusivity. Sales of *Fosamax* outside the United States in 2006 have already been adversely affected by the availability of generic alendronate sodium products in some markets, including the United Kingdom, Canada and Germany.

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. The Company exhausted all options to appeal this decision in 2005. Based on the Court of Appeals decision, *Fosamax* and *Fosamax Plus D* will lose market exclusivity in the United States in February 2008 and April 2008, respectively, and the Company expects a significant decline in *Fosamax* and *Fosamax Plus D* sales in the United States after each product's respective loss of market exclusivity.

The Company's research and development efforts may not succeed in developing commercially successful products and the Company may not be able to acquire commercially successful products in other ways; in consequence, the Company may not be able to replace sales of successful products that have lost patent protection.

Like other major pharmaceutical companies, in order to remain competitive, the Company must continue to launch new products each year. Declines in sales of products such as *Zocor* and *Fosamax* mean that the Company's future success is dependent on its pipeline of new products, including new products which it develops through joint ventures and products which it is able to obtain through license or acquisition. To accomplish this, the Company commits substantial effort, funds and other resources to research and development, both through its own dedicated resources, and through various collaborations with third parties. To support its research and development efforts the Company must make ongoing, substantial expenditures, without any assurance that the efforts it is funding will result in a commercially successful product. The Company must also commit substantial efforts, funds and other resources to recruiting and retaining high quality scientists and other personnel with pharmaceutical research and development expertise.

Based on FDA statistics, drug development time from initiation of preclinical testing to NDA approval can range from 5 to 20 years with an average of 8.5 years. For a description of the research and development process, see “Research and Development” above. Each phase of testing is highly regulated, and during each phase there is a substantial risk that the Company will encounter serious obstacles or will not achieve its goals, and accordingly the Company may abandon a product in which it has invested substantial amounts of time and money. Some of the risks encountered in the research and development process include the following: pre-clinical testing of a new compound may yield disappointing results; clinical trials of a new drug may not be successful; a new drug may not be effective or may have harmful side effects; a new drug may not be approved by the FDA for its intended use; it may not be possible to obtain a patent for a new drug; or sales of a new product may be disappointing.

The Company cannot state with certainty when or whether any of its products now under development will be launched; whether it will be able to develop, license or otherwise acquire compounds, product candidates or products; or whether any products, once launched, will be commercially successful. The Company must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products sufficient both to cover its substantial research and development costs and to replace sales that are lost as profitable products, such as *Zocor* and *Fosamax*, lose patent protection or are displaced by competing products or therapies. Failure to do so in the short term or long term would have a material adverse effect on the Company’s business, results of operations, cash flow, financial position and prospects.

The Company’s products, including products in development, can not be marketed unless the Company obtains and maintains regulatory approval.

The Company’s activities, including research, preclinical testing, clinical trials and manufacturing and marketing its products, are subject to extensive regulation by numerous federal, state and local governmental authorities in the United States, including the FDA, and by foreign regulatory authorities, including the European Commission. In the United States, the FDA is of particular importance to the Company, as it 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. Regulation outside the United States also is primarily focused on drug safety and effectiveness and, in many cases, cost reduction. The FDA and foreign regulatory authorities have substantial discretion to require additional testing, to delay or withhold registration and marketing approval and to mandate product withdrawals.

Even if the Company is successful in developing new products, it will not be able to market any of those products unless and until it has obtained all required regulatory approvals in each jurisdiction where it proposes to market the new products. Once obtained, the Company must maintain approval as long as it plans to market its new products in each jurisdiction where approval is required. The Company’s failure to obtain approval, significant delays in the approval process, or its failure to maintain approval in any jurisdiction will prevent it from selling the new products in that jurisdiction until approval is obtained, if ever. The Company would not be able to realize revenues for those new products in any jurisdiction where it does not have approval.

The Company is dependent on its patent rights, and if its patent rights are invalidated or circumvented, its business would be adversely affected.

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 covering products that it has introduced normally provide market exclusivity, which is important for the successful marketing and sale of its products. The Company seeks patents covering each of its products in each of the markets where it intends to sell the products and where meaningful patent protection is available.

Even if the Company succeeds in obtaining patents covering its products, third parties or government authorities may challenge or seek to invalidate or circumvent its patents and patent applications. It is important for the Company’s business to defend successfully the patent rights that provide market exclusivity for its products. The Company is often involved in patent disputes relating to challenges to its patents or infringement and similar claims against the Company. The Company aggressively defends its important patents both within and outside the United States, including by filing claims of infringement against other parties. See Item 3. “Legal Proceedings — Patent

Litigation” below. In particular, manufacturers of generic pharmaceutical products from time to time file Abbreviated New Drug Applications (“ANDA”) with the FDA seeking to market generic forms of the Company’s products prior to the expiration of relevant patents owned by the Company. The Company normally responds by vigorously defending its patent, including by filing lawsuits alleging patent infringement. Patent litigation and other challenges to the Company’s patents are costly and unpredictable and may deprive the Company of market exclusivity for a patented product or, in some cases, third party patents may prevent the Company from marketing and selling a product in a particular geographic area.

If one or more important products lose patent protection in profitable markets, sales of those products are likely to decline significantly as a result of generic versions of those products becoming available. The Company’s results of operations may be adversely affected by the lost sales unless and until the Company has successfully launched commercially successful replacement products.

The Company faces intense competition from lower-cost generic products.

In general, the Company faces increasing competition from lower-cost generic products. The patent rights that protect its products are of varying strengths and durations. In addition, in some countries, patent protection is significantly weaker than in the United States or the EU. In the United States, political pressure to reduce spending on prescription drugs has led to legislation which encourages the use of generic products. Although it is the Company’s policy to actively protect its patent rights, generic challenges to the Company’s products can arise at any time, and it may not be able to prevent the emergence of generic competition for its products.

Loss of patent protection for a product typically is followed promptly by generic substitutes, reducing the Company’s sales of that product. Availability of generic substitutes for the Company’s drugs may adversely affect its results of operations and cash flow. In addition, proposals emerge from time to time in the United States and other countries for legislation to further encourage the early and rapid approval of generic drugs. Any such proposal that is enacted into law could worsen this substantial negative effect on the Company’s sales and, potentially, its results of operations and cash flow.

The Company faces intense competition from new products.

The Company’s products face intense competition from competitors’ products. This competition may increase as new products enter the market. In such an event, the competitors’ products may be safer or more effective or more effectively marketed and sold than the Company’s products. Alternatively, in the case of generic competition, they may be equally safe and effective products which are sold at a substantially lower price than the Company’s products. As a result, if the Company fails to maintain its competitive position, this could have a material adverse effect on its business and results of operations.

The Company faces pricing pressure with respect to its products.

The Company’s products are subject to increasing price pressures and other restrictions worldwide, including in the United States. These include (i) practices of managed care groups and institutional and governmental purchasers and (ii) U.S. federal laws and regulations related to Medicare and Medicaid, including the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the “2003 Act”).

The 2003 Act included a prescription drug benefit for individuals which first went into effect on January 1, 2006. The increased purchasing power of entities that negotiate on behalf of Medicare beneficiaries could result in further pricing pressures. The Company expects pricing pressures to increase in the future.

Changes in laws and regulations could adversely affect the Company’s business.

All aspects of the Company’s business, including research and development, manufacturing, marketing, pricing, sales, litigation and intellectual property rights, are subject to extensive legislation and regulation. Changes in applicable federal and state laws and agency regulations could have a material adverse effect on the Company’s business.

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 based on management’s current expectations and are subject to risks and uncertainties which may cause results to differ materially from those set forth in the statements. 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 development, product approvals, product potential, 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. The Company does not assume the obligation to update any forward-looking statement. The Company cautions you not to place undue reliance on these forward-looking statements. Although it is not possible to predict or identify all such factors, they may include the following:

- Significant litigation related to *Vioxx*.
- Competition from generic products as the Company’s products lose patent protection.
- 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, including tax disputes, 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. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing amount of focus on privacy and data protection issues with the potential to affect directly the Company’s business.
- Changes in tax laws including changes related to the taxation of foreign earnings.
- 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. See “Risk Factors” on page 16.

Item 1B. Unresolved Staff Comments.

None

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 2006 were \$980.2 million compared with \$1.4 billion for 2005. In the United States, these amounted to \$714.7 million for 2006 and \$938.7 million for 2005. Abroad, such expenditures amounted to \$265.5 million for 2006 and \$464.0 million for 2005.

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, individual and putative class actions have been filed against the Company in state and federal courts alleging personal injury and/or economic loss with respect to the purchase or use of *Vioxx*. All such actions filed in federal court are coordinated in a multidistrict litigation in the U.S. District Court for the Eastern District of Louisiana (the “MDL”) before District Judge Eldon E. Fallon. A number of such actions filed in state court are coordinated in separate coordinated proceedings in state courts in New Jersey, California and Texas, and the counties of Philadelphia, Pennsylvania and Clark County, Nevada. As of December 31, 2006, the Company had been served or was aware that it had been named as a defendant in approximately 27,400 lawsuits, which include approximately 46,100 plaintiff groups, alleging personal injuries resulting from the use of *Vioxx*, and in approximately 264 putative class actions alleging personal injuries and/or economic loss. (All of the actions discussed in this paragraph are collectively referred to as the “*Vioxx* Product Liability Lawsuits”.) Of these lawsuits, approximately 8,300 lawsuits representing approximately 23,700 plaintiff groups are or are slated to be in the federal MDL and approximately 16,800 lawsuits representing approximately 16,800 plaintiff groups are included in a coordinated proceeding in New Jersey Superior Court before Judge Carol E. Higbee.

In addition to the *Vioxx* Product Liability Lawsuits discussed above, the claims of over 4,025 plaintiffs had been dismissed as of December 31, 2006. Of these, there have been over 1,225 plaintiffs whose claims were

dismissed with prejudice (i.e., they cannot be brought again) either by plaintiffs themselves or by the courts. Over 2,800 additional plaintiffs have had their claims dismissed without prejudice (i.e., they can be brought again).

In the MDL, Judge Fallon in July 2005 indicated that he would schedule for trial a series of cases during the period November 2005 through 2006, in the following categories: (i) heart attack with short term use; (ii) heart attack with long term use; (iii) stroke; and (iv) cardiovascular injury involving a prescription written after April 2002 when the labeling for *Vioxx* was revised to include the results of the VIGOR trial. These trials began in November 2005 and concluded in December 2006. The next scheduled trial in the MDL is a re-trial in *Barnett v. Merck* on the issue of damages as discussed below.

Several *Vioxx* Product Liability Lawsuits are currently scheduled for trial in 2007. The Company has provided a list of such trials at its website at www.merck.com which it will periodically update as appropriate. The Company has included its website address only as an inactive textual reference and does not intend it to be an active link to its website nor does it incorporate by reference the information contained therein.

Merck has entered into a tolling agreement (the “Tolling Agreement”) with the MDL Plaintiffs’ Steering Committee that establishes a procedure to halt the running of the statute of limitations (tolling) as to certain categories of claims allegedly arising from the use of *Vioxx* by non-New Jersey citizens. The Tolling Agreement applies to individuals who have not filed lawsuits and may or may not eventually file lawsuits and only to those claimants who seek to toll claims alleging injuries resulting from a thrombotic cardiovascular event that results in a myocardial infarction or ischemic stroke. The Tolling Agreement provides counsel additional time to evaluate potential claims. The Tolling Agreement requires any tolled claims to be filed in federal court. As of December 31, 2006, approximately 14,180 claimants had entered into Tolling Agreements.

Merck voluntarily withdrew *Vioxx* from the market on September 30, 2004. Many states have a two-year statute of limitations for product liability claims, requiring that claims must be filed within two years after the plaintiffs learned or could have learned of their potential cause of action. As a result, some may view September 30, 2006 as a deadline for filing *Vioxx* cases. It is important to note, however, that the law regarding statutes of limitations can be complex, varies from state to state, can be fact-specific, and in some cases, might be affected by the existence of pending class actions. For example, some states have three year statutes of limitations and, in some instances, the statute of limitations is even longer. Merck expects that there will be legal arguments concerning the proper application of these statutes, and the decisions will be up to the judges presiding in individual cases in state and federal proceedings.

The Company has previously disclosed the outcomes of several *Vioxx* Product Liability Lawsuits that were tried prior to September 30, 2006 (see chart below).

In August 2006, in *Barnett v. Merck*, a case before Judge Fallon in the MDL, a jury in New Orleans, Louisiana returned a plaintiff verdict in the second federal *Vioxx* case to go to trial. The jury awarded \$50 million in compensatory damages and \$1 million in punitive damages. On August 30, 2006, Judge Fallon overturned as excessive the damages portion of the verdict and ordered a new trial on damages. Judge Fallon has set re-trial for October 29, 2007 on the issue of damages. Merck has filed motions for a new trial on all issues and for Judgment as a Matter of Law, both of which are currently pending before the Court. Plaintiff has opposed Merck’s motion and has asked the Judge to reduce the amount of the award rather than re-try the case.

Juries found in favor of Merck on all counts in the fourth and fifth cases to go to trial in the MDL. The jury returned its verdict for Merck in *Mason v. Merck* on November 8, 2006 and in *Dedrick v. Merck* on December 13, 2006.

On November 22, 2006, Judge Fallon denied a motion filed in the MDL to certify a nationwide class of all persons who allegedly suffered personal injury as a result of taking *Vioxx*.

On December 15, 2006, the jury in *Albright v. Merck*, a case tried in state court in Birmingham, Alabama, returned a verdict for Merck on all counts.

The Company previously disclosed that in April 2006, in *Garza v. Merck*, a jury in Rio Grande City, Texas returned a verdict in favor of the plaintiff. In September 2006, the Texas state court granted the Company’s request to investigate possible jury bias because a juror admitted that he had, prior to the trial, on several occasions

borrowed money from the plaintiff. On December 21, 2006, the court entered judgment for plaintiff in the amount of \$7.75 million, plus interest, reduced from the original award of \$32 million because of the Texas state cap on punitive damages. The Company is seeking a new trial and will appeal the verdict if the court does not grant a new trial.

On October 31, 2006, in California Superior Court in Los Angeles, a consolidated trial began in the cases Appell v. Merck and Arrigale v. Merck. On January 18, 2007, Judge Victoria Chaney declared a mistrial as to both plaintiffs after the jury reported that it was deadlocked.

On October 5, 2006, in the coordinated proceeding in New Jersey Superior Court, Judge Higbee dismissed claims of the United Kingdom plaintiffs. These plaintiffs have appealed.

The first case scheduled for trial in the Texas coordinated proceeding, Rigby v. Merck, was scheduled to begin trial on November 7, 2006. The Rigby case was voluntarily dismissed on October 23, 2006 when the plaintiff filed a notice of non-suit with the Court.

A consolidated trial, Hermans v. Merck and Humeston v. Merck, began on January 17, 2007, in the coordinated proceeding in New Jersey Superior Court before Judge Higbee. Humeston v. Merck was first tried in 2005, but Judge Higbee set aside the November 2005 jury verdict in favor of Merck and ordered a new trial on the grounds of newly discovered evidence. The Hermans/Humeston trial is separated into two phases: a general phase regarding Merck's conduct and a plaintiff-specific phase. There will be jury questions and a deliberation after phase I regarding Merck's conduct. If the jury answers any of the questions in the affirmative, the case will move to phase II. In phase II each plaintiff will present his or her specific case. At the end of phase II, the jury will deliberate and will answer questions with respect to each of the two plaintiffs. The jury will answer separate verdict sheets but in the course of only one deliberation. If the case moves to a punitive phase, there will be a single presentation for each side and one jury deliberation for both plaintiffs.

The first case scheduled for trial in the Philadelphia coordinated proceeding, McCool v. Merck, was scheduled to begin trial on February 26, 2007. The plaintiff voluntarily dismissed with prejudice her case on January 16, 2007.

On September 28, 2006, the New Jersey Superior Court, Appellate Division, heard argument on plaintiffs' appeal of Judge Higbee's dismissal of the Sinclair v. Merck case. This putative class action was originally filed in December 2004 and sought the creation of a medical monitoring fund. Judge Higbee had granted the Company's motion to dismiss in May 2005. On January 16, 2007, the Appellate Division reversed the decision and remanded the case back to Judge Higbee for further factual inquiry. The Company has petitioned the New Jersey Supreme Court for review of the Appellate Division's decision.

To date in the *Vioxx* Product Liability Lawsuits, of the 29 plaintiffs whose claims have been scheduled for trial, the claims of seven were dismissed, the claims of seven were withdrawn from the trial calendar by plaintiffs, and juries have decided in Merck's favor nine times and in plaintiffs' favor four times. In addition, in the recent California trial involving two plaintiffs, the jury could not reach a verdict for either plaintiff and a mistrial was declared. A New Jersey state judge set aside one of the nine Merck verdicts. With respect to the four plaintiffs' verdicts, Merck already has filed an appeal or sought judicial review in each of those cases, and in one of those four, a federal judge overturned the damage award shortly after trial. In addition, a consolidated trial with two plaintiffs is currently ongoing in the coordinated proceeding in New Jersey Superior Court before Judge Higbee and another trial, Schwaller v. Merck, has commenced in state court in Madison County, Illinois.

The following chart sets forth the results of all U.S. *Vioxx* Product Liability trials to date.

Verdict Date	Plaintiff	State or Federal Court	Result	Comments
Aug. 19, 2005	Ernst	Texas	Verdict for Plaintiff	Jury awarded plaintiff \$253.4 million; the Court reduced amount to approximately \$26.1 million plus interest. The judgment is now on appeal.
Nov. 3, 2005	Humeston	N.J.	Verdict for Merck; then judge overturned the verdict	Judge has ordered a new trial, which is currently ongoing.
Feb. 17, 2006	Plunkett	Federal	Mistrial after jury deadlocked in first trial; verdict for Merck in retrial	Merck prevailed in February 2006 retrial. Plaintiff has moved for a new trial.
April 5, 2006	McDarby	N.J.	Verdict for Plaintiff	Plaintiff was awarded \$13.5 million in damages. Merck's motion for a new trial is pending, as is plaintiff's motion for attorney's fees.
April 5, 2006	Cona	N.J.	Verdict for Merck on failure to warn claim	However, the jury awarded plaintiff the nominal sum of \$135 for his Consumer Fraud Act claim. Merck's motion for a new trial on the Consumer Fraud Act claim is pending, as is plaintiff's motion for attorney's fees.
April 21, 2006	Garza	Texas	Verdict for Plaintiff	Judge reduced \$32 million jury award to \$7.75 million plus interest. Merck has moved for a new trial.
July 13, 2006	Doherty	N.J.	Verdict for Merck	Plaintiff has moved for a new trial.
Aug. 2, 2006	Grossberg	California	Verdict for Merck	Plaintiff has moved for a new trial.
Aug. 17, 2006	Barnett	Federal	Verdict for Plaintiff	Plaintiff awarded \$51 million in damages. The judge ruled the award was "grossly excessive," and has scheduled a new trial on damages in October 2007. Merck's motion for a new trial on the remaining issues is pending.
Sept. 26, 2006	Smith	Federal	Verdict for Merck	
Nov. 15, 2006	Mason	Federal	Verdict for Merck	
Dec. 13, 2006	Dedrick	Federal	Verdict for Merck	Plaintiff has moved for a new trial.
Dec. 15, 2006	Albright	Alabama	Verdict for Merck	Plaintiff has moved for a new trial.
Jan. 18, 2007	Arrigale/Appell	California	Mistrial declared after the jury deadlocked	

Other Lawsuits

As previously disclosed, on July 29, 2005, a New Jersey state trial court certified a nationwide class of third-party payors (such as unions and health insurance plans) that paid in whole or in part for the *Vioxx* used by their plan members or insureds. The named plaintiff in that case seeks recovery of certain *Vioxx* purchase costs (plus penalties) based on allegations that the purported class members paid more for *Vioxx* than they would have had they known of the product's alleged risks. Merck believes that the class was improperly certified. The trial court's ruling is procedural only; it does not address the merits of plaintiffs' allegations, which the Company intends to defend vigorously. On March 31, 2006, the New Jersey Superior Court, Appellate Division, affirmed the class certification order. On July 19, 2006, the New Jersey Supreme Court decided to exercise its discretion to hear the Company's appeal of the Appellate Division's decision. On August 24, 2006, the Appellate Division ordered a stay of the proceedings in Superior Court pending a ruling by the Supreme Court. Oral argument before the New Jersey Supreme Court is scheduled to take place in March 2007.

As previously reported, the Company has also been named as a defendant in separate lawsuits brought by the Attorneys General of Alaska, Louisiana, Mississippi, Montana, Texas and Utah. These actions allege that the Company misrepresented the safety of *Vioxx* and seek (i) recovery of the cost of *Vioxx* purchased or reimbursed by the state and its agencies; (ii) reimbursement of all sums paid by the state and its agencies for medical services for the treatment of persons injured by *Vioxx*; (iii) damages under various common law theories; and/or (iv) remedies under various state statutory theories, including state consumer fraud and/or fair business practices or Medicaid fraud statutes, including civil penalties.

Shareholder Lawsuits

As previously disclosed, in addition to the *Vioxx* Product Liability Lawsuits, the Company and various current and former officers and directors are defendants in various putative class actions and individual lawsuits under the federal securities laws and state securities laws (the "*Vioxx* Securities Lawsuits"). All of the *Vioxx* Securities Lawsuits pending in federal court have been transferred by the Judicial Panel on Multidistrict Litigation (the "JPML") to the United States District Court for the District of New Jersey before District Judge Stanley R. Chesler for inclusion in a nationwide MDL (the "*Shareholder MDL*"). Judge Chesler has consolidated the *Vioxx* Securities Lawsuits for all purposes. Plaintiffs request certification of a class of purchasers of Company stock between May 21, 1999 and October 29, 2004. The complaint alleges 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, and seeks unspecified compensatory damages and the costs of suit, including attorneys' fees. The complaint also asserts a claim under Section 20A of the Securities and Exchange Act against certain defendants relating to their sales of Merck stock. In addition, the complaint includes allegations under Sections 11, 12 and 15 of the Securities Act of 1933 that certain defendants 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. Defendants have filed a motion to dismiss the complaint. Oral argument on the motion to dismiss is scheduled to take place in March 2007.

As previously disclosed, on August 15, 2005, a complaint was filed in Oregon state court by the State of Oregon through the Oregon state treasurer on behalf of the Oregon Public Employee Retirement Fund against the Company and certain current and former officers and directors. The complaint, which was brought under Oregon securities law, alleges that plaintiff has suffered damages in connection with its purchases of Merck common stock at artificially inflated prices due to the Company's alleged violations of law related to disclosures about *Vioxx*. The current and former officers and directors have entered into a tolling agreement and, on June 30, 2006, were dismissed without prejudice from the case. On July 19, 2006, the Court denied the Company's motion to dismiss the complaint, but required plaintiff to amend the complaint. Plaintiff filed an amended complaint on September 21, 2006. Merck filed a motion to require plaintiffs to make the complaint more definite and certain, which was denied by the Court. Merck filed an answer to the complaint in January 2007.

As previously disclosed, various shareholder derivative actions filed in federal court were transferred to the Shareholder MDL and consolidated for all purposes by Judge Chesler (the "*Vioxx* Derivative Lawsuits"). The consolidated complaint arose out of substantially the same factual allegations that are made in the *Vioxx* Securities Lawsuits. The *Vioxx* Derivative Lawsuits, which were purportedly brought to assert rights of the Company, assert claims against certain members of the Board past and present and certain executive officers for breach of fiduciary

duty, waste of corporate assets, unjust enrichment, abuse of control and gross mismanagement. On May 5, 2006, Judge Chesler granted defendants' motion to dismiss and denied plaintiffs' request for leave to amend their complaint. Plaintiffs' appeal of the District Court's decision refusing them leave to amend the complaint is currently pending before the United States Court of Appeals for the Third Circuit.

As previously disclosed, on October 29, 2004, two individual shareholders made a demand on the Board of Directors of the Company to take legal action against Mr. Raymond Gilmartin, former 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 July 2006, the Board received another shareholder letter demanding that the Board take legal action against the Board and management of Merck for allegedly causing damage to the Company relating to the Company's allegedly improper marketing of *Vioxx*. In December 2006, each of these demands was rejected by the Board of Directors.

As previously announced, the Board of Directors 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. In December 2004, the Special Committee retained the Honorable John S. Martin, Jr. of Debevoise & Plimpton LLP to conduct an independent investigation of senior management's conduct with respect to the cardiovascular safety profile of *Vioxx* during the period *Vioxx* was developed and marketed. The review was completed in the third quarter of 2006 and the full report (including appendices) was made public in September 2006. The Company has provided a copy of the full report and appendices at its website at www.merck.com/newsroom/vioxx/martin_report.html. The Company has included its website address only as an inactive textual reference and does not intend it to be an active link to its website nor does it incorporate by reference the information contained therein.

In addition, as previously disclosed, various putative class actions filed in federal court under the Employee Retirement Income Security Act ("ERISA") against the Company and certain current and former officers and directors (the "*Vioxx* ERISA Lawsuits" and, together with the *Vioxx* Securities Lawsuits and the *Vioxx* Derivative Lawsuits, the "*Vioxx* Shareholder Lawsuits") have been transferred to the Shareholder MDL and consolidated for all purposes. The consolidated complaint asserts claims on behalf of certain of the Company's current and former employees who are participants in certain of the Company's retirement plans for breach of fiduciary duty. The lawsuits make similar allegations to the allegations contained in the *Vioxx* Securities Lawsuits. On October 7, 2005, defendants moved to dismiss the ERISA complaint. On July 11, 2006, Judge Chesler granted in part and denied in part defendants' motion to dismiss.

International Lawsuits

As previously disclosed, in addition to the lawsuits discussed above, the Company has been named as a defendant in litigation relating to *Vioxx* in various countries (collectively, the "*Vioxx* Foreign Lawsuits") in Europe, as well as Canada, Brazil, Argentina, Australia, Turkey, and Israel.

Additional Lawsuits

Based on media reports and other sources, the Company anticipates that additional *Vioxx* Product Liability Lawsuits, *Vioxx* Shareholder Lawsuits and *Vioxx* Foreign 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

As previously disclosed, the Company has product liability insurance for claims brought in the *Vioxx* Product Liability Lawsuits with stated upper limits of 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 has Directors and Officers insurance coverage applicable to the *Vioxx* Securities Lawsuits and *Vioxx* Derivative Lawsuits with stated upper limits of approximately \$190 million. The Company has fiduciary and other insurance for the *Vioxx* ERISA Lawsuits with stated upper limits of approximately \$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 disputes with certain insurers about the availability of some or all of this insurance coverage and there are likely to be additional disputes. The Company's insurance coverage with respect to the *Vioxx* Lawsuits will not be adequate to cover its defense costs and any losses.

As previously disclosed, the Company's upper level excess insurers (which provide excess insurance potentially applicable to all of the *Vioxx* Lawsuits) have commenced an arbitration seeking, among other things, to cancel those policies, to void all of their obligations under those policies and to raise other coverage issues with respect to the *Vioxx* Lawsuits. 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.

Investigations

As previously disclosed, 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 has received subpoenas from the U.S. Department of Justice (the "DOJ") 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. In addition, as previously disclosed, investigations are being conducted by local authorities in certain cities in Europe in order to determine whether any criminal charges should be brought concerning *Vioxx*. The Company is cooperating with these governmental entities in their respective investigations (the "*Vioxx* Investigations"). The Company cannot predict the outcome of these inquiries; however, they could result in potential civil and/or criminal dispositions.

As previously disclosed, the Company has received a number of Civil Investigative Demands ("CID") from a group of Attorneys General from 31 states and the District of Columbia who are investigating whether the Company violated state consumer protection laws when marketing *Vioxx*. The Company is cooperating with the Attorneys General in responding to the CIDs.

In addition, the Company received a subpoena in September 2006 from the State of California Attorney General seeking documents and information related to the placement of *Vioxx* on California's Medi-Cal formulary. The Company is cooperating with the Attorney General in responding to the subpoena.

Reserves

The Company currently anticipates that a number of *Vioxx* Product Liability Lawsuits will be tried throughout 2007. A trial in the Oregon securities case is scheduled for 2007, but the Company cannot predict whether this trial will proceed on schedule or the timing of any of the other *Vioxx* Shareholder Lawsuit trials. 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, including for those cases in which verdicts or judgments have been entered against the Company, and are now in post-verdict proceedings or on appeal. In each of those cases the Company believes it has strong points to raise on appeal and therefore that unfavorable outcomes in such cases are not probable. Unfavorable outcomes in the *Vioxx* Litigation (as defined below) could have a material adverse effect on the Company's financial position, liquidity and results of operations.

Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable. As of December 31, 2005, the Company had a reserve of \$685 million solely for its future legal defense costs related to the *Vioxx* Litigation.

During 2006, the Company spent \$500 million in the aggregate, including \$175 million in the fourth quarter, in legal defense costs worldwide related to (i) the *Vioxx* Product Liability Lawsuits, (ii) the *Vioxx* Shareholder Lawsuits, (iii) the *Vioxx* Foreign Lawsuits, and (iv) the *Vioxx* Investigations (collectively, the "*Vioxx* Litigation"). In the third quarter and fourth quarter of 2006, the Company recorded charges of \$598 million and \$75 million, respectively, to increase the reserve solely for its future legal defense costs related to the *Vioxx*

Litigation to \$858 million at December 31, 2006. In increasing the reserve, the Company considered the same factors that it considered when it previously established reserves for the *Vioxx* Litigation. Management now believes it has a better estimate of the Company's expenses and can reasonably estimate such costs through 2008. Some of the significant factors considered in the establishment and ongoing review of the reserve for the *Vioxx* legal defense costs were as follows: the actual costs incurred by the Company; the development of the Company's legal defense strategy and structure in light of the scope of the *Vioxx* Litigation; the number of cases being brought against the Company; the costs and outcomes of completed trials and the most current information regarding anticipated timing, progression, and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. Events such as scheduled trials, that are expected to occur throughout 2007 and into 2008, and the inherent inability to predict the ultimate outcomes of such trials, limit the Company's ability to reasonably estimate its legal costs beyond the end of 2008. While the Company does not anticipate that it will need to increase the reserve every quarter, it will continue to monitor its legal defense costs and review the adequacy of the associated reserves and may determine to increase its reserves for legal defense costs at any time in the future if, based upon the factors set forth, it believes it would be appropriate to do so.

Other Product Liability Litigation

As previously disclosed, the Company is a defendant in product liability lawsuits in the United States involving *Fosamax* (the "*Fosamax* Litigation"). As of December 31, 2006, 104 cases had been filed against Merck in either federal or state court, including 4 cases which seek class action certification, as well as damages and medical monitoring. In these actions, plaintiffs allege, among other things, that they have suffered osteonecrosis of the jaw, generally subsequent to invasive dental procedures such as tooth extraction or dental implants, and/or delayed healing, in association with the use of *Fosamax*. On August 16, 2006, the JPML ordered that the *Fosamax* product liability cases pending in federal courts nationwide should be transferred and consolidated into one multidistrict litigation (the "*Fosamax* MDL") for coordinated pre-trial proceedings. The *Fosamax* MDL has been transferred to Judge John Keenan in the United States District Court for the Southern District of New York. As a result of the JPML order, over 80 cases are before Judge Keenan. Judge Keenan has issued a Case Management Order setting forth a schedule governing the proceedings which focuses primarily upon resolving the class action certification motions in 2007. The Company intends to defend against these lawsuits.

As of December 31, 2006, the Company established a reserve of approximately \$48 million solely for its future legal defense costs for the *Fosamax* Litigation. Some of the significant factors considered in the establishment of the reserve for the *Fosamax* Litigation legal defense costs were as follows: the actual costs incurred by the Company thus far; the development of the Company's legal defense strategy and structure in light of the creation of the *Fosamax* MDL; the number of cases being brought against the Company; and the anticipated timing, progression, and related costs of pre-trial activities in the *Fosamax* Litigation. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. Due to the uncertain nature of litigation, the Company is unable to estimate its costs beyond the end of 2008. Unfavorable outcomes in the *Fosamax* Litigation 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. The Company settled the federal class action, which represented the single largest group of claims and 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 or 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 many other pharmaceutical manufacturers are defendants in similar complaints pending in federal and state court brought individually by a number of counties in the State of New York. The Company and the other defendants are awaiting the final ruling on their motion to dismiss in the Suffolk County case, which was the first of the New York county cases to be filed. In addition, as of December 31, 2006, the Company was a defendant in state cases brought by the Attorneys General of Kentucky, Illinois, Alabama, Wisconsin, Mississippi, Arizona, Hawaii and Alaska, all of which are being defended.

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 court dismissed the federal claims in the Minnesota case with prejudice and the plaintiffs filed a Notice of Appeal. The Federal Court of Appeals for the Eighth Circuit affirmed the dismissal of the federal claims. The state claims in that action were dismissed without prejudice, but have not been refiled in any jurisdiction.

In the California antitrust action, the parties engaged in discovery and the defendant manufacturers filed for summary judgment. In December 2006, the court granted summary judgment in favor of Merck and the other defendants and dismissed the case. The plaintiffs have filed a Notice of Appeal in the California state appeals court.

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 filed a motion to dismiss the complaint on numerous grounds which was recently denied by the court. After denial of the motion to dismiss, the case was dismissed voluntarily by the parties.

As previously disclosed, in January 2003, the DOJ 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 State of Louisiana has filed its own amended complaint, incorporating the allegations contained in the sealed amended complaint. The allegations contained in the sealed amended complaint are unknown.

In April 2005, the Company was named in a qui tam lawsuit under the Nevada False Claims Act. The suit, in which the Nevada Attorney General has intervened, alleges that the Company inappropriately offered nominal pricing and other marketing and pricing inducements to certain customers and also failed to comply with its obligations under the Medicaid Best Price scheme related to such arrangements. In May 2006, the Company's motion to dismiss this action was denied by the district court. The Company is defending against this lawsuit.

Governmental Proceedings

As previously disclosed, the Company has received a subpoena from the DOJ in connection with its investigation of the Company's marketing and selling activities, including nominal pricing programs and samples. The Company has also reported that it has received a CID from the Attorney General of Texas regarding the Company's marketing and selling activities relating to Texas. As previously disclosed, the Company received another CID from the Attorney General of Texas asking for additional information regarding the Company's marketing and selling activities related to Texas, including with respect to certain of its nominal pricing programs and samples. 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

DOJ in connection with its investigation of the Company's pricing of *Pepcid*. In September 2005, the Company received a subpoena from the Illinois Attorney General. The subpoena seeks information related to repackaging of prescription drugs. There was no activity relating to Merck in the Illinois matter in 2006.

As previously disclosed, the Company has received a letter from the DOJ advising it of the existence of a qui tam complaint alleging that the Company violated certain rules related to its calculations of best price and other federal pricing benchmark calculations, certain of which may affect the Company's Medicaid rebate obligation. The DOJ has informed the Company that it does not intend to intervene in this action and has closed its investigation. The lawsuit continues, however.

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, state or foreign regulators or authorities may seek information about practices in the pharmaceutical industry or the Company's business practices in inquiries other than the investigations discussed in this section. It is not feasible to predict the outcome of any such inquiries.

As previously disclosed, on February 23, 2004, the Italian Antitrust Authority ("ICA") adopted a measure commencing a formal investigation of Merck Sharp & Dohme (Italia) S.p.A. ("MSD Italy") and the Company under Article 14 of the Italian Competition Law and Article 82 EC to ascertain whether the Company and MSD Italy committed an abuse of a dominant position by refusing to grant to ACS Dobfar S.p.A. ("Dobfar"), an Italian company, a voluntary license under the Company's Italian Supplementary Protection Certificate ("SPC"), pursuant to domestic legislation passed in 2002, to permit Dobfar to manufacture imipenem and cilastatin ("I&C"), the active ingredients in *Tienam*, in Italy for sale outside Italy in countries where patent protection had expired or never existed. A hearing before the ICA was held on May 2, 2005 and on June 17, 2005, the ICA found, on a preliminary basis, that the Company's refusal to grant the license was an abuse of a dominant position, and imposed interim measures requiring the Company to grant a license to manufacture I&C in Italy for stockpiling purposes only, until expiration of the SPC. On November 16, 2005, the Italian Administrative court denied the Company's appeal of the ICA's order. The Company's SPC expired in January 2006. Proceedings before the ICA continued on the merits of the Article 82 investigation and, in an effort to resolve the matter, the Company offered a commitment to the ICA pursuant to which the Company would grant non-exclusive licenses under its Italian SPC for finasteride with respect to finasteride 5 mg for the treatment of benign prostate hyperplasia. The deadline for the ICA to adopt its final decision as to whether the Company's commitment warrants the closure of the case is March 16, 2007.

Vaccine Litigation

As previously disclosed, 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, encephalitis, encephalopathy, Guillain-Barre syndrome and transverse myelitis. There are now 6 claimants proceeding or, to the Company's knowledge, intending to proceed against the Company. The Company will 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 (e.g., hepatitis 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, 2006, there were approximately 250 active thimerosal related lawsuits with approximately 670 plaintiffs. Other defendants include other 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 cases scheduled for trial in 2006 were dismissed – one, a state court case in Ohio voluntarily dismissed by the plaintiffs, and the second, a Federal District Court case in Texas in which the Court entered summary judgment in favor of defendants in 2005 and plaintiffs ultimately voluntarily dismissed

their appeal. The Company will 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 Childhood Vaccine Injury Act (the "Vaccine Act"). The Vaccine Act 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 Vaccine Act, 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 not a party to Vaccine Court proceedings because the petitions are brought against the United States Department of Health and Human Services. The cases with trial dates referred to in the preceding paragraph as having been dismissed were brought by plaintiffs who claimed to have made a timely withdrawal of their Vaccine Court petitions.

The Company is aware that there are approximately 4,700 cases pending in the Vaccine Court involving allegations that thimerosal-containing vaccines and/or the *M-M-R II* vaccine cause autism spectrum disorders. Not all of the thimerosal-containing vaccines involved in the Vaccine Court proceeding are Company vaccines. The Company is the sole source of the *M-M-R II* vaccine domestically. In June 2007, the Special Masters presiding over the Vaccine Court proceedings are scheduled to begin a hearing in which both petitioners and the government will present evidence on the issue of whether these vaccines can cause autism spectrum disorders. That hearing is expected to last a number of weeks. Since it is not a party, the Company will not participate in the proceedings.

Patent Litigation

From time to time, generic manufacturers of pharmaceutical products file ANDA's 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 ANDA's to the FDA seeking to market in the United States a generic form of *Fosamax*, *Prilosec*, *Nexium*, *Propecia*, *Trusopt* and *Cosopt* prior to the expiration of the Company's (and AstraZeneca's in the case of *Prilosec* and *Nexium*) patents concerning these products. The generic companies' ANDA's 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 ANDA's for generic alendronate (*Fosamax*), finasteride (*Propecia*), dorzolamide (*Trusopt*) and dorzolamide/timolol (*Cosopt*), and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDA's for generic omeprazole (*Prilosec*) and esomeprazole (*Nexium*). 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.

In February 2007, Schering Plough received a notice from a generic company indicating that it had filed an ANDA for *Zetia* and that it is challenging the U.S. patents that are listed for *Zetia*. Merck and Schering Plough market *Zetia* through a joint venture and they are considering the appropriate response.

On February 22, 2007, the Company received a notice from a generic company indicating that it had filed an ANDA for montelukast and that it is challenging the U.S. patent that is listed for *Singulair*. The Company is considering the appropriate response.

As previously disclosed, 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. The Company exhausted all options to appeal this decision in 2005. Based on the Court of Appeals' decision, *Fosamax* and *Fosamax Plus D* will lose market exclusivity in the United States in February 2008 and April 2008, respectively and the Company expects a significant decline in U.S. *Fosamax* and *Fosamax Plus D* sales after each product's respective loss of market exclusivity.

In May 2005, the Federal Court of Canada Trial Division issued a decision refusing to bar the approval of generic alendronate on the ground that Merck's patent for weekly alendronate was likely invalid. This decision cannot be appealed and generic alendronate was launched in Canada in June 2005. In July 2005, Merck was sued in the Federal Court of Canada by Apotex seeking damages for lost sales of generic weekly alendronate due to the patent proceeding.

As previously disclosed, in September 2004, the Company appealed a decision of the Opposition Division of the EPO that revoked the Company's patent in Europe that covers the once-weekly administration of alendronate. On March 14, 2006, the Board of Appeal of the EPO upheld the decision of the Opposition Division. Thus, presently the Company is not entitled to market exclusivity for *Fosamax* in most major European markets after 2007. In addition, Merck's basic patent covering the use of alendronate has been challenged in several European countries. The Company has received adverse decisions in Germany, Holland and the United Kingdom. The decision in the United Kingdom was upheld on appeal. The Company has appealed the decisions in Germany and Holland.

In June 2006, the Company filed lawsuits in federal court against Barr Laboratories, Inc. and Teva Pharmaceutical Industries Ltd. ("Teva") asserting that their respective manufacturing processes for making their alendronate products would infringe one or more process patents of the Company.

On October 5, 2004, in an action in Australia challenging the validity of the Company's Australian patent for the once-weekly administration of alendronate, the patent was found to be invalid. That decision was upheld on appeal.

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

On January 18, 2006, the Company sued Hi-Tech Pharmacal Co., Inc. ("Hi-Tech") of Amityville, New York for patent infringement in response to Hi-Tech's application to the FDA seeking approval of a generic version of Merck's ophthalmic drugs *Trusopt* and *Cosopt*, which are used for treating elevated intraocular pressure in people with ocular hypertension or glaucoma. In the lawsuit, Merck sued to enforce a patent covering an active ingredient dorzolamide, which is present in both *Trusopt* and *Cosopt*. In that case, the District Court entered judgment in Merck's favor and Hi-Tech appealed. A hearing of the appeal was conducted in December 2006 and a decision is pending. Merck has elected not to enforce two U.S. patents listed with the FDA which cover the combination of dorzolamide and timolol, the two active ingredients in *Cosopt*. This lawsuit automatically stays FDA approval of Hi-Tech's ANDA's for 30 months from January 2006 or until an adverse court decision, whichever may occur earlier. The patent covering dorzolamide provides exclusivity for *Trusopt* and *Cosopt* until October 2008 (including six months of pediatric exclusivity). After such time, the Company expects sales of these products to decline.

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 the Company's patent infringement claims against certain other generic manufacturers' omeprazole products, the trial concluded in June 2006 and a decision is pending.

The Company and AstraZeneca received notice in October 2005 that Ranbaxy Laboratories Limited ("Ranbaxy") has filed an ANDA for esomeprazole magnesium. The ANDA contains Paragraph IV challenges to patents on *Nexium*. On November 21, 2005, the Company and AstraZeneca sued Ranbaxy in the United States District Court in New Jersey. Accordingly, FDA approval of Ranbaxy's ANDA is stayed for 30 months until April 2008 or until an adverse court decision, if any, whichever may occur earlier. The Company and AstraZeneca received notice in January 2006 that IVAX Pharmaceuticals, Inc., subsequently acquired by Teva, had filed an ANDA for esomeprazole magnesium. The ANDA contains Paragraph IV challenges to patents on *Nexium*. On March 8, 2006, the Company and AstraZeneca sued Teva in the United States District Court in New Jersey. Accordingly, FDA approval of Teva's ANDA is stayed for 30 months until September 2008 or until an adverse court decision, if any, whichever may occur earlier.

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. In 2006, the Company reached a settlement with the generic company, Dr. Reddy's Laboratories ("DRL"), under which DRL may sell a generic 1 mg finasteride product beginning in January 2013.

In Europe, the Company is aware of various companies seeking registration for generic losartan (the active ingredient for *Cozaar*). The Company has patent rights to losartan via license from E.I. du Pont de Nemours and Company ("du Pont"). The Company and du Pont have filed patent infringement proceedings against various companies in Portugal, Spain and Norway.

Other Litigation

On July 27, 2005, Merck was served with a further shareholder derivative suit filed in the New Jersey Superior Court for Hunterdon County against the Company and certain current and former officers and directors. This lawsuit seeks to recover or cancel compensation awarded to the Company's executive officers in 2004, and asserts claims for breach of fiduciary duty, waste and unjust enrichment. On July 21, 2006, the Court granted defendants' motion to dismiss based on plaintiff's failure to make pre-suit demand on Merck's Board of Directors and denied plaintiff's request for leave to amend. Thus, this case has been terminated.

In November 2005, an individual shareholder delivered a letter to the Board alleging that the Company had sustained damages through the Company's adoption of its Change in Control Separation Benefits Plan (the "CIC Plan") in November 2004. The shareholder made a demand on the Board to take legal action against the Board's current or former members for allegedly causing damage to the Company with respect to the adoption of the CIC Plan. In response to that demand letter, the independent members of the Board determined at the November 22, 2005 Board meeting that the Board would take the shareholder's request under consideration and it remains under consideration.

As previously disclosed, on August 20, 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 shareholder derivative action 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. Plaintiffs appealed the decision. On December 15, 2005, the U.S. Court of Appeals for the Third Circuit upheld most of the District Court's decision dismissing the suit, and sent the issue of whether the Company's Board of Directors properly refused the shareholder demand relating to the Company's treatment of retail co-payments back to the District Court for reconsideration under a different legal standard. Plaintiffs moved to remand their action to state court on August 18, 2006, and the District Court granted that motion on February 1, 2007. The shareholder derivative suit is currently pending before the Superior Court of New Jersey, Chancery Division, Hunterdon County.

As previously disclosed, 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. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of prolonged litigation. 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. The district court held hearings to hear objections to the fairness of the proposed settlement and 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. 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.

Three notices of appeal were filed and the appellate court heard oral argument in May 2005. On December 8, 2005, the appellate court issued a decision vacating the district court's judgment and remanding the cases to the district court to allow the district court to resolve certain jurisdictional issues. A hearing was held to address such issues on February 24, 2006. The District Court issued a ruling on August 10, 2006 resolving such jurisdictional issues in favor of the settling plaintiffs. The class members and other party that had previously appealed the District Court's judgment have renewed their appeals. The renewed appeals are presently being briefed.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing two paragraphs. 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 Item, 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 Item.

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, 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.

On June 13, 2006, potassium thiocyanate was accidentally discharged from the Company's plant in West Point, Pennsylvania through the Upper Gwynedd Township Authority's wastewater treatment plant into the Wissahickon Creek, causing a fishkill. Federal and State agencies are investigating the discharge and the Company is currently cooperating with the investigations.

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

Not applicable.

Executive Officers of the Registrant (ages as of February 1, 2007)

RICHARD T. CLARK — Age 60

April, 2007 — Chairman, Chief Executive Officer and President

May, 2005 — Chief Executive Officer and President

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

DAVID W. ANSTICE — Age 58

September, 2006 — Executive Vice President, Strategy Initiatives — responsible for the End-to-End and global support function initiatives and for providing strategic direction in key pharmaceutical emerging markets (China and India)

August, 2005 — President, Human Health-Asia Pacific — responsible for the Company's prescription drug business in the Asia Pacific region, Japan, Australia, New Zealand and the Company's joint venture relationship with Schering-Plough

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

JOHN CANAN — Age 50

September, 2006 — Vice President, Controller — responsible for the Corporate Controller's Group

June, 2003 — Vice President, Corporate Audit & Assurance Services

September, 2002 — Vice President and Controller, Asia and Joint Ventures — responsible for financial and operational oversight of Asia Human Health and several of the Company's joint ventures

August, 1999 — Controller, Asia Pacific Human Health

CELIA A. COLBERT — Age 50

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

WILLIE A. DEESE — Age 51

May, 2005 — President, Merck Manufacturing Division — responsible for the Company's global manufacturing, procurement, and operational excellence functions

January, 2004 — Senior Vice President, Global Procurement

Prior to January 2004, Mr. Deese was Senior Vice President, Global Procurement and Logistics (2001 to 2003) for GlaxoSmithKline plc.

KENNETH C. FRAZIER — Age 52

November, 2006 — Executive 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)

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)

MIRIAN M. GRADDICK-WEIR — Age 52

September, 2006 — Senior Vice President, Human Resources

Prior to September 2006, Dr. Graddick-Weir was Executive Vice President of Human Resources and Employee Communications at AT&T, and has held several other senior Human Resources leadership positions at AT&T for more than 20 years (communications services provider).

STEVEN B. KELMAR — Age 53

August, 2006 — Vice President, Public Affairs

Prior to August 2006, Mr. Kelmar led the global public affairs and communications function at Novartis AG since 2002.

PETER S. KIM — Age 48

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

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

JUDY C. LEWENT — Age 58

August, 2005 — Executive Vice President and Chief Financial Officer — responsible for the Company’s strategic planning, financial and corporate development functions, internal auditing, corporate licensing, the Company’s joint venture relationships, and Merck Capital Ventures, LLC, a subsidiary of the Company

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

February, 2001 — Executive Vice President and Chief Financial Officer (since April, 1990) — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company’s joint venture relationships, and Merck Capital Ventures, LLC

On February 20, 2007, the Company announced that Ms. Lewent intends to retire in July 2007.

PETER LOESCHER — Age 49

May, 2006 — President, Global Human Health — responsible for the Company's four marketing and sales divisions: U.S. Human Health, Human Health Asia Pacific, Human Health Intercontinental (Europe, Middle East, Africa, Canada and Latin America), and Merck Vaccines

Prior to May 2006, Mr. Loescher served as President and Chief Executive Officer of GE Healthcare Bio-Sciences (medical diagnostics and life sciences business) since 2004, after it acquired Amersham Health. Mr. Loescher was President of Amersham Health (2002 — 2004) before becoming its Chief Operating Officer in 2004.

MARK E. MCDONOUGH — Age 42

February, 2007 — Vice President and Treasurer — responsible for the Company's treasury function, and for providing financial support for Human Resources

January, 2004 — Assistant Treasurer, Global Capital Markets — responsible for managing the Company's investment and financing portfolios and the treasury share repurchase program

September, 2000 — Senior Director, Human Health Finance — responsible for providing global franchise-based financial reporting and analytics to key customers

MARGARET G. MCGLYNN — Age 47

August, 2005 — President, Merck Vaccines — global responsibilities for the vaccines business including the Company's Sanofi-Pasteur joint venture

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

STEFAN OSCHMANN — Age 49

September, 2006 — President, Europe, Middle East, Africa & Canada

April, 2006 — Senior Vice President, Worldwide Human Health Marketing

October, 2005 — Executive Vice President, Worldwide Marketing

January, 2001 — Managing Director, MSD Germany, a subsidiary of the Company

J. CHRIS SCALET — Age 48

January, 2006 — Senior Vice President, Global Services, and Chief Information Officer (CIO) — responsible for Global Shared Services across the human resources, finance, site services and information services function; and the enterprise business process redesign initiative

March, 2003 — Senior Vice President, Information Services, and CIO — responsible for all areas of information technology and services including application development, technical support, voice and data communications, and computer operations worldwide

Prior to March 2003, Mr. Scalet was Senior Vice President, Information Technology & CIO (1997 to 2003) for International Paper Company (global forest products, paper and packaging company).

ADAM H. SCHECHTER — Age 42

July, 2006 — President, U.S. Human Health — commercial responsibility in the United States for the Company's portfolio of prescription medicines

October, 2005 — General Manager, U.S. Human Health Division — responsible for the Neuro-Psychiatry, Osteoporosis, Migraine, Respiratory, and New Products franchises

February, 2004 — Vice President/General Manager, Merck/Schering-Plough Pharmaceuticals U.S. Joint Venture

August, 2002 — Vice President, Merck Human Health Division, Arthritis & Analgesia Franchise Business Group

WENDY L. YARNO — Age 52

September, 2006 — Chief Marketing Officer — responsible for Global Marketing Services, Global Alliance Management and Global Pricing, Global Human Health Business Practices & Compliance and three franchises: Oncology, Specialty and Neuroscience; Respiratory, Bone and Arthritis and Analgesia; and Infectious Diseases and Hospital Products

November, 2005 — General Manager, Business Unit 3, U.S. Human Health

January, 2003 — Executive Vice President, Worldwide Human Health Marketing

December, 1999 — Senior Vice President, Human Resources

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 principal market for trading of the Company's Common Stock is the New York Stock Exchange ("NYSE") under the symbol MRK. The Common Stock market price information set forth in the table below is based on historical NYSE market prices.

The following table also sets forth, for the calendar periods indicated, the dividend per share information.

Cash Dividends Paid per Common Share

	Year	4th Q	3rd Q	2nd Q	1st Q
2006	\$1.52	\$0.38	\$0.38	\$ 0.38	\$0.38
2005	\$1.52	\$0.38	\$0.38	\$ 0.38	\$0.38

Common Stock Market Prices

	4th Q	3rd Q	2nd Q	1st Q
2006				
High	\$46.37	\$42.51	\$36.84	\$36.65
Low	\$41.24	\$35.00	\$32.75	\$31.81
2005				
High	\$32.54	\$32.34	\$35.20	\$32.61
Low	\$25.50	\$26.97	\$30.40	\$27.48

As of January 31, 2007, there were approximately 183,132 stockholders of record.

Equity Compensation Plan Information

The following table summarizes information about the options, warrants and rights and other equity compensation under the Company's equity plans as of the close of business on December 31, 2006. The table does not include information about tax qualified plans such as the Merck & Co., Inc. Employee Savings and Security Plan.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders (1)	253,655,299(2)	\$53.36	166,532,568
Equity compensation plans not approved by security holders (3)	—	—	—
Total	253,655,299	\$53.36	166,532,568

- (1) Includes options to purchase shares of Company Common Stock and other rights under the following stockholder-approved plans: the 1996 Incentive Stock Plan, the 2001 Incentive Stock Plan, the 2004 Incentive

Stock Plan, the 2007 Incentive Stock Plan, the 1996 Non-Employee Directors Stock Option Plan, the 2001 Non-Employee Directors Stock Option Plan and the 2006 Non-Employee Directors Stock Option Plan.

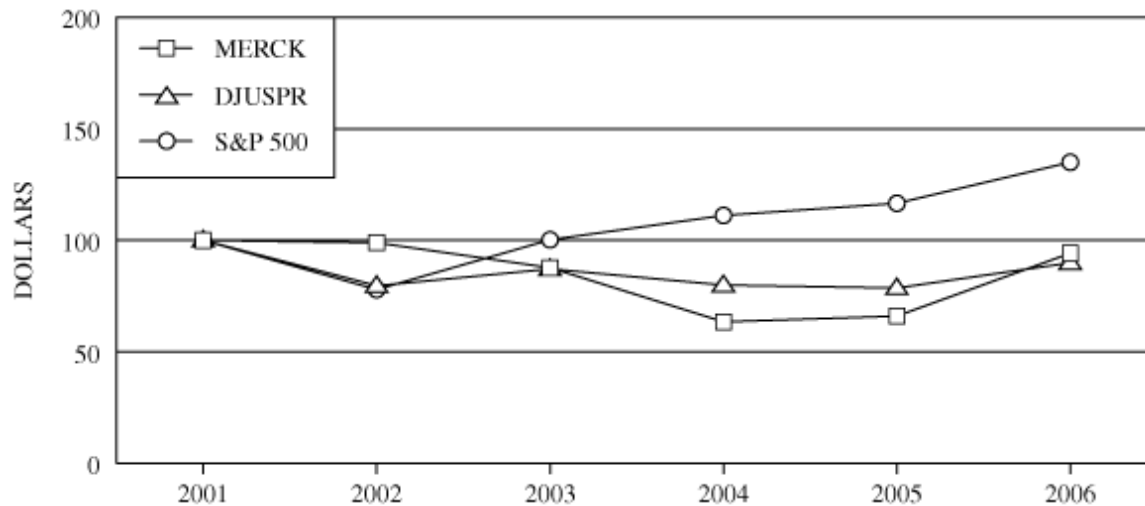
- (2) Excludes approximately 6,000,567 shares of restricted stock units and 2,753,676 performance share units (assuming maximum payouts) under the 2004 Incentive Stock Plan. Also excludes 370,042 shares of phantom stock deferred under the Merck & Co., Inc. Deferral Program. As of December 31, 2005, no additional shares were reserved under the Deferral Program. Beginning January 1, 2006, one-tenth of 1 percent of the outstanding shares of Merck Common Stock on the last business day of the preceding calendar year plus any shares authorized under the Deferral Program but not issued are reserved for future issuance (2,149,813 as of December 31, 2006). The actual amount of shares to be issued prospectively equals the amount participants elect to defer from payouts under the Company's various incentive programs, such as the Executive Incentive Plan, into phantom stock, increased by the amount of dividends that would be paid on an equivalent number of shares of Merck Common Stock, divided by the market price of Merck Common Stock.
- (3) The table does not include information for equity compensation plans and options and other warrants and rights assumed by the Company in connection with mergers and acquisitions and pursuant to which there remain outstanding options or other warrants or rights (collectively, "Assumed Plans"), which include the following: Medco Containment Services, Inc. 1991 Class C Non-Qualified Stock Option Plan; SIBIA Neurosciences, Inc. 1996 Equity Incentive Plan; Provantage Health Services, Inc. 1999 Stock Incentive Plan; Rosetta Inpharmatics, Inc. 1997 and 2000 Employee Stock Plans. A total of 1,681,419 shares of Merck Common Stock may be purchased under the Assumed Plans, at a weighted average exercise price of \$17.17. No further grants may be made under any Assumed Plans.

Performance Graph

The following graph compares the cumulative total stockholder return (stock price appreciation plus reinvested dividends) on the Company's Common Stock with the cumulative total return (including reinvested dividends) of the Dow Jones US Pharmaceutical Index ("DJUSPR"), formerly referred to as the Dow Jones Pharmaceutical Index — United States Owned Companies, and the Standard & Poor's 500 Index ("S&P 500 Index") for the five years ended December 31, 2006. Amounts below have been rounded to the nearest dollar or percent.

Comparison of Five-Year Cumulative Total Return*
Merck & Co., Inc., Dow Jones US Pharmaceutical Index and S&P 500 Index

	End of Period Value	2006/2001 CAGR**
Merck	\$ 94	-1%
DJUSPR	90	-2
S&P 500	135	6



	2001	2002	2003	2004	2005	2006
MERCK	100.00	98.92	87.70	63.46	66.03	94.21
DJUSPR	100.00	79.62	87.15	79.93	78.61	89.92
S&P 500	100.00	77.91	100.24	111.14	116.59	134.99

* Assumes that the value of the investment in Company Common Stock and each index was \$100 on December 31, 2001 and that all dividends were reinvested.

** Compound Annual Growth Rate

Issuer purchases of equity securities for the three month period ended December 31, 2006 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 ⁽¹⁾	(\$ in millions) Approx. Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
October 1 – October 31, 2006	1,996,600	\$43.69	1,996,600	\$6,691.5
November 1 – November 30, 2006	1,889,300	\$44.40	1,889,300	\$6,607.7
December 1 – December 31, 2006	1,830,100	\$43.84	1,830,100	\$6,527.4
Total	5,716,000	\$43.97	5,716,000	\$6,527.4

⁽¹⁾ These share repurchases were made as part of a plan announced in July 2002 to purchase \$10 billion in Merck shares.

Item 6. Selected Financial Data. ⁽¹⁾

The following selected financial data should be read in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and consolidated financial statements and notes thereto contained in Item 8. “Financial Statements and Supplementary Data” of this report.

Merck & Co., Inc. and Subsidiaries
(\$ in millions except per share amounts)

	2006 ⁽²⁾	2005 ⁽³⁾	2004 ⁽⁴⁾	2003 ⁽⁵⁾	2002
Results for Year:					
Sales	\$22,636.0	\$22,011.9	\$22,972.8	\$ 22,567.8	\$21,445.8
Materials and production costs	6,001.1	5,149.6	4,965.7	4,443.7	4,004.9
Marketing and administrative expenses	8,165.4	7,155.5	7,238.7	6,200.3	5,652.2
Research and development expenses	4,782.9	3,848.0	4,010.2	3,279.9	2,677.2
Restructuring costs	142.3	322.2	107.6	194.6	-
Equity income from affiliates	(2,294.4)	(1,717.1)	(1,008.2)	(474.2)	(644.7)
Other (income) expense, net	(382.7)	(110.2)	(344.0)	(203.2)	104.5
Income from continuing operations before taxes	6,221.4	7,363.9	8,002.8	9,126.7	9,651.7
Taxes on income	1,787.6	2,732.6	2,172.7	2,492.7	2,856.9
Income from continuing operations	4,433.8	4,631.3	5,830.1	6,634.0	6,794.8
Income from discontinued operations, net of taxes	-	-	-	241.3	354.7
Net income	4,433.8	4,631.3	5,830.1	6,875.3	7,149.5
Basic earnings per common share					
Continuing operations	\$ 2.04	\$ 2.11	\$ 2.63	\$ 2.97	\$ 3.01
Discontinued operations	-	-	-	0.11	0.16
Net income	\$ 2.04	\$ 2.11	\$ 2.63	\$ 3.07 ⁽⁶⁾	\$ 3.17
Earnings per common share assuming dilution					
Continuing operations	\$ 2.03	\$ 2.10	\$ 2.62	\$ 2.94	\$ 2.98
Discontinued operations	-	-	-	0.11	0.16
Net income	\$ 2.03	\$ 2.10	\$ 2.62	\$ 3.05	\$ 3.14
Cash dividends declared	3,318.7	3,338.7	3,329.1	3,264.7	3,204.2
Cash dividends paid per common share	\$ 1.52	\$ 1.52	\$ 1.49	\$ 1.45	\$ 1.41
Capital expenditures	980.2	1,402.7	1,726.1	1,915.9	2,128.1
Depreciation	2,098.1	1,544.2	1,258.7	1,129.6	1,067.5
Year-End Position:					
Working capital	\$ 2,507.5	\$ 7,806.9	\$ 1,688.8	\$ 1,926.9	\$ 2,011.2
Property, plant and equipment, net	13,194.1	14,398.2	14,713.7	14,169.0	14,195.6
Total assets	44,569.8	44,845.8	42,572.8	40,587.5 ⁽⁷⁾	47,561.2
Long-term debt	5,551.0	5,125.6	4,691.5	5,096.0	4,879.0
Stockholders' equity	17,559.7	17,977.7	17,349.3	15,620.8 ⁽⁷⁾	18,200.5
Financial Ratios:					
Income from continuing operations as a % of sales	19.6%	21.0%	25.4%	29.4%	31.7%
Net income					
as a % of average total assets	9.9%	10.6%	14.0%	15.0%	15.5%
Year-End Statistics:					
Average common shares outstanding (millions)	2,177.6	2,197.0	2,219.0	2,236.7	2,257.5
Average common shares outstanding assuming dilution (millions)	2,187.7	2,200.4	2,226.4	2,253.1	2,277.0
Number of stockholders of record	184,200	198,200	216,100	233,000	246,300
Number of employees	60,000	61,500	62,600	63,200 ⁽⁷⁾	77,300

(1) Prior year amounts reflect the impact of retrospectively adopting Securities and Exchange Commission Interpretation, Commission Guidance Regarding Accounting for Sales of Vaccines and BioTerror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile, (see Note 2 to the consolidated financial statements).

(2) Amounts for 2006 include the impact of restructuring actions, acquired research expenses resulting from acquisitions made during the year, additional Vioxx legal defense costs and the incremental impact of expensing stock options.

(3) Amounts for 2005 include the impact of the net tax charge primarily associated with the American Jobs Creation Act repatriation, restructuring actions and additional Vioxx legal defense costs.

(4) Amounts for 2004 include the impact of the withdrawal of Vioxx, Vioxx legal defense costs and restructuring actions.

(5) Amounts for 2003 include the impact of the implementation of a new distribution program for U.S. wholesalers and restructuring actions.

(6) Amount does not add as a result of rounding.

(7) Decrease in 2003 primarily reflects the impact of the spin-off of Medco Health.



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

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. The Company's operations are principally managed on a products basis and are comprised of two reportable segments: the Pharmaceutical segment and the Vaccines segment. The Pharmaceutical segment includes human health pharmaceutical 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 pharmaceutical products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Vaccines segment includes human health vaccine products marketed either directly or through a joint venture. These products consist of preventative pediatric, adolescent and adult vaccines, primarily administered at physician offices. Merck sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company's professional representatives communicate the effectiveness, safety and value of our pharmaceutical and vaccine products to health care professionals in private practice, group practices and managed care organizations.

Overview

During 2006, Merck continued to execute its strategy to reclaim its leadership position in the pharmaceutical industry. This was made evident through the successful launches of five novel medicines and vaccines in areas such as cancer prevention and diabetes, the advancement of drug candidates through every phase of the Company's pipeline and the continued success of its newer and in-line products. Additionally, the Company is developing a new commercial model which is designed to broaden its engagement with customers and scientific leaders, leverage alternative channels to complement the effectiveness of its sales force, and drive growth in key markets.

During 2006, five products received U.S. Food and Drug Administration ("FDA") approval: *Gardasil*, the first vaccine for the prevention of cervical cancer and genital warts caused by certain types of human papillomavirus ("HPV"); *Januvia*, the first medicine of its class that enhances a natural body system to improve blood sugar control in patients with type 2 diabetes; *Zostavax*, the first vaccine for adults 60 years of age and older to reduce the incidence of shingles, a disease which every year afflicts an estimated one million people in the United States alone; *RotaTeq*, a pediatric vaccine to help prevent rotavirus gastroenteritis in infants and children, the effects of which take the lives of nearly 600,000 children under the age of five worldwide every year; and *Zolinza*, a novel medicine to treat patients suffering from advanced cutaneous T-cell lymphoma ("CTCL").

In addition, the Company has three drug candidates currently under FDA review: *Janumet* (previously referred to as MK-0431A), an investigational oral medicine combining sitagliptin phosphate with metformin for type 2 diabetes that is designed to provide an additional treatment option for patients who need more than one oral agent to help control their blood sugar; *Emend For Injection* (MK-0517), an intravenous therapy for chemotherapy-induced nausea and vomiting ("CINV"); and *Arcoxia*, Merck's selective Cox-2 inhibitor for osteoarthritis. Additionally, the Company anticipates filing three New Drug Applications ("NDA") with the FDA in 2007: MK-0518, a first-in-class HIV integrase inhibitor; gaboxadol, a novel compound from Merck's alliance with H. Lundbeck A/S for the treatment of insomnia; and MK-0524A, an extended-release ("ER") niacin combined with laropiprant (a novel flushing pathway inhibitor) for cholesterol management. In addition, by mid-year 2007, Merck expects to have four products in Phase III development.

Additionally, targeted acquisitions made during the year of Sirna Therapeutics, Inc. ("Sirna"), GlycoFi, Inc. ("GlycoFi") and Abmaxis, Inc. ("Abmaxis"), as well as other alliances and collaborations, will complement Merck's strong internal research capabilities and should continue to help the Company build a pipeline that will support its long-term growth.

Merck is working to deliver innovative and differentiated products to the market faster and more efficiently. The Company has successfully reduced late development product cycle times and anticipates further reductions in the coming year. Additionally, Merck's new commercial model is expected to lower spending per

primary care brand by 15% to 20% in the United States from 2005 through 2010 (an interim targeted 9% reduction is expected to be achieved through the end of 2007) while still appropriately supporting product launches, as illustrated in the successful launch of five new products in 2006. Through redeployment, the launches were achieved with no increase in sales force.

The initial phase of a global restructuring program designed to reduce the Company's cost structure, increase efficiency and enhance competitiveness is underway. The initial steps include the implementation of a new supply strategy by the Merck Manufacturing Division, which is intended to create a leaner, more cost-effective and customer-focused manufacturing model over a three-year period. As part of this program, in 2005, Merck announced plans to sell or close five manufacturing sites and two preclinical sites by the end of 2008 (three of the manufacturing sites were closed, sold or had ceased operations and the two preclinical sites were closed by the end of 2006), and eliminate approximately 7,000 positions company-wide (of which approximately 4,800 positions were eliminated by the end of 2006 comprised of actual headcount reductions, and the elimination of contractors and vacant positions). However, the Company continues to hire new employees as the Company's business requires it. The Company has also sold certain other facilities and related assets in connection with the restructuring program. The pre-tax costs of this restructuring program were \$935.5 million in 2006 (comprised of \$793.2 million primarily representing accelerated depreciation and asset impairment costs and \$142.3 million of separation and other restructuring related costs) and are expected to be \$300 million to \$500 million in 2007. Through the end of 2008, when the initial phase of the restructuring program relating to the manufacturing strategy is expected to be substantially complete, the cumulative pre-tax costs of the program are expected to range from \$1.9 billion to \$2.2 billion. Merck continues to expect the initial phase of its cost reduction program to yield cumulative pre-tax savings of \$4.5 to \$5.0 billion from 2006 through 2010.

With respect to the *Vioxx* litigation, to date in the *Vioxx* Product Liability Lawsuits, of the 29 plaintiffs whose claims have been scheduled for trial, the claims of seven were dismissed, the claims of seven were withdrawn from the trial calendar by plaintiffs, and juries have decided in Merck's favor nine times and in plaintiffs' favor four times. In addition, in the recent California trial involving two plaintiffs, the jury could not reach a verdict for either plaintiff and a mistrial was declared. A New Jersey state judge set aside one of the nine Merck verdicts. With respect to the four plaintiffs' verdicts, Merck already has filed an appeal or sought judicial review in each of those cases, and in one of those four, a federal judge overturned the damage award shortly after trial. In addition, a consolidated trial with two plaintiffs is currently ongoing in the coordinated proceeding in New Jersey Superior Court before Judge Carol E. Higbee and another trial has commenced in state court in Illinois. During 2006, the Company spent \$500 million in the aggregate, including \$175 million in the fourth quarter, in *Vioxx* legal defense costs worldwide. During 2006, the Company recorded charges of \$673 million to increase the reserve solely for its future legal defense costs related to *Vioxx* litigation and at December 31, 2006 the balance of the reserve was \$858 million. This reserve is based on certain assumptions and is the best estimate of the amount the Company believes, at this time, will be spent through 2008. The *Vioxx* litigation is more fully discussed in Note 11 to the consolidated financial statements.

Earnings per common share assuming dilution for 2006 were \$2.03, including the impact of the global restructuring program of \$0.28 per share, the acquired research charge related to the acquisition of Sirna of \$0.21 per share and the acquired research charge related to the acquisition of GlycoFi of \$0.14 per share (as discussed in "Acquisitions" below), additional reserves established solely for future legal defense costs for *Vioxx* litigation (as discussed above) and the impact of adopting a new accounting standard requiring the expensing of stock options (as discussed in "Share-Based Compensation" below).

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 expanded health care access by enacting the Medicare Prescription Drug Improvement and Modernization Act of 2003, which was signed into law in December 2003. Prescription drug coverage began on January 1, 2006. This legislation supports 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 legislation will ensure that prescription drug costs will be controlled by competitive pressures and by encouraging the appropriate use of medicines.

In addressing cost-containment pressure, 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.

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 access to innovative medicines and vaccines, and to support 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. Within Europe, European institutions such as the European Commission ("EC") have recognized the economic importance of the research-based pharmaceutical industry and the value of innovative medicines to society. As a result, they are working with industry representatives to complete the "Single Market" in pharmaceuticals and improve the competitive climate through a variety of means including market deregulation. In order to advance the related policy debate, the EC launched the High Level Pharmaceutical Forum ("HLPF") at the end of 2005. This initiative aims at improving the prospects of the research-based pharmaceutical industry in Europe and thus the health prospects of all patients who will benefit from innovative therapies. Through an active dialogue among all stakeholders in the health care system (from payers to patients), this initiative is an attempt to tackle key policy issues in Europe: (i) promoting greater pricing flexibility for medicines; (ii) ensuring that health authorities apply best practices for the evaluation of the relative effectiveness of medicines; and (iii) improving greater access to information on medicines for patients in Europe. The Company has been actively engaged with the EC and other stakeholders in order to achieve a successful outcome for the HLPF that would help European patients gain greater and quicker access to its medicines.

The Company is committed to improving access to medicines and enhancing the quality of life for people around the world. The African Comprehensive HIV/AIDS Partnerships ("ACHAP") in Botswana, a partnership between the government of Botswana, the Bill & Melinda Gates Foundation and The Merck Company Foundation/Merck & Co., Inc., is supporting Botswana's response to HIV/AIDS through a comprehensive and sustainable approach to HIV prevention, care, treatment and support. In May 2005, the Company initiated a similar partnership with the People's Republic of China (focused initially in Sichuan Province) to help strengthen China's response to the HIV epidemic.

To further catalyze access to HIV medicines in developing countries, under price reduction guidelines that the Company announced in 2001, Merck makes no profit on the sale of its current HIV/AIDS medicines in the world's poorest countries and those hardest hit by the pandemic, and offers its HIV/AIDS medicines at significantly reduced prices to medium-income countries. In February 2007, Merck announced that it had again reduced the price of *Stocrin* in the least developed countries of the world and those hardest hit by the pandemic. By the end of 2006, more than 475,000 patients in more than 75 developing countries were being treated with antiretroviral regimens containing either *Crixivan* or *Stocrin*. Through these and other actions, Merck is working independently and 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.

The Company is subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing amount of focus on privacy and data protection issues with the potential to affect directly the Company's business.

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.

As patents on certain of the Company's products expire, Merck has entered into, and may continue to enter into, authorized generic agreements which allow the Company to benefit when these medicines become available in generic form.

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.

Acquisitions

In December 2006, Merck completed the acquisition of Sirna for approximately \$1.1 billion. Sirna is a biotechnology company that is a leader in developing a new class of medicines based on RNA interference ("RNAi") technology, which could significantly alter the treatment of disease. The transaction was accounted for as a business combination in which the excess of the purchase price over the fair value of the acquired net assets has been recorded as goodwill of \$345.9 million. The goodwill was not deductible for tax purposes. The Company recorded a charge of \$466.2 million for acquired research associated with Sirna's compounds currently under development, which related to the development of treatments for both the hepatitis B and hepatitis C viruses, which are in preclinical development, as well as licensing agreements held by Sirna. The charge was not deductible for tax purposes. The ongoing activity with respect to each of these compounds under development is not expected to be material to the Company's research and development expenses. The allocation of the purchase price also resulted in the recognition of an intangible asset of \$357.8 million, and a related deferred tax liability of \$146.3 million, related to Sirna's developed technology. The acquisition of Sirna is expected to increase Merck's ability to use RNAi technology to turn off a targeted gene in a human cell, potentially rendering inoperative a gene responsible for triggering a specific disease. (See Note 5 to the consolidated financial statements.)

In June 2006, Merck acquired GlycoFi, a privately-held biotechnology company that is a leader in the field of yeast glycoengineering, which is the addition of specific carbohydrate modifications to the proteins in yeast, and optimization of biologic drug molecules, for \$373 million in cash (\$400 million purchase price net of \$25 million of shares already owned and net transaction costs). The Company recorded a \$296.3 million charge for acquired research in connection with the acquisition which is not deductible for tax purposes. The Company also recorded a \$99.4 million intangible asset (\$57.6 million net of deferred taxes) related to GlycoFi's developed technology. In May 2006, Merck acquired Abmaxis, a privately-held biopharmaceutical company dedicated to the discovery and optimization of monoclonal antibody products for human therapeutics and diagnostics, for \$80 million in cash. Substantially all of the purchase price was allocated to an intangible asset relating to Abmaxis' technology platform. While each of the acquisitions has independent scientific merits, the combination of the GlycoFi and Abmaxis platforms is potentially synergistic, giving Merck the ability to operate across the entire spectrum of therapeutic antibody discovery, development and commercialization. (See Note 5 to the consolidated financial statements.)

Operating Results

Sales

Worldwide sales for 2006 increased 3% in total over 2005 primarily driven by higher volumes. Foreign exchange and price changes had virtually no impact on sales growth in 2006. Sales performance over 2005 reflects strong growth of *Singulair*, a once-a-day oral medicine indicated for the chronic treatment of asthma and the relief of symptoms of allergic rhinitis, and the Company's vaccines, which include *Gardasil* to help protect against cervical cancer and genital warts caused by certain types of HPV, *ProQuad*, the combination vaccine for simultaneous vaccination against measles, mumps, rubella and varicella, and *RotaTeq* to help protect against rotavirus gastroenteritis in infants and children. Also contributing to the sales growth were higher revenues from the Company's relationship with AstraZeneca LP ("AZLP") primarily driven by *Nexium*, and increased sales of *Cozaar/Hyzaar* for high blood pressure. In addition, sales in 2006 reflect certain supply sales associated with activities not expected to continue beyond 2006, including the Company's arrangement with Dr. Reddy's Laboratories ("DRL") for the sale of generic simvastatin. Sales growth was partially offset by lower sales of *Zocor*, the Company's statin for modifying cholesterol and *Proscar*, a urology product for the treatment of symptomatic benign

prostate enlargement. Merck's U.S. marketing exclusivity for *Zocor* expired on June 23, 2006, while *Proscar* lost U.S. marketing exclusivity on June 19, 2006.

Domestic sales increased 8% over 2005, while foreign sales declined 4%. Foreign sales represented 39% of total sales in 2006. Domestic sales benefited from the launch of three new vaccines, while foreign sales were negatively affected by the loss of marketing exclusivity and continued generic erosion related to *Zocor* and *Fosamax* products.

Worldwide sales for 2005 decreased 4% in total over 2004, reflecting a decrease of 7% related to the voluntary worldwide withdrawal of *Vioxx*, offset by revenue growth in all other products of 3%. This growth reflects a 1% favorable effect from foreign exchange, a 1% favorable effect from price changes and a volume increase of 1%. Foreign sales represented 42% of total sales for 2005.

Sales ⁽¹⁾ of the Company's products were as follows:

(\$ in millions)	2006	2005	2004
Singulair	\$ 3,579.0	\$ 2,975.6	\$ 2,622.0
Cozaar/Hyzaar	3,163.1	3,037.2	2,823.7
Fosamax	3,134.4	3,191.2	3,159.7
Zocor	2,802.7	4,381.7	5,196.5
Primaxin	704.8	739.6	640.6
Cosopt/Trusopt	697.1	617.2	558.8
Proscar	618.5	741.4	733.1
Vasotec/Vaseretic	547.2	623.1	719.2
Candidas	529.8	570.0	430.0
Maxalt	406.4	348.4	309.9
Propecia	351.8	291.9	270.2
Vioxx	-	-	1,489.3
Vaccines/Biologicals ⁽²⁾	1,859.4	1,103.3	1,070.3
Other	4,241.8	3,391.3	2,949.5
	\$22,636.0	\$22,011.9	\$22,972.8

⁽¹⁾ Presented net of discounts and returns.

⁽²⁾ These amounts do not reflect sales of vaccines sold in most major European markets through the Company's joint venture, Sanofi Pasteur MSD, the results of which are reflected in equity income from affiliates.

The Company's pharmaceutical products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are *Singulair*, a leukotriene receptor antagonist respiratory product for the chronic treatment of asthma and for the relief of symptoms of allergic rhinitis; *Cozaar/Hyzaar* and *Vasotec*, the Company's most significant hypertension and/or heart failure products; *Fosamax* and *Fosamax Plus D* (marketed as *Fosavance* throughout the European Union ("EU")), for the treatment and, in the case of *Fosamax*, prevention of osteoporosis; *Zocor*, Merck's atherosclerosis product; *Primaxin* and *Candidas*, anti-bacterial/anti-fungal products; *Cosopt* and *Trusopt*, the largest-selling ophthalmological products; *Proscar*, a urology product for the treatment of symptomatic benign prostate enlargement; *Maxalt*, an acute migraine product and *Propecia*, a product for the treatment of male pattern hair loss.

Among the products included within vaccines/biologicals are *Varivax*, a vaccine to help prevent chickenpox, *M-M-R II*, a vaccine against measles, mumps and rubella, *ProQuad*, the pediatric combination vaccine against measles, mumps, rubella and varicella, *Gardasil*, a vaccine for the prevention of cervical cancer and genital warts caused by certain types of HPV, *Pneumovax*, a vaccine for the prevention of pneumococcal disease, *RotaTeq*, a vaccine to help protect against rotavirus gastroenteritis in infants and children, and *Zostavax*, a vaccine to help prevent shingles (herpes zoster) in individuals 60 years of age or older.

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 \$1.8 billion, \$1.7 billion, and \$1.5 billion in 2006, 2005 and 2004, respectively. In 2006, other also includes certain supply sales associated with activities not expected to continue beyond 2006, including the Company's arrangement with DRL for the sale of generic simvastatin.

Segment Revenues

(\$ in millions)	2006	2005	2004
Pharmaceutical segment revenues	\$20,374.8	\$20,678.8	\$21,591.0
Vaccines segment revenues ⁽¹⁾	1,705.5	984.2	972.8
Other segment revenues ⁽²⁾	162.1	161.8	185.1
Other revenues ⁽³⁾	393.6	187.1	223.9
Total revenues	\$22,636.0	\$22,011.9	\$22,972.8

⁽¹⁾ In accordance with segment reporting requirements, Vaccines segment revenues exclude \$153.9 million, \$119.1 million and \$97.5 million in 2006, 2005 and 2004, respectively, of vaccines sales by certain non-U.S. subsidiaries managed by and included in the Pharmaceutical segment.

⁽²⁾ Includes other non-reportable human and animal health segments.

⁽³⁾ Other revenues are primarily comprised of miscellaneous corporate revenues, sales related to divested products or businesses and other supply sales not included in segment results.

Pharmaceutical Segment Revenues

Sales of the Pharmaceutical segment decreased 1% in 2006 primarily due to declines in *Zocor* and *Proscar* post-patent expiration, partially offset by increases in *Singulair* and *Cozaar/Hyzaar*.

Singulair, Merck's once-a-day oral respiratory medicine indicated for the treatment of chronic asthma and the relief of symptoms of allergic rhinitis, continued its strong performance in 2006, reflecting the continued demand for asthma and seasonal and perennial allergic rhinitis medications. *Singulair* continues to be the number one prescribed product in the U.S. respiratory market. Total 2006 sales of *Singulair* were \$3.6 billion, an increase of 20% over 2005.

Global sales for *Cozaar*, and its companion agent *Hyzaar* (a combination of *Cozaar* and hydrochlorothiazide), for the treatment of hypertension were \$3.2 billion in 2006, a 4% increase over 2005. *Cozaar* and *Hyzaar* compete in the fastest-growing class in the antihypertensive market, angiotensin II antagonists ("AIIA"). *Cozaar/Hyzaar* remained the number two branded AIIA in the United States and Europe in 2006.

In December 2006, the Company's Japanese subsidiary launched *Preminent*, known as *Hyzaar* in most worldwide markets, the first-ever-fixed-dose combination in Japan of an angiotensin receptor blocker and hydrochlorothiazide for the treatment of hypertension. Japan is the second largest pharmaceutical market in the world.

Global sales for *Fosamax* and *Fosamax Plus D*, for the treatment of postmenopausal, male and/or glucocorticoid-induced osteoporosis, were \$3.1 billion in 2006, a decrease of 2% over 2005. Sales outside of the United States were affected by the availability of other generic alendronate sodium products in some key markets, including the United Kingdom, Canada and Germany. The Company has ongoing litigation in certain of those European countries based on the Company's alendronate patents. *Fosamax* and *Fosamax Plus D* together remain the most prescribed medicine worldwide for the treatment of osteoporosis. *Fosamax* and *Fosamax Plus D* will lose market exclusivity in the United States in February 2008 and April 2008, respectively, and the Company expects significant declines in U.S. *Fosamax* and *Fosamax Plus D* sales after each product's respective loss of market exclusivity.

In August 2006, *Fosamax* (marketed as *Fosamac*) became the first once-weekly, oral medicine for osteoporosis to be launched in Japan.

Worldwide sales of *Zocor*, Merck's statin for modifying cholesterol, were \$2.8 billion in 2006, a decrease of 36% from 2005. Sales of *Zocor* were negatively affected by the loss of U.S. marketing exclusivity in June 2006. Global sales of *Zocor* are expected to be \$0.6 billion to \$0.9 billion in 2007.

In February 2006, the Company entered into an agreement with DRL that authorized the sale of generic simvastatin. Under the terms of the agreement, the Company is reimbursed on a cost-plus basis by DRL for supplying finished goods and receives a share of the net profits recorded by DRL. Merck continues to offer branded *Zocor* and to manufacture simvastatin for branded *Zocor*, *Vytorin* and the Company's investigational compound MK-0524B. In 2006, Merck recorded \$208.9 million associated with the DRL arrangement for simvastatin. This revenue is not expected to continue beyond 2006.

In October 2006, *Januvia* was approved by the FDA, and is now the first and only dipeptidyl peptidase-4 ("DPP-4") inhibitor available in the United States for the treatment of type 2 diabetes. DPP-4 inhibitors represent a new class of prescription medications that improve blood sugar control in patients with type 2 diabetes by enhancing a natural body system called the incretin system. *Januvia* has been approved as monotherapy and as add-on therapy to either of two other oral diabetes medications, metformin or thiazolidinediones ("TZDs"), to improve blood sugar (glucose) control in patients with type 2 diabetes when diet and exercise are not enough.

On January 25, 2007, the Company received a positive opinion about *Januvia* from the Committee for Medicinal Products for Human Use ("CHMP") of the European Medicines Agency ("EMA") in Europe. The CHMP opinion recommended that *Januvia* be approved in the EU for the treatment of type 2 diabetes. Following the conclusion of the CHMP review, the opinion for *Januvia* will be transmitted to the EC. If the EC adopts the opinion, *Januvia* will be the first and only prescription medication in a new class of drugs known as DPP-4 inhibitors, which enhance the body's own ability to lower blood sugar (glucose) when it is elevated. The decision will be applicable to the 27 countries that are members of the EU. Marketing authorization from the EC is expected in early April 2007 after the adoption of the opinion. Including the EU, Merck anticipates approval for *Januvia* in at least another 55 countries in 2007.

Clinical studies show that *Januvia* provides significant A1C (a measure of average blood glucose level over a two- to three-month period) reductions in both monotherapy and when added to two commonly used types of diabetes drugs, metformin and TZDs. Treatment with *Januvia* was not associated with weight gain or an increased risk of hypoglycemia. *Januvia* is now available in 11 countries including the United States, Mexico, and Brazil, and other regulatory filings around the world are moving forward. Global sales of *Januvia* were \$42.9 million in 2006.

In October 2006, the FDA approved *Zolanza* for the treatment of cutaneous manifestations in patients with CTCL who have progressive, persistent or recurrent disease on or following two systemic therapies. The approval of *Zolanza* represents the first anticancer treatment approved for CTCL since 1999.

Other products experiencing growth in 2006 include *Cosopt* to treat glaucoma, *Propecia* for male pattern hair loss, *Maxalt* to treat migraine pain, *Arcoxia* for the treatment of arthritis and pain, *Invanz* for the treatment of selected moderate to severe infection in adults, *Emend* for prevention of acute and delayed nausea and vomiting associated with moderately and highly emetogenic cancer chemotherapy as well as for the treatment of post-operative nausea and vomiting. Also contributing to Merck's total sales in 2006 was revenue resulting from the Company's relationship with AZLP, primarily relating to sales of *Nexium*.

Proscar, Merck's urology product for the treatment of symptomatic benign prostate enlargement, lost marketing exclusivity in the United States in June 2006. Merck's U.S. sales of *Proscar* for 2006 were \$243.7 million, a decrease of 34% compared with 2005. The Company expects the decline in U.S. *Proscar* sales to continue. The basic patent for *Proscar* also covers *Propecia*, however, *Propecia* is protected by additional patents which expire in October 2013.

Vaccines Segment Revenues

Sales of the Vaccines segment increased 73% in 2006 as a result of new product launches and the continued success of in-line vaccines. The following discussion of vaccines includes total vaccines sales, the vast majority of which are included in the Vaccines segment and the remainder, representing certain sales of vaccines by non-U.S. subsidiaries, are managed by and included in the Pharmaceutical segment. These amounts do not reflect

sales of vaccines sold in most major European markets through Sanofi Pasteur MSD (“SPMSD”) the Company’s joint venture with Sanofi Pasteur, the results of which are reflected in equity income from affiliates.

In 2006, the Company announced FDA approval of three new breakthrough vaccines: *Gardasil*, *RotaTeq* and *Zostavax*.

On June 8, 2006, the FDA approved *Gardasil*, the only vaccine available in the United States to prevent cervical cancer and vulvar and vaginal pre-cancers caused by HPV types 16 and 18 and to prevent low-grade and pre-cancerous lesions and genital warts caused by HPV types 6, 11, 16 and 18. *Gardasil* is approved for 9- to 26-year-old girls and women. *Gardasil* is a three dose, intra muscular vaccine given over six months. In the United States, it is estimated that approximately 9,700 women will be diagnosed with cervical cancer this year, and approximately 3,700 women will die.

In June 2006, the U.S. Centers for Disease Control’s (“CDC”) Advisory Committee on Immunization Practices (“ACIP”) voted unanimously to recommend that girls and women 11 to 26 years old be vaccinated with *Gardasil*. The ACIP recommended that *Gardasil* be administered to 11- and 12-year-old females and to females aged 13 to 26 who have not previously been vaccinated, and that 9- and 10-year-old females be vaccinated with *Gardasil* at the discretion of their physicians.

On November 1, 2006, the Company announced that the CDC added *Gardasil* to the CDC’s Vaccines for Children program for eligible girls and women aged 9 to 18. As of February 2, 2007, managed care plans representing at least 96% of privately-insured lives in the United States (currently more than 120 insurance plans) had decided to reimburse for *Gardasil* when covered under the member’s benefit design. These insurers are reimbursing the vaccine at or above the lowest price paid to Merck by private non-HMO customers.

In September 2006, *Gardasil* was approved as the first and only vaccine in the EU for use in children and adolescents aged 9 to 15 years and in adult females aged 16 to 26 years for the prevention of cervical cancer, high-grade cervical dysplasias/precancers [cervical intraepithelial neoplasia (CIN 2/3)], high-grade/precancerous vulvar dysplastic lesions (VIN 2/3) and genital warts caused by HPV types 6, 11, 16 and 18. *Gardasil* is marketed by SPMSD in 19 European countries, including 15 in the EU. In the remaining Central and Eastern European countries, *Gardasil* is marketed by Merck Sharp & Dohme as either *Gardasil* or *Silgard*.

In 2006, total sales of *Gardasil* recorded by Merck were \$234.8 million. *Gardasil* has been approved in 54 countries, all under accelerated reviews, with regulatory applications pending in approximately 50 countries.

In February 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 received an upfront payment and is receiving 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. In addition, in 1995, Merck entered into a license agreement and collaboration with CSL Limited relating to technology used in *Gardasil*. *Gardasil* is also the subject of other third-party licensing agreements. As a consequence of these agreements, the Company will pay royalties on the worldwide sales of *Gardasil* of approximately 24% to 26% in the aggregate.

Clinical studies to evaluate the efficacy of *Gardasil* in females 27 to 45 years of age and males 16 to 26 years of age continue in more than 30 countries around the world. The Company expects to submit to the FDA an indication for females 27 to 45 years of age in the fourth quarter of 2007, and an indication for males 16 to 26 years of age in 2008. The Company is also conducting ongoing clinical studies to assess the potential for cross-protection against HPV types related to HPV 16 and 18, including HPV 31 and 45. Cross-protection, if proven, could potentially expand the vaccine’s prevention coverage against cervical cancer.

In February 2006, the FDA approved *RotaTeq*, the Company’s vaccine to help protect against rotavirus gastroenteritis in infants and children. The FDA approval of *RotaTeq* was based on data from the Company’s Phase III clinical trials of nearly 70,000 infants, including data from the Rotavirus Efficacy and Safety Trial (“REST”), one of the largest pre-licensure vaccine clinical trials ever conducted. In these clinical trials, *RotaTeq* prevented 98% of severe cases of rotavirus gastroenteritis and prevented 74% of rotavirus gastroenteritis cases of any severity caused by serotypes targeted by the vaccine (G1, G2, G3, G4) compared to placebo through the first full

rotavirus season after vaccination. *RotaTeq* also reduced hospitalizations by 96% and emergency room visits by 94% for rotavirus gastroenteritis caused by serotypes targeted by the vaccine through the first two years after the third dose.

In February 2006, the CDC's ACIP unanimously voted to recommend that all infants, starting at 6 to 12 weeks of age be vaccinated with *RotaTeq*, now the only rotavirus vaccine available in the United States. The ACIP recommended that the oral, ready-to use vaccine be given during the current routine well-baby visits at 2, 4, and 6 months of age. In April, *RotaTeq* was made available in the CDC Vaccines for Children program.

Within the United States, as of February 6, 2007, health insurance plans representing approximately 90% of covered lives in the eligible age group of infants and young children between six and 32 weeks of age have added *RotaTeq* to their formularies. *RotaTeq* has been approved in 34 countries and applications for licensure have been filed in more than 100 countries. In Nicaragua, where *RotaTeq* was approved in 2006, the Company will provide the vaccine free of charge for all infants born in the country over a three-year period commencing in October 2006, through a joint demonstration project with the Nicaraguan Ministry of Health. In 2006, *RotaTeq* sales recorded by Merck were \$163.4 million.

In February 2007, Merck updated the labeling information for *RotaTeq* to include post-marketing reports of intussusception and hematochezia to the Vaccine Adverse Events Reporting System ("VAERS"), a national vaccine safety surveillance program. In February 2007, the FDA reported that since the licensure of *RotaTeq* on February 3, 2006 until January 31, 2007, 28 cases of intussusception in infants who received *RotaTeq* have been reported in the United States to VAERS and that this number does not exceed the number of cases expected based on the background rate. REST was specifically designed to evaluate vaccine safety with respect to intussusception. In REST, there was no increased risk of intussusception with *RotaTeq*, compared to placebo.

In May 2006, the FDA approved *Zostavax*, the Company's vaccine for prevention of herpes zoster (shingles) in individuals 60 years of age and older. It was also approved by regulatory authorities in the EU and Australia in May. *Zostavax* is the first and only medical option approved for the prevention of shingles.

In October 2006, the CDC ACIP voted unanimously to recommend that adults 60 years of age and older be vaccinated with *Zostavax* to help prevent shingles. Following the ACIP recommendation, in the United States, as of February 6, 2007, managed care plans representing approximately 85% of covered lives are reimbursing for *Zostavax*. Sales of *Zostavax* recorded by Merck in 2006 were \$38.6 million.

In June 2006, the ACIP unanimously voted to recommend that children 4 to 6 years of age routinely receive a second dose of varicella (chickenpox)-containing vaccine. Merck's *Varivax* and its combination vaccine *ProQuad* are the only vaccines to help protect against chickenpox available in the United States. The ACIP also voted to recommend that children, adolescents and adults who previously received one dose of varicella-containing vaccine should receive a catch-up second dose. The ACIP voted to include the second dose of chickenpox vaccine in the Vaccines for Children program.

Merck has recently determined that the bulk manufacturing process for the Company's varicella zoster virus ("VZV")-containing vaccines was producing lower amounts of bulk VZV intermediate than expected. The VZV bulk in question was designated for use in fulfilling future quantities of the three VZV-containing vaccines — *Varivax*, *ProQuad* and *Zostavax*. As a result, production of the VZV bulk has been temporarily suspended while the Company identifies the cause of this issue.

This situation does not affect the quality of any of Merck's VZV-containing vaccines currently on the market, any lots of vaccine in inventory that are ready for release to the market or any vaccines which will be filled and finished from existing VZV bulk.

As the Company works to resolve this issue, it is decreasing the availability of *ProQuad*, while increasing the availability of the component vaccines *Varivax* and *M-M-R II*. Additionally, the Company will postpone the introductions outside the United States of *ProQuad* and *Zostavax* until the VZV bulk issue is resolved.

Based on this approach and in view of current projections, the Company currently expects to meet anticipated market demand for VZV-containing vaccines.

Costs, Expenses and Other

Share-Based Compensation

On January 1, 2006, the Company adopted Financial Accounting Standards Board (“FASB”) Statement No. 123R, *Share-Based Payment* (“FAS 123R”) (see Note 14 to the consolidated financial statements). FAS 123R requires all share-based payments to employees be expensed over the requisite service period based on the grant-date fair value of the awards. Prior to adopting FAS 123R, the Company accounted for employee stock options using the intrinsic value method which measures share-based compensation expense as the amount by which the market price of the stock at the date of grant exceeds the exercise price. The Company elected the modified prospective transition method for adopting FAS 123R, and therefore, prior periods were not restated. Under this method, the provisions of FAS 123R apply to all awards granted or modified after January 1, 2006. Total pre-tax share-based compensation expense was \$312.5 million in 2006, \$48.0 million in 2005 and \$25.7 million in 2004. Incremental pre-tax expense related to the adoption of FAS 123R was \$227.8 million in 2006. In addition, the unrecognized expense of awards that have not yet vested at the date of adoption shall be recognized in Net income in the periods after the date of adoption. At December 31, 2006, there was \$273.8 million of total pre-tax unrecognized compensation expense related to nonvested stock option, restricted stock unit and performance share unit awards which will be recognized over a weighted average period of 2.0 years. For segment reporting, share-based compensation expense is recorded in unallocated expense.

(\$ in millions)	2006	Change	2005	Change	2004
Materials and production	\$ 6,001.1	17%	\$ 5,149.6	4%	\$ 4,965.7
Marketing and administrative	8,165.4	14%	7,155.5	-1%	7,238.7
Research and development	4,782.9	24%	3,848.0	-4%	4,010.2
Restructuring costs	142.3	-56%	322.2	*	107.6
Equity income from affiliates	(2,294.4)	34%	(1,717.1)	70%	(1,008.2)
Other (income) expense, net	(382.7)	*	(110.2)	-68%	(344.0)
	\$16,414.6	12%	\$14,648.0	-2%	\$14,970.0

* 100% or greater.

Materials and Production

In 2006, materials and production costs increased 17%, compared to a 3% increase in sales. The increase is primarily attributable to \$736.4 million recorded in 2006 related to the global restructuring program compared with \$177.1 million recorded in 2005. Of the amount recorded in 2006, \$707.3 million represents accelerated depreciation associated with the planned sale or closure of five of the Company’s manufacturing facilities (see Note 4 to the consolidated financial statements). The remaining \$29.1 million represents impairment charges associated with the abandonment of certain fixed assets that will no longer be used in the business as a result of these restructuring actions. Materials and production costs in 2006 also include stock option expense of \$23.8 million. Additionally, materials and production costs included a 1% unfavorable impact from inflation in 2006.

In 2005, materials and production costs increased 4%, compared to a 4% decline in sales. The increase is primarily attributable to \$177.1 million recorded in 2005 related to the global restructuring program. Of this, \$111.2 million represents impairment charges associated with the abandonment of certain fixed assets that will no longer be used in the business as a result of these restructuring actions. The remaining \$65.9 million represents accelerated depreciation associated with Merck’s plan to sell or close five of its owned manufacturing facilities. Additionally, 1% of the increase in materials and production costs in 2005 is attributable to the unfavorable effect from inflation. The variance in these costs relative to the sales decline reflects the impact of the items noted above, as well as the unfavorable effect on sales associated with the voluntary worldwide withdrawal of *Vioxx* in 2004.

Gross margin was 73.5% in 2006 compared to 76.6% in 2005 and 78.4% in 2004. The restructuring charges noted above had an unfavorable impact of 3.3 percentage points in 2006 and 0.8 percentage points in 2005. In addition, in 2006, *Zocor* lost U.S. marketing exclusivity which negatively affected the gross margin. The impact of the voluntary worldwide withdrawal of *Vioxx* had an unfavorable effect on the gross margin in 2004.

Marketing and Administrative

In 2006, marketing and administrative expenses increased 14%, primarily reflecting \$673 million of additional reserves solely for legal defense costs for *Vioxx* litigation (see Note 11 to the consolidated financial statements) as well as costs associated with the launches of three new vaccines and other new products, mainly *Januvia* in the United States. In 2006, marketing and administrative expenses also included a \$48 million charge to establish a legal defense reserve for *Fosamax* litigation (see Note 11 to the consolidated financial statements), as well as stock option expense of \$143.7 million. Additionally, marketing and administrative expenses included a 3% unfavorable effect from inflation in 2006.

In 2005, marketing and administrative expenses decreased 1% primarily due to costs recorded in 2004 of \$141.4 million for the voluntary worldwide withdrawal of *Vioxx* and \$604 million for the establishment of a reserve solely for legal defense costs for *Vioxx* litigation. Partially offsetting the decrease was an additional reserve of \$295 million for *Vioxx* legal defense costs recorded in 2005, as well as costs required to prepare for the launch of three new vaccines. Additionally, a 4% unfavorable effect from inflation and a 1% unfavorable effect from exchange also partially offset the declines.

Research and Development

Research and development expenses increased 24% in 2006. Included in the increase is a \$466.2 million acquired research charge related to acquisition of Sirna, as well as a \$296.3 million acquired research charge resulting from the GlycoFi acquisition. In addition, the increase reflects accelerated depreciation costs of \$56.5 million in 2006 related to the closure of research facilities in connection with the global restructuring program, as well as stock option expense of \$55.5 million. Additionally, a 2% unfavorable effect from inflation also contributed to the increase in 2006.

The Company has three drug candidates currently under FDA review:

In June 2006, the FDA accepted for standard review an NDA for MK-0517, the intravenous prodrug of *Emend*, for the treatment of CINV. The Company anticipates a decision on the NDA in the second quarter of 2007.

In July 2006, the FDA accepted for standard review the NDA for *Janumet*, the Company's investigational oral medicine combining *Januvia* with metformin, which is designed to provide an additional treatment for patients needing more than one oral agent to help control blood sugar for treatment of type 2 diabetes. The Company expects FDA action on the NDA by the end of March 2007. The Company is also moving forward as planned with regulatory filings in countries outside the United States.

Arcoxia, the Company's investigational selective COX-2 inhibitor, remains under standard review by the FDA in the United States. In response to the FDA's approvable letter, Merck included results of the MEDAL (Multinational Etoricoxib and Diclofenac Arthritis Long-Term) Program that showed the rate of confirmed thrombotic cardiovascular events was similar between *Arcoxia* and diclofenac, the most widely used nonsteroidal anti-inflammatory drug in the world. The Company anticipates FDA action in April 2007. The Company expects that an FDA Advisory Committee meeting will be held prior to FDA action. *Arcoxia* is currently available in more than 60 countries in Europe, Latin America, the Asia-Pacific region and Middle East/Northern Africa.

The Company anticipates filing three NDAs with the FDA in 2007:

The Company plans to file an NDA for MK-0518 with the FDA in the second quarter of 2007 and has received fast track designation for an indication in treatment-experienced patients.

Interim 16-week data from the dose-ranging Phase II trial of MK-0518, the Company's investigational HIV integrase inhibitor, in patients with advanced HIV infection were presented at the 13th Annual Conference on Retroviruses and Opportunistic Infections in February 2006. The results showed that the oral investigational medication at all three doses studied in combination with optimized background therapy ("OBT") had greater antiretroviral activity than OBT alone. Study results also showed that MK-0518 in combination with OBT was generally well tolerated in these patients who were failing antiretroviral therapy ("ART"), who were resistant to at least one drug of each of the three available classes of oral ARTs, and who had limited active ARTs as options for treatment. At the American Society for Microbiology's 46th Annual International Conference on Antimicrobial

Agents and Chemotherapy in September 2006, the Company presented interim 24-week data from this ongoing study in treatment-experienced patients, which demonstrated MK-0518 maintaining viral load regression.

In August 2006 at the 16th International AIDS conference, the Company presented interim 24-week data from the Phase II dose-ranging trial of MK-0518 conducted in treatment-naïve, HIV-infected patients. The data showed that MK-0518 twice daily, when used in combination with tenofovir and lamivudine, achieved a comparable viral load reduction to efavirenz combined with the same agents in previously untreated patients. In September 2006 at the American Society for Microbiology's 46th Annual International Conference on Antimicrobial Agents and Chemotherapy, the Company presented additional interim 24-week data from this Phase II dose-ranging study in treatment-naïve patients that demonstrated no increase in lipid levels in patients taking MK-0518 with tenofovir and lamivudine.

The Company has entered into Phase III clinical trials with MK-0524A and to support MK-0524B, investigational therapies for lipid management. MK-0524A represents a novel approach to lowering LDL-C, raising HDL-C and lowering triglycerides. MK-0524B combines MK-0524A with the proven benefits of simvastatin to potentially reduce the risk of coronary heart disease beyond what statins provide alone. The Company plans to file MK-0524A with the FDA in 2007 and to file MK-0524B in 2008.

In November 2006, the Company presented data from a Phase II study at the American Heart Association's Scientific Sessions 2006 in Chicago that showed co-administration of MK-0524 with ER niacin significantly reduced flushing in patients with dyslipidemia compared to those patients who took ER niacin alone. Flushing, characterized by redness of the skin with warming or burning on the face and neck caused by the dilation of blood vessels near the skin, is a common niacin-induced side effect that can cause discomfort to patients and is a significant factor leading to discontinuation of niacin therapy.

In October 2006, the Company and H. Lundbeck A/S of Denmark announced that the submission of an NDA for gaboxadol, a novel investigational drug in Phase III development for the treatment of insomnia, will occur in mid-2007. Phase II clinical studies of gaboxadol showed improved sleep quality as well as increased slow-wave sleep without suppressing REM sleep. In December 2006, Merck announced that gaboxadol will likely be a scheduled compound.

Also, by mid-year 2007, Merck expects to have four products in Phase III development (including MK-0524B discussed above):

The Company has initiated a targeted Phase III program with its investigational compound for the treatment of obesity, MK-0364, which is an investigational cannabinoid-1 receptor inverse agonist. Results of early clinical studies indicate that MK-0364 demonstrated significant weight-loss efficacy versus placebo and was generally safe and well-tolerated, however, as reported with another cannabinoid-1 receptor inverse agonist, some psychiatric adverse experiences have been observed.

As announced in December 2006, the Company plans to start Phase III testing of MK-0974, the calcitonin gene related peptide receptor antagonist for the treatment of migraine headaches. The Phase III program is expected to commence in first quarter 2007.

Also announced in December 2006, the Company anticipates that MK-0822, a Cathepsin K inhibitor for the treatment of osteoporosis, will enter Phase III testing in mid-2007.

In August 2006, Merck and Gilead Sciences, Inc. ("Gilead") established an agreement for the distribution of Atripla, a once-daily, single tablet regimen for the treatment of HIV-1 infection in adults, in developing countries around the world. Atripla contains 600 mg of efavirenz, a non-nucleoside reverse transcriptase inhibitor, 200 mg of emtricitabine and 300 mg of tenofovir disoproxil fumarate, both nucleoside reverse transcriptase inhibitors. Efavirenz is marketed by Merck under the tradename *Stocrin* in all territories outside of the United States, Canada and certain European countries (where it is commercialized by Bristol-Myers Squibb ("BMS") under the tradename *Sustiva*). Emtricitabine and tenofovir disoproxil fumarate are commercialized by Gilead under the tradenames *Emtriva* and *Viread*, respectively. The compounds are commonly prescribed together as a once-daily, fixed-dose tablet, marketed under the tradename *Truvada* for use as part of combination therapy.

In October 2006, the Company along with BMS and Gilead announced the submission of a Marketing Authorisation Application (“MAA”) for Atripla in the EU to the EMEA. The MAA will be reviewed by the CHMP, subject to validation by the EMEA. The MAA for Atripla in the EU was filed jointly by the three companies through a newly established three-way collaboration based in Ireland. Review of the MAA will be conducted by the EMEA under the centralized licensing procedure, which, when finalized, provides one marketing authorization in all member states of the EU. Discussions among the three companies regarding agreements for manufacturing, commercialization and distribution of Atripla in the EU are ongoing.

Merck continues to remain focused on augmenting its internal efforts by capitalizing on growth opportunities, ranging from targeted acquisitions to research collaborations, preclinical and clinical compounds and technology transactions that will drive both near- and long-term growth. The Company completed 53 transactions in 2006 across a broad range of therapeutic categories, as well as early-stage technology transactions. Merck is currently evaluating other opportunities, and is actively monitoring the landscape for a range of targeted acquisitions that meet the Company’s strategic criteria. Highlights from these activities for the year include:

In March 2006, Neuromed Pharmaceuticals Ltd. (“Neuromed”) and Merck signed a research collaboration and license agreement to research, develop and commercialize novel compounds for the treatment of pain and other neurological disorders, including Neuromed’s lead compound, NMED-160 (MK-6721), which is currently in Phase II development for the treatment of pain. Under the terms of the agreement, Neuromed received an upfront payment of \$25 million. The successful development and launch of NMED-160 for an initial single indication on a worldwide basis would trigger milestone payments totaling \$202 million. Milestones could increase to approximately \$450 million if a further indication for NMED-160 is developed and approved and an additional compound is developed and approved for two indications. Neuromed would also receive royalties on worldwide sales of NMED-160 and any additional compounds developed under this agreement.

Also in March 2006, Merck and NicOx S.A. (“NicOx”) entered into a new agreement to collaborate on the development of new antihypertensive drugs using NicOx’s proprietary nitric oxide-donating technology. The agreement covers nitric oxide-donating derivatives of several major classes of antihypertensive agents for the treatment of high blood pressure, complications of hypertension, and other cardiovascular and related disorders. Merck has the exclusive right to develop and commercialize antihypertensives that use NicOx’s nitric oxide-donating technology for the treatment of systemic hypertension.

In May 2006, the Company acquired Abmaxis, a privately-held biopharmaceutical company dedicated to the discovery and optimization of monoclonal antibody products for human therapeutics and diagnostics. In June 2006, the Company acquired GlycoFi, a privately-held biotechnology company, a leader in the field of yeast glycoengineering and optimization of biologic drug molecules. In connection with the acquisition, the Company recorded a charge of \$296.3 million for acquired research associated with GlycoFi’s technology platform to be used in the research and development process, for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed (see “Acquisitions” above).

In October 2006, Merck and Ambrilia Biopharma Inc. (“Ambrilia”), a biopharmaceutical company developing innovative therapeutics in the fields of cancer and infectious diseases, announced they entered into an exclusive licensing agreement granting Merck the worldwide rights to Ambrilia’s HIV/AIDS protease inhibitor program. Under the terms of this agreement, Ambrilia granted Merck the exclusive worldwide rights to its lead compound, PPL-100, which has completed a Phase I single-dose pharmacokinetic study and is currently in a Phase I repeat dose pharmacokinetic study. In return, Ambrilia received an upfront licensing fee of \$17 million on signing and is eligible for cash payments totaling up to \$215 million upon successful completion of development, clinical, regulatory and sales milestones. Ambrilia will receive royalties on all future product sales.

In November 2006, the Company expanded the scope of its existing strategic collaboration with FoxHollow Technologies, Inc. (“FoxHollow”) for atherosclerotic plaque analysis. Additionally, Merck acquired a stake in FoxHollow with the purchase of \$95 million of newly-issued shares of FoxHollow common stock for \$29.629 per share, representing approximately an 11% stake. The existing strategic collaboration, entered into in 2005, provided for FoxHollow to receive an upfront payment with the opportunity for additional payments if the collaboration continued. Under the terms of the expanded collaboration agreement, Merck will pay \$40 million to

FoxHollow over four years in exchange for FoxHollow's agreement to collaborate exclusively with Merck in specified disease areas. Merck will also provide a minimum of \$60 million in funding to FoxHollow over the first three years of the four year collaboration program term, for research activities to be conducted by FoxHollow under Merck's direction. FoxHollow will receive milestone payments on successful development of drug products or diagnostic tests utilizing results from the collaboration, as well as royalties.

In November 2006, Merck and The J. David Gladstone Institutes announced a major collaboration and license agreement for research and development of drugs to treat neurodegenerative diseases, including Alzheimer's disease, that are linked to apoE-regulated mechanisms in the body. The agreement provides Merck, through an affiliate, with a worldwide, exclusive license to research, develop and commercialize compounds that are directed to apoE-regulated pathways and result from collaborative research or discoveries that have been made in the field of neurodegeneration by the Gladstone Institutes.

Also in November 2006, Merck and Advinus Therapeutics (P) Ltd. ("Advinus") announced they have formed a drug discovery and clinical development collaboration in the area of metabolic disorders. Advinus and Merck will work together to develop clinically validated drug candidates for metabolic disorders, with Merck retaining the right to advance the most promising of these candidates into late-stage clinical trials. Advinis will receive an upfront payment and could potentially receive milestone payments of \$74.5 million for each target included in the collaboration. The collaboration will begin with two target programs, and could expand to include others over time.

In December 2006, Merck completed the acquisition of Sirna, a publicly-held biotechnology company that is a leader in developing a new class of medicines based on RNAi technology, which could significantly alter the treatment of disease. In connection with the acquisition, the Company recorded a charge of \$466.2 million for acquired research associated with Sirna's compounds currently under development, for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed (see "Acquisitions" above).

Additionally in December 2006, Merck and Idera Pharmaceuticals ("Idera") announced that they had formed a broad collaboration to research, develop and commercialize Idera's Toll-like Receptor ("TLR") agonists. Under the terms of the agreement, Merck will receive worldwide exclusive rights to a number of Idera's agonist compounds targeting TLR 7, 8 and 9 for use in combination with Merck's therapeutic and prophylactic vaccines under development for oncology, infectious diseases and Alzheimer's disease. Merck and Idera will engage in a two-year research and development collaboration to generate novel agonists targeting TLR 7 and TLR 8 and incorporating both Merck and Idera chemistry for use in the licensed fields. Merck paid an upfront license fee of \$20 million to Idera and purchased \$10 million of its common stock at \$5.50 per share. In addition, Merck will fund the research and development collaboration. Idera is eligible to receive milestone payments of up to \$165 million if vaccines are successfully developed in each of the three fields. Additional milestones of up to \$260 million would be payable for follow-on indications in the oncology field and the successful development of additional vaccines containing Idera's TLR agonists. There is no limit to the number of vaccines to which Merck can apply Idera's agonists within the licensed fields. In addition, Idera will receive royalties on products commercialized under the collaboration.

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. The Company's research and development programs are generally designed to focus on the development of novel medicines to address large, unmet medical needs. Merck's new efforts to improve drug discovery involve focusing on nine priority disease areas, as well as utilizing new research technologies, building alliances with external partners and making targeted acquisitions which will complement the Company's strong internal research capabilities. The previous announced nine priority disease areas are: Alzheimer's disease; atherosclerosis; cardiovascular disease; diabetes; novel vaccines; obesity; oncology (targeted therapies); pain; and sleep disorders. These therapeutic areas were carefully chosen based on a set of criteria including unmet medical needs, scientific opportunity and commercial opportunity. A chart reflecting the Company's current research pipeline as of February 15, 2007 is set forth in Item 1. "Business" above.

Research and development expenses decreased 4% in 2005. Included in 2005 are accelerated depreciation costs of \$121.8 million related to the closure of research facilities. In addition, the decrease reflects the 2004 impact of \$225.0 million of licensing expense for the initial payments for certain disclosed research collaborations and \$125.5 million of acquired research expense from the acquisition of Aton Pharma, Inc. in 2004. Partially offsetting the decrease is an 8% increase in other research and development activities supporting Merck's pipeline, as well as a 2% unfavorable effect from inflation.

Restructuring Costs

Restructuring costs were \$142.3 million and \$322.2 million for 2006 and 2005, respectively. Included in restructuring costs are separation costs associated with Merck's plan to eliminate approximately 7,000 positions by the end of 2008. In 2006 and 2005, Merck incurred \$113.7 million and \$182.4 million, respectively, in separation costs associated with actual headcount reductions, as well as headcount reductions that were probable and could be reasonably estimated related to the global restructuring program. The Company eliminated 3,700 positions in 2006 and 1,100 positions in 2005 (which are comprised of actual headcount reductions, and the elimination of contractors and vacant positions). Also, in 2005, the Company recorded \$116.8 million for separation costs associated with other restructuring programs. Restructuring costs are included in unallocated expense for segment reporting purposes.

Equity Income from Affiliates

Equity income from affiliates reflects the performance of the Company's joint ventures and partnerships. In 2006 and 2005, the increase in equity income from affiliates reflects the successful performance of *Vytorin* and *Zetia* through the Merck/Schering-Plough partnership. The growth in 2005 is also attributable to higher partnership returns from AZLP. See "Selected Joint Venture and Affiliate Information" below.

Other (Income) Expense, Net

The increase in other (income) expense, net, in 2006 reflects an increase in interest income generated from the Company's investment portfolio derived from higher interest rates and higher average investment portfolio balances. The decrease in other (income) expense, net, in 2005 primarily reflects a \$176.8 million gain in 2004 from the sale of the Company's 50% equity stake in its European joint venture with Johnson & Johnson, as well as realized gains on the Company's investment portfolio recorded in 2004.

Segment Profits

(\$ in millions)	2006	2005	2004
Pharmaceutical segment profits	\$13,649.4	\$13,157.9	\$13,560.3
Vaccines segment profits	892.8	767.0	881.4
Other segment profits	380.7	355.5	278.2
Other	(8,701.5)	(6,916.5)	(6,717.1)
Income before income taxes	\$ 6,221.4	\$ 7,363.9	\$ 8,002.8

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. Also excluded from the determination of segment profits are taxes paid at the joint venture level and a portion of equity income. Additionally, segment profits do not reflect other expenses from corporate and manufacturing cost centers and other miscellaneous income (expense). These unallocated items are reflected in "Other" in the above table. Also included in other are miscellaneous corporate profits, operating profits related to divested products or businesses, other supply sales and adjustments to eliminate the effect of double counting certain items of income and expense.

Pharmaceutical segment profits increased 4% in 2006 compared with 2005 reflecting higher equity income, primarily driven by the strong performance of the Merck/Schering-Plough partnership, partially offset by the loss of U.S. marketing exclusivity for *Zocor* and *Proscar*. Pharmaceutical segment profits declined 3% in 2005 primarily related to the voluntary worldwide withdrawal of *Vioxx*.

Vaccines segment profits increased 16% in 2006 driven by the launch of three new vaccines and the successful performance of in-line vaccines. Vaccines segment profits declined 13% in 2005 primarily reflecting increased marketing and administrative costs required to prepare for the launches of three new vaccines. Vaccines segment profits also reflect equity income from SPMSD.

Taxes on Income

The Company's effective income tax rate was 28.7% in 2006, 37.1% in 2005 and 27.1% in 2004. The higher effective tax rate in 2005 reflects an unfavorable impact of 9.1 percentage points primarily related to the Company's decision to repatriate \$15.9 billion of foreign earnings in accordance with the American Jobs Creation Act of 2004 ("AJCA"). The 2006 effective tax rate reflects an unfavorable impact of 3.1 percentage points related to the non-deductible acquired research and development costs associated with the acquisitions of Sirna and GlycoFi. The tax rate in all three years was favorably impacted by restructuring charges.

Net Income and Earnings per Share

(\$ in millions except per share amounts)	2006	Change	2005	Change	2004
Net income	\$4,433.8	-4%	\$4,631.3	-21%	\$5,830.1
As a % of sales	19.6%		21.0%		25.4%
As a % of average total assets	9.9%		10.6%		14.0%
Earnings per common share assuming dilution	\$ 2.03	-3%	\$ 2.10	-20%	\$ 2.62

Net Income and Earnings per Common Share

Net income decreased 4% in 2006 and declined 21% in 2005. Earnings per common share assuming dilution declined 3% in 2006 compared to a decline of 20% in 2005. These declines primarily reflect the impact of acquired research charges, higher restructuring charges, increased reserves for legal defense costs and the incremental impact of expensing stock options. These increased costs were partially offset by growth in equity income from affiliates in 2006 and the 2005 net tax charge associated with repatriation of foreign earnings in accordance with the AJCA. Net income as a percentage of sales was 19.6% in 2006, 21.0% in 2005 and 25.4% in 2004. The decrease in the percentage of sales ratio in 2006 as compared to 2005 reflects the same factors discussed above. Net income as a percentage of average total assets was 9.9% in 2006, 10.6% in 2005 and 14.0% in 2004.

Selected Joint Venture and Affiliate Information

To expand its research base and realize synergies from combining capabilities, opportunities and assets, in previous years the Company formed a number of joint ventures. (See Note 9 to the consolidated financial statements.)

Merck/Schering-Plough Partnership

In 2000, the Company and Schering-Plough Corporation ("Schering-Plough") (collectively, the "Partners") 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. These agreements generally provide for equal sharing of development costs and for co-promotion of approved products by each company. 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* (marketed as *Ezetrol* outside the United States). 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* outside the United States).

The cholesterol agreements provide for the sharing of operating income generated by the Merck/Schering-Plough cholesterol partnership (the “MSP Partnership”) based upon percentages that vary by product, sales level and country. In the U.S. market, the Partners share profits on *Zetia* and *Vytorin* sales equally, with the exception of the first \$300 million of annual *Zetia* sales, on which Schering-Plough receives a greater share of profits. Operating income includes expenses that the Partners have contractually agreed to share, such as a portion of manufacturing costs, specifically identified promotion costs (including direct-to-consumer advertising and direct and identifiable out-of-pocket promotion) and other agreed upon costs for specific services such as on-going clinical research, market support, market research, market expansion, as well as a specialty sales force and physician education programs. Expenses incurred in support of the MSP Partnership but not shared between the Partners, such as marketing and administrative expenses (including certain sales force costs), as well as certain manufacturing costs, are not included in Equity income from affiliates. However, these costs are reflected in the overall results of the Company. Certain research and development expenses are generally shared equally by the Partners, after adjusting for earned milestones.

Sales of joint venture products were as follows:

(\$ in millions)	2006	2005	2004
<i>Zetia</i>	\$1,928.8	\$1,396.7	\$1,053.0
<i>Vytorin</i>	1,955.3	1,028.3	132.4
	\$3,884.1	\$2,425.0	\$1,185.4

Global sales of *Zetia* increased 38% over 2005. Global sales of *Vytorin* increased 90% over 2005. *Vytorin* is the only single tablet cholesterol treatment to provide LDL cholesterol lowering through the dual inhibition of cholesterol production and absorption.

In June 2006, the MSP Partnership announced new data from two clinical trials. Data presented at the International Symposium on Atherosclerosis meeting showed that *Vytorin* was significantly more effective than Crestor in reducing LDL cholesterol across all study dose comparisons and an analysis of the data showed that, when averaged across all study doses, *Vytorin* brought more patients at high risk of cardiovascular disease to LDL cholesterol levels less than 70 mg/dl compared to Crestor. Also in June, new data released at the American Diabetes Association’s (“ADA”) 66th Annual Scientific Sessions showed that at the recommended usual starting doses, *Vytorin* was superior to Lipitor in the lowering of LDL cholesterol in patients with type 2 diabetes and high cholesterol. These data were also published in the December 2006 issue of *Mayo Clinic Proceedings*.

The results from the Company’s interest in the MSP Partnership are recorded in Equity income from affiliates. Merck recognized equity income of \$1,218.6 million in 2006, \$570.4 million in 2005 and \$132.0 million in 2004.

AstraZeneca LP

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 in 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 \$1.8 billion, \$1.7 billion and \$1.5 billion in 2006, 2005 and 2004, 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 \$783.7 million, \$833.5 million and \$646.5 million in 2006, 2005 and 2004, respectively.

Merial Limited

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)	2006	2005	2004
Fipronil products	\$ 886.9	\$ 757.7	\$ 679.1
Avermectin products	468.7	467.5	452.4
Biological products	600.7	533.2	476.5
Other products	238.4	228.6	227.8
	\$2,194.7	\$1,987.0	\$1,835.8

The broiler and foreign turkey segments of the poultry genetics business were sold in 2005 and the domestic turkey segment was divested in 2004. These transactions completed the divestiture of Merial's interest in the poultry genetics business. For comparative purposes the amounts presented above for 2005 and 2004 do not include revenue earned from the poultry genetics business.

Sanofi Pasteur MSD

In 1994, Merck and Pasteur Merieux 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.

In 2006, Merck launched three new vaccines that have been approved for use in the EU and will be marketed by SPMSD in certain Western European countries: *Gardasil* for the prevention of cervical cancer and genital warts caused by certain types of HPV; *RotaTeq* to help protect against rotavirus gastroenteritis in infants and children; and *Zostavax* to help prevent shingles (herpes zoster) in individuals 60 years of age and older.

In September 2005, SPMSD entered into a Letter of Undertaking ("LOU"), with the EMEA due to Agency concerns regarding the long-term efficacy of the hepatitis B component of *Hexavac*. The hepatitis B component of *Hexavac* is manufactured by Merck. The LOU requires, in relevant part (1) suspension of the EU *Hexavac* license; (2) suspension of *Hexavac* distribution; (3) a recall of *Hexavac* product in the EU; (4) a recall of *Hexavac* in a number of non-EU countries; and (5) a surveillance program and possible future revaccination. SPMSD, which markets and sells *Hexavac* in part of the EU, has notified Merck that it is reserving any rights that it may have to seek damages from Merck and to be defended, indemnified and held harmless by Merck in the event of third party claims.

In September 2005, the EMEA initiated a formal review of the long-term efficacy of the hepatitis B vaccine, *HBvaxPRO*, and of the hepatitis B component of the hepatitis B/Hib combination vaccine, *Procomvax*. Both products are marketed and sold by SPMSD in its European territory, and are sold elsewhere, under different names, by Merck. After extensive review, the EMEA determined in May 2006 that each vaccine continues to offer effective protection against hepatitis B and allowed SPMSD to continue marketing each product with minor label changes.

Sales of joint venture products were as follows:

(\$ in millions)	2006	2005	2004
Hepatitis vaccines	\$ 70.9	\$ 81.1	\$ 80.5
Viral vaccines	100.1	78.5	54.0
Other vaccines	742.9	705.5	672.5
	\$913.9	\$865.1	\$807.0

Johnson & Johnson[®]Merck Consumer Pharmaceuticals Company

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 in 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)	2006	2005	2004 ⁽¹⁾
Gastrointestinal products	\$250.9	\$250.8	\$ 269.2
Other products	1.7	2.5	46.1
	\$252.6	\$253.3	\$ 315.3

⁽¹⁾ Includes sales of the European joint venture up through March 2004.

Capital Expenditures

Capital expenditures were \$980.2 million in 2006 and \$1.4 billion in 2005. Expenditures in the United States were \$714.7 million in 2006 and \$938.7 million in 2005. Expenditures during 2006 included \$334.8 million for production facilities, \$314.6 million for research and development facilities, \$7.9 million for environmental projects, and \$322.9 million for administrative, safety and general site projects. Capital expenditures for 2007 are estimated to be \$1.2 billion.

Depreciation expense was \$2.1 billion in 2006 and \$1.5 billion in 2005, of which \$1.5 billion and \$1.1 billion, respectively, applied to locations in the United States. Total depreciation expense in 2006 and 2005 includes accelerated depreciation of \$763.8 million and \$84.6 million, respectively, associated with the global restructuring plan. Additionally, depreciation expense for 2005 reflects \$103.1 million associated with the closure of the Terlings Park basic research center (see Note 4 to the consolidated financial statements).

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, which was \$6.8 billion in 2006, 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, 2006, the total of worldwide cash and investments was \$16.5 billion, including \$8.7 billion of cash, cash equivalents and short-term investments, and \$7.8 billion of long-term investments.

Selected Data

(\$ in millions)	2006	2005	2004
Working capital	\$2,507.5	\$7,806.9	\$1,688.8
Total debt to total liabilities and equity	15.3%	18.1%	16.1%
Cash provided by operations to total debt	1.0:1	0.9:1	1.3:1

During 2006, the Company began shifting its mix of investments from short-term to long-term, resulting in a reduction of working capital in line with historical levels relative to the level at December 31, 2005. In 2005, to enable execution of the AJCA repatriation, the Company changed its mix of investments from long-term to short-term, resulting in a significant increase in working capital as of December 31, 2005. The AJCA created temporary incentives through December 31, 2005 for U.S. multinationals to repatriate accumulated income earned outside of the United States as of December 31, 2002. In connection with the AJCA, the Company repatriated \$15.9 billion during 2005. As a result, the Company recorded an income tax charge of \$766.5 million in Taxes on Income in 2005 related to this repatriation, \$185 million of which was paid in 2005 and the remainder of which was paid in the first quarter of 2006. As of December 31, 2005, approximately \$5.2 billion of the AJCA repatriation was invested in fully collateralized overnight repurchase agreements and was included in Short-term investments in the Consolidated Balance Sheet. In early 2006, the Company began reinvesting its repurchase agreement balances into other short- and long-term investments. 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.

As previously disclosed, the Internal Revenue Service ("IRS") has been examining the Company's tax returns for the years 1993 to 2001 and had issued notices of deficiency with respect to a partnership transaction entered into in 1993, and two minority interest equity financings entered into in 1995 and 2000, respectively. The IRS has recently concluded its examination of the years 1993-2001 and will issue a Final Revenue Agents Report in the first quarter. On February 13, 2007, the Company entered into closing agreements with the IRS covering several specific items, including the 1993 partnership transaction and the 1995 and 2000 minority interest equity financings. Under the terms of the closing agreements, the Company expects to make a payment of approximately \$2.85 billion in the first quarter of 2007. This payment will be offset during 2007 by (i) a tax refund of \$150 million for amounts previously paid related to these matters and (ii) a \$400 million federal tax benefit related to interest included in the payment, resulting in a net cash cost to the Company of approximately \$2.3 billion. The Company has previously established reserves for these matters and while the conclusion of the IRS examination, including the closing agreements, does not have a material effect on the Company's results of operations, financial position or liquidity, it will have a material adverse effect on the Company's cash flow for the first quarter of 2007 when the payment is made. The impact for years subsequent to 2001 of the partnership transaction and the minority interest equity financings is included in the closing agreements although those years remain open in all other respects.

As previously disclosed, during October 2006 the Company received a notice of reassessment from the Canada Revenue Agency ("CRA") containing adjustments related to certain intercompany pricing matters which result in additional taxes due of approximately \$1.4 billion (U.S. dollars) plus interest of \$360 million (U.S. dollars) (see Note 17 to the consolidated financial statements). The Company disagrees with the positions taken by the CRA and believes they are without merit. The Company intends to contest the reassessment through the CRA appeals process and the courts if necessary. In connection with the appeals process, in the notice of reassessment, the Company is required to post a deposit of up to one half of the tax and interest assessed. During January 2007, the Company pledged collateral consisting of cash and cash equivalents of \$802 million to a financial institution which provided a Letter of Guarantee to the CRA. Management believes that resolution of these matters will not have a material adverse effect on the Company's financial position or liquidity. However, an unfavorable resolution could have a material adverse 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.

The Company's contractual obligations as of December 31, 2006 are as follows:

Payments Due by Period

(\$ in millions)	Total	2007	2008 - 2009	2010 - 2011	Thereafter
Purchase obligations	\$1,108.5	\$ 366.4	\$ 614.0	\$ 111.1	\$ 17.0
Loans payable and current portion of long-term debt	1,285.1	1,285.1	-	-	-
Long-term debt	5,551.0	-	1,696.1	529.4	3,325.5
Operating leases	211.5	65.8	78.5	33.3	33.9
	\$8,156.1	\$1,717.3	\$ 2,388.6	\$ 673.8	\$ 3,376.4

Purchase obligations consist primarily of goods and services that are enforceable and legally binding and include obligations for minimum inventory contracts, research and development and advertising. Research contracts do not include milestone payments contingent upon future events. Loans payable and current portion of long-term debt includes \$500.0 million of notes which were redeemed by the Company in February 2007, upon notification from the remarketing agent that, due to an overall rise in interest rates, it would not exercise its annual option to remarket the notes. Loans payable and current portion of long-term debt also reflects \$336.2 million of long-dated notes that are subject to repayment at the option of the holders on an annual basis. Required funding obligations for 2007 relating to the Company's pension and other postretirement benefit plans are not expected to be material.

In December 2004, the Company increased the capacity of its shelf registration statement filed with the Securities and Exchange Commission ("SEC") to issue debt securities by an additional \$3.0 billion. In February 2005, the Company issued \$1.0 billion of 4.75% ten-year notes under the shelf. In November 2006, the Company issued \$500 million of 5.75% twenty-year notes and \$250 million of 5.125% five-year notes under the shelf. The remaining capacity under the Company's shelf registration statement is approximately \$2.0 billion.

In April 2006, the Company extended the maturity date of its \$1.5 billion, five-year revolving credit facility from February 2010 to April 2011. The facility provides backup liquidity for the Company's commercial paper borrowing facility and is for general corporate purposes. The Company has not drawn funding from this facility.

The Company's long-term credit ratings assigned by Moody's and Standard & Poor's are Aa3 and AA-, respectively, each with a negative outlook. 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 \$16.5 billion exceeds the sum of loans payable and long-term debt of \$6.8 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 to the consolidated financial statements, 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 July 2002, the Board of Directors approved purchases over time of up to \$10.0 billion of Merck shares. Total treasury stock purchased under this program in 2006 was \$1.0 billion. As of December 31, 2006, \$6.5 billion remains under the 2002 stock repurchase authorization approved by the Merck Board of Directors.

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 \$38.7 million and \$113.0 million, respectively, from a uniform 10% weakening of the U.S. dollar at December 31, 2006 and 2005. 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 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 weakened by 10% against all currency exposures of the Company at December 31, 2006 and 2005, Income before taxes would have declined by \$32.7 million and \$3.5 million, respectively. Because Merck is in a net short position relative to its major foreign currencies after consideration of forward contracts, a uniform weakening 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, 2006, the Company was a party to seven pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes in which the notional amounts match the amount of the hedged fixed rate notes. There is one swap maturing in 2007 with a notional amount of \$350 million; two swaps maturing in 2011 with notional amounts of \$125 million each; one swap maturing in 2013 with a notional amount of \$500 million and three swaps maturing in 2015 with notional amounts of \$250 million each. 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, which at December 31, 2006 included repurchase agreements, 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 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, 2006 and 2005 would have positively impacted the net aggregate market value of these instruments by \$111.0 million and \$236.2 million, respectively. A one percentage point decrease at December 31, 2006 and 2005 would have negatively impacted the net aggregate market value by \$171.0 million and \$283.6 million, respectively. The decreased sensitivity is attributable to a change in the mix of investments from short-term variable rate at December 31, 2005 to long-term fixed rate as of December 31, 2006. 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.

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, share-based compensation assumptions, acquisitions 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 2006, 2005 or 2004.

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

<i>(\$ in millions)</i>	2006	2005
Balance, January 1	\$ 1,166.5	\$ 1,030.3
Current provision	3,519.4	4,419.1
Adjustments to prior years	(29.5)	134.7
Payments	(3,899.3)	(4,417.6)
Balance, December 31	\$ 757.1	\$ 1,166.5

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 \$60.4 million and \$696.7 million, respectively, at December 31, 2006, and \$164.3 million and \$1.0 billion, respectively, at December 31, 2005.

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, were less than 1.0% of net sales in 2006, 2005 and 2004.

Through its distribution program with U.S. wholesalers, the Company encourages 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. The Company monitors 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. 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. For inventories that are capitalized, anticipated future sales and shelf lives support the realization of the inventory value as the inventory shelf life is sufficient to meet initial product launch requirements. At December 31, 2005, inventories produced in preparation for product launches consisted of three vaccine products, a new formulation for an existing vaccine product, and a new compound for type 2 diabetes, all of which the Company launched in 2006. Accordingly, there are no significant inventories produced in preparation for product launches capitalized at December 31, 2006. The build-up of 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 consolidated financial statements.) 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. As of December 31, 2005, the Company had a reserve of \$685 million solely for its future legal defense costs related to the *Vioxx* Lawsuits and the *Vioxx* Investigations. During 2006, the Company spent \$500 million in the aggregate, including \$175 million in the fourth quarter, in legal defense costs worldwide related to (i) the *Vioxx* Product Liability Lawsuits, (ii) the *Vioxx* Shareholder Lawsuits, (iii) the *Vioxx* Foreign Lawsuits, and (iv) the *Vioxx* Investigations (collectively, the "*Vioxx* Litigation"). In the third and fourth quarter of 2006, the Company recorded charges of \$598 million and \$75 million, respectively, to increase the reserve solely for its future legal defense costs related to *Vioxx* to \$858 million at December 31, 2006. This reserve is based on certain assumptions and is the best estimate of the amount that the Company believes, at this time, it can reasonably estimate will be spent through 2008. Some of the significant factors considered in the establishment and ongoing review of the reserve for the *Vioxx* legal defense costs 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 scope of the *Vioxx* Litigation; the number of cases being brought against the Company; the costs and outcomes of completed trials and the most current information regarding anticipated timing, progression, and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. Events such as scheduled trials that are expected to occur throughout 2007 and into 2008, and the inherent inability to predict the ultimate outcomes of such trials, limit the Company's ability to reasonably estimate its legal costs beyond the end of 2008. While the Company does not anticipate that it will need to increase the reserve every quarter, it will continue to monitor its legal defense costs and review the adequacy of the associated reserves and may determine to increase its reserves for legal defense costs at any time in the future if, based upon the factors set forth, it believes it would be appropriate to do so.

The Company currently anticipates that a number of *Vioxx* Product Liability Lawsuits will be tried in 2007. A trial in the Oregon securities case is scheduled for 2007, but the Company cannot predict whether this trial will proceed on schedule or the timing of any of the other *Vioxx* Shareholder Lawsuit trials. 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. Unfavorable outcomes in the *Vioxx* Litigation could have a material adverse effect on the Company's financial position, liquidity and results of operations. The Company has not established any reserves for any potential liability relating to the *Vioxx* Litigation.

As of December 31, 2006, the Company established a reserve of approximately \$48 million solely for its future legal defense costs for the *Fosamax* Litigation. Some of the significant factors considered in the establishment of the reserve for the *Fosamax* Litigation legal defense costs were as follows: the actual costs incurred by the Company thus far; the development of the Company's legal defense strategy and structure in light of the creation of the *Fosamax* multidistrict litigation; the number of cases being brought against the Company; and the anticipated timing, progression, and related costs of pre-trial activities in the *Fosamax* Litigation. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. Due to the uncertain nature of litigation, the Company is unable to estimate its costs beyond the end of 2008. Unfavorable outcomes in the *Fosamax* Litigation could have a material adverse effect on the Company's financial position, liquidity and results of operations. The Company has not established any reserves for any potential liability relating to the *Fosamax* Litigation.

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. 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 \$12.6 million in 2006, and are estimated at \$94.2 million for the years 2007 through 2011. In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled \$129.0 million and \$100.4 million at December 31, 2006 and December 31, 2005, 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 \$62.0 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.

Share-Based Compensation

The Company recognizes compensation cost relating to share-based payment transactions in Net income using a fair-value measurement method, in accordance with FAS 123R, which it adopted on January 1, 2006. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in Net income as compensation expense based on fair value over the requisite service period of the awards. The Company determines the fair value of certain share-based awards using the Black-Scholes option-pricing model which uses both historical and current market data to estimate the fair value. This method

incorporates various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the options.

Pensions and Other Postretirement Benefit Plans

Net pension and other postretirement benefit cost totaled \$563.7 million in 2006 and \$561.8 million in 2005. 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, 2006, the Company changed its discount rate to 6.00% from 5.75% for its U.S. pension plans and its U.S. 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. 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 2007, the Company's expected rate of return of 8.75% remained unchanged from 2006 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, 15% to 25% in fixed-income investments, 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 \$39.8 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 \$13.1 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 2007. The preceding hypothetical changes in the discount rate and expected rate of return assumptions would not impact the Company's funding requirements.

Effective December 31, 2006, the Company adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106 and 132R* ("FAS 158"), except for the requirement to measure plan assets and benefit obligations as of the Company's fiscal year end balance sheet, which is effective as of December 31, 2008. In connection with the adoption of FAS 158, net loss amounts, which 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, are recorded as a component of Accumulated other comprehensive income. 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. Also, net loss amounts in Accumulated other comprehensive income 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 net losses for the Company's U.S. plans at December 31, 2006 is expected to increase net pension and other postretirement benefit cost by approximately \$96.4 million annually from 2007 through 2011.

Acquisitions

The Company accounts for acquired businesses using the purchase method of accounting in accordance with FAS 141, *Business Combinations*, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of net assets acquired is recorded as goodwill. If the Company determines the acquired company is a development stage company which has not commenced its planned principal operations, the acquisition will be accounted for as an acquisition of assets rather than a business combination and, therefore, goodwill would not be recorded. The fair value of intangible assets, including acquired research, is based on significant judgments made by management, and accordingly, for significant items, the Company typically obtains assistance from third party valuation specialists. Amounts are allocated to acquired research and expensed at the date of acquisition if technological feasibility has not been established and no alternative future use existed. For projects which can be used immediately in the research process that have alternative future uses, the Company capitalizes these intangible assets and amortizes them over an appropriate useful life. The valuations and useful life assumptions are based on information available near the acquisition date and are based on expectations and assumptions that are deemed reasonable by management. The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations.

For intangible assets, including acquired research, the Company typically uses the income approach, which estimates fair value based on each project's projected cash flows. Future cash flows are predominately based on a net income forecast of each project, consistent with historical pricing, margins and expense levels of similar products. Revenues are estimated based on relevant market size and growth factors, expected industry trends, individual project life cycles, and the life of each research project's underlying patent, if any. Expected revenues are then adjusted for the probability of technical and marketing success and the resulting cash flows are discounted at a risk -adjusted discount rate.

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. An estimated effective tax rate for a year is applied to the Company's quarterly operating results. In the event that there is a significant unusual or one-time item recognized, or expected to be recognized, in the Company's quarterly 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. The Company considers the resolution of prior year tax matters to be such items. 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 consolidated financial statements.) The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit.

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.

As previously disclosed, in October 2004, the AJCA was signed into law. The AJCA creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside of the United States as of December 31, 2002. In connection with the AJCA, the Company repatriated \$15.9 billion during 2005 (see Note 17 to the consolidated financial statements). As a result of this repatriation, the Company recorded an income tax charge of \$766.5 million in Taxes on Income in 2005 related to this repatriation. This charge was partially offset by a

\$100 million benefit associated with a decision to implement certain tax planning strategies. The Company has not changed its intention to indefinitely reinvest accumulated earnings earned subsequent to December 31, 2002. At December 31, 2006, foreign earnings of \$12.5 billion have been retained indefinitely by subsidiary companies for reinvestment. 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 July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (“FIN 48”), which is effective January 1, 2007. FIN 48 clarifies the accounting for the uncertainty in tax positions by requiring companies to recognize in their financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit based on the technical merits of the position. Among other provisions, FIN 48 also requires expanded disclosures at the end of each annual period presented. The Company continues to evaluate the impact of FIN 48 on its financial position and results of operations. At this time, the effects of adoption have not yet been determined.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (“FAS 157”), which will be effective January 1, 2008. This Statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. The effect of adoption of FAS 157 on the Company’s financial position and results of operations is not expected to be material.

Cautionary Factors That May Affect Future Results

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 based on management’s current expectations and are subject to risks and uncertainties which may cause results to differ materially from those set forth in the statements. 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 development, product approvals, product potential 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.

The Company does not assume the obligation to update any forward-looking statement. One should carefully evaluate such statements in light of factors, including risk 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. “Business” of this annual report on Form 10-K 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. 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.

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

The information required by this Item is incorporated by reference to the discussion under “Financial Instruments Market Risk Disclosures” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 8. Financial Statements and Supplementary Data.**(a) Financial Statements**

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2006 and 2005, 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, 2006, the Notes to Consolidated Financial Statements, and the report dated February 27, 2007 of PricewaterhouseCoopers LLP, independent registered public accounting firm, are as follows:

Consolidated Statement of Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions except per share amounts)

	2006	2005	2004
Sales	\$22,636.0	\$22,011.9	\$22,972.8
Costs, Expenses and Other			
Materials and production	6,001.1	5,149.6	4,965.7
Marketing and administrative	8,165.4	7,155.5	7,238.7
Research and development	4,782.9	3,848.0	4,010.2
Restructuring costs	142.3	322.2	107.6
Equity income from affiliates	(2,294.4)	(1,717.1)	(1,008.2)
Other (income) expense, net	(382.7)	(110.2)	(344.0)
	16,414.6	14,648.0	14,970.0
Income Before Taxes	6,221.4	7,363.9	8,002.8
Taxes on Income	1,787.6	2,732.6	2,172.7
Net Income	\$ 4,433.8	\$ 4,631.3	\$ 5,830.1
Basic Earnings per Common Share	\$ 2.04	\$ 2.11	\$ 2.63
Earnings per Common Share Assuming Dilution	\$ 2.03	\$ 2.10	\$ 2.62

Consolidated Statement of Retained Earnings

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2006	2005	2004
Balance, January 1	\$37,980.0	\$36,687.4	\$34,186.4
Net Income	4,433.8	4,631.3	5,830.1
Common Stock Dividends Declared	(3,318.7)	(3,338.7)	(3,329.1)
Balance, December 31	\$39,095.1	\$37,980.0	\$36,687.4

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2006	2005	2004
Net Income	\$4,433.8	\$4,631.3	\$5,830.1
Other Comprehensive Income (Loss)			
Net unrealized (loss) gain on derivatives, net of tax and net income realization	(50.9)	81.3	(31.7)
Net unrealized gain (loss) on investments, net of tax and net income realization	26.1	50.3	(100.9)
Minimum pension liability, net of tax	22.5	(7.0)	(4.9)
Cumulative translation adjustment relating to equity investees, net of tax	18.9	(26.4)	26.1
	16.6	98.2	(111.4)
Comprehensive Income	\$4,450.4	\$4,729.5	\$5,718.7

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

Consolidated Balance Sheet

Merck & Co., Inc. and Subsidiaries

December 31

(\$ in millions)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,914.7	\$ 9,585.3
Short-term investments	2,798.3	6,052.3
Accounts receivable	3,314.8	2,927.3
Inventories (excludes inventories of \$416.1 in 2006 and \$753.8 in 2005 classified in Other assets — see Note 7)	1,769.4	1,658.1
Prepaid expenses and taxes	1,433.0	826.3
Total current assets	15,230.2	21,049.3
Investments	7,788.2	1,107.9
Property, Plant and Equipment (at cost)		
Land	408.9	433.0
Buildings	9,745.9	9,479.6
Machinery, equipment and office furnishings	13,172.4	12,785.2
Construction in progress	882.3	1,015.5
	24,209.5	23,713.3
Less allowance for depreciation	11,015.4	9,315.1
	13,194.1	14,398.2
Goodwill	1,431.6	1,085.7
Other Intangibles, Net	943.9	518.7
Other Assets	5,981.8	6,686.0
	\$44,569.8	\$44,845.8
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 1,285.1	\$ 2,972.0
Trade accounts payable	496.6	471.1
Accrued and other current liabilities	6,653.3	5,277.8
Income taxes payable	3,460.8	3,691.5
Dividends payable	826.9	830.0
Total current liabilities	12,722.7	13,242.4
Long-Term Debt	5,551.0	5,125.6
Deferred Income Taxes and Noncurrent Liabilities	6,330.3	6,092.9
Minority Interests	2,406.1	2,407.2
Stockholders' Equity		
Common stock, one cent par value		
Authorized — 5,400,000,000 shares		
Issued — 2,976,223,337 shares — 2006 and 2005	29.8	29.8
Other paid-in capital	7,166.5	6,900.0
Retained earnings	39,095.1	37,980.0
Accumulated other comprehensive income	(1,164.3)	52.3
	45,127.1	44,962.1
Less treasury stock, at cost		
808,437,892 shares — 2006		
794,299,347 shares — 2005	27,567.4	26,984.4
Total stockholders' equity	17,559.7	17,977.7
	\$44,569.8	\$44,845.8

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)

	2006	2005	2004
Cash Flows from Operating Activities			
Net income	\$ 4,433.8	\$ 4,631.3	\$ 5,830.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,268.4	1,708.1	1,450.7
Deferred income taxes	(530.2)	9.0	48.9
Equity income from affiliates	(2,294.4)	(1,717.1)	(1,008.2)
Dividends and distributions from equity affiliates	1,931.9	1,101.2	587.0
Share-based compensation	312.5	48.0	25.7
Acquired research	762.5	—	125.5
Other	18.1	647.5	234.6
Net changes in assets and liabilities:			
Accounts receivable	(709.3)	345.9	173.1
Inventories	226.5	125.6	331.9
Trade accounts payable	16.4	63.6	(323.8)
Accrued and other current liabilities	461.6	238.2	1,382.3
Income taxes payable	(138.2)	663.2	465.5
Noncurrent liabilities	(125.6)	(412.2)	(473.7)
Other	131.2	156.2	(50.5)
Net Cash Provided by Operating Activities	6,765.2	7,608.5	8,799.1
Cash Flows from Investing Activities			
Capital expenditures	(980.2)	(1,402.7)	(1,726.1)
Purchases of securities, subsidiaries and other investments	(20,044.3)	(125,308.4)	(82,269.2)
Proceeds from sales of securities, subsidiaries and other investments	16,143.8	128,981.4	82,363.8
Other	(3.0)	(3.1)	(6.6)
Net Cash (Used) Provided by Investing Activities	(4,883.7)	2,267.2	(1,638.1)
Cash Flows from Financing Activities			
Net change in short-term borrowings	(1,522.8)	1,296.2	(252.4)
Proceeds from issuance of debt	755.1	1,000.0	405.1
Payments on debt	(506.2)	(1,014.9)	(37.3)
Redemption of preferred units of subsidiary	—	—	(1,500.0)
Purchases of treasury stock	(1,002.3)	(1,015.3)	(974.6)
Dividends paid to stockholders	(3,322.6)	(3,349.8)	(3,310.7)
Proceeds from exercise of stock options	369.9	136.5	240.3
Other	(375.3)	(93.1)	(161.8)
Net Cash Used by Financing Activities	(5,604.2)	(3,040.4)	(5,591.4)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	52.1	(128.8)	108.2
Net (Decrease) Increase in Cash and Cash Equivalents	(3,670.6)	6,706.5	1,677.8
Cash and Cash Equivalents at Beginning of Year	9,585.3	2,878.8	1,201.0
Cash and Cash Equivalents at End of Year	\$ 5,914.7	\$ 9,585.3	\$ 2,878.8

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

Notes to Consolidated Financial Statements

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. The Company's operations are principally managed on a products basis and are comprised of two reportable segments: the Pharmaceutical segment and the Vaccines segment. The Pharmaceutical segment includes human health pharmaceutical 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 pharmaceutical products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Vaccines segment includes human health vaccine products marketed either directly or through a joint venture. These products consist of preventative pediatric, adolescent and adult vaccines, primarily administered at physician offices. Merck sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company's professional representatives communicate the effectiveness, safety and value of our pharmaceutical and vaccine products to health care professionals in private practice, group practices and managed care organizations.

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 inventories are valued at the lower of last-in, first-out ("LIFO") cost or market for both book and tax purposes. Foreign 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 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 are recorded as accrued expenses. The accrued balances relative to these provisions included in Accounts receivable and Accrued and other current liabilities were \$60.4 million and \$696.7 million, respectively, at December 31, 2006 and \$164.3 million and \$1.0 billion, respectively, at December 31, 2005.

Effective January 1, 2006, the Company began recognizing revenue from the sale of vaccines to the Federal government for placement into stockpiles related to the Pediatric Vaccine Stockpile in accordance with Securities and Exchange Commission ("SEC") Interpretation, *Commission Guidance Regarding Accounting for Sales of Vaccines and BioTerror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile*. The Company retrospectively applied the impacts of adopting the Interpretation by reducing Accrued and other current liabilities by \$103.4 million and increasing Income taxes payable by \$42.3 million and Retained earnings by \$61.1 million, respectively, as of December 31, 2005. There was no impact to the Company's results of operations for 2006 or 2005. The impacts of adoption on 2004 results of operations were increases to the following: Sales of \$34.2 million, Materials and production costs of \$5.9 million, Taxes on income of \$11.6 million, Net Income of \$16.7 million and Earnings per common share assuming dilution of \$0.01.

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.

Acquisitions — The Company accounts for acquired businesses using the purchase method of accounting in accordance with Financial Accounting Standards Board ("FASB") Statement No. 141, *Business Combinations*, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of net assets acquired is recorded as goodwill. If the Company determines the acquired company is a development stage company which has not commenced its planned principal operations, the acquisition will be accounted for as an acquisition of assets rather than a business combination and, therefore, goodwill would not be recorded. In accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, the Company allocates amounts to acquired research which are expensed at the date of acquisition if technological feasibility has not been established and no alternative future use existed. For projects which can be used immediately in the research process that have alternative future uses, the Company capitalizes these intangible assets and amortizes them over an appropriate useful life. The operating results of the acquired business are reflected in the Company's consolidated financial statements and results of operations as of the date of acquisition.

Goodwill and Other Intangibles — Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses purchased. Goodwill is 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 ranging from 3 to 20 years (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.

Share-Based Compensation — Effective January 1, 2006, the Company adopted FASB Statement No. 123R, *Share-Based Payment* ("FAS 123R") (see Note 14). 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 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 FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The Company continues to use the Black-Scholes valuation method and applied the requirements of FAS 123R using the modified prospective method. Prior to adoption of FAS 123R, employee share-based compensation was recognized using the intrinsic value method, which measures share-based compensation expense as the amount at which the market price of the stock at the date of grant exceeds the exercise price. Accordingly, no compensation expense was recognized for the Company's share-based compensation plans other than for its performance-based awards, restricted stock units and options granted to employees of certain equity method investees.

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, share-based compensation, acquisitions 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 the current year presentation.

Recently Issued Accounting Standards — The FASB recently issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48") and Statement No. 157, *Fair Value Measurements* ("FAS 157").

FIN 48, which is effective January 1, 2007, clarifies the accounting for the uncertainty in tax positions by requiring companies to recognize in their financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit based on the technical merits of the position. Among other provisions, FIN 48 also requires expanded disclosures at the end of each annual period presented. The Company continues to evaluate the impact of FIN 48 on its financial position and results of operations. At this time, the effects of adoption have not yet been determined.

FAS 157, which will be effective January 1, 2008, clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. The effect of adoption of FAS 157 on the Company's financial position and results of operations is not expected to be material.

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, in 2004 the Company recorded an unfavorable adjustment to net income of \$552.6 million, or \$0.25 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). The *Vioxx* withdrawal process was completed during 2005 and the costs associated with the withdrawal were in line with the original amounts recorded by the Company in 2004.

4. Restructuring

Global Restructuring Program

In November 2005, the Company announced the initial phase of a global restructuring program designed to reduce the Company's cost structure, increase efficiency and enhance competitiveness. The initial steps include the implementation of a new supply strategy by the Merck Manufacturing Division, which is intended to create a leaner, more cost-effective and customer-focused manufacturing model over a three-year period. As part of this program, Merck announced plans to sell or close five manufacturing sites and two preclinical sites by the end of 2008, and eliminate approximately 7,000 positions company-wide. The Company has also sold or closed certain other facilities and sold related assets in connection with the restructuring program. The pre-tax costs of this restructuring program were \$935.5 million in 2006, \$401.2 million in 2005 and are expected to be \$300 million to \$500 million in 2007. Through the end of 2008, when the initial phase of the restructuring program is expected to be substantially complete, the cumulative pre-tax costs of the program are expected to range from \$1.9 billion to \$2.2 billion. Approximately 70% of the cumulative pre-tax costs are non-cash, relating primarily to accelerated depreciation for those facilities scheduled for closure. Since the inception of the global restructuring program through December 31, 2006, the Company has recorded total pre-tax accumulated costs of \$1.3 billion and eliminated approximately 4,800 positions, comprised of employee separations and the elimination of contractors and vacant positions.

The following table summarizes the charges related to the global restructuring program by type of cost:

<i>Year Ended December 31, 2006</i>	Separation Costs	Accelerated Depreciation	Other	Total
Materials and production	\$ -	\$ 707.3	\$ 29.1	\$736.4
Research and development	-	56.5	0.3	56.8
Restructuring costs	113.7	-	28.6	142.3
	\$ 113.7	\$ 763.8	\$ 58.0	\$935.5

<i>Year Ended December 31, 2005</i>				
Materials and production	\$ -	\$ 65.9	\$111.2	\$177.1
Research and development	-	18.7	-	18.7
Restructuring costs	182.4	-	23.0	205.4
	\$ 182.4	\$ 84.6	\$134.2	\$401.2

Separation costs are associated with actual headcount reductions, as well as those headcount reductions which were probable and could be reasonably estimated. Approximately 3,700 positions were eliminated in 2006 and approximately 1,100 were eliminated in 2005 (which are comprised of actual headcount reductions, and the elimination of contractors and vacant positions).

Accelerated depreciation costs primarily relate to the five Merck-owned manufacturing facilities (Ponders End, United Kingdom; Okazaki, Japan; Kirkland, Canada; Albany, Georgia, and Danville, Pennsylvania) and the two preclinical sites (in Okazaki and Menuma, Japan) to be sold or closed by the end of 2008. These actions are in an effort to reduce costs and consolidate the Company's manufacturing and research facilities. Through the end of 2006, three of the manufacturing facilities had been closed, sold or had ceased operations and the two preclinical sites were closed. All of the sites have and will continue to operate up through the respective closure dates, and since future cash flows are sufficient to recover the respective book values, Merck was required to accelerate depreciation of the site assets rather than writing them off immediately. The site assets include manufacturing and research facilities and equipment.

Other activity in 2006 and 2005 includes approximately \$25.0 million and \$111.2 million, respectively, associated with the impairment of certain fixed assets that will no longer be used in the business as a result of these restructuring actions and must therefore, be written off. Additionally, other activity in 2006 and 2005 includes \$34.2 million and \$23.0 million, respectively, related to curtailment, settlement and termination charges on the

Company's pension and other postretirement benefit plans (see Note 15). In 2006, other activity also includes pre-tax gains of \$40.7 million resulting from the sales of facilities in connection with the global restructuring program.

Other Restructuring Programs

As part of a cost-reduction initiative announced in October 2003 and completed at the end of 2004, the Company eliminated 5,100 positions. The Company completed a similar program in 2005 with 900 positions being eliminated through December 31, 2005. As a result of these restructuring actions, the Company recorded restructuring costs of \$116.8 million for 2005 and \$107.6 million for 2004. Of these amounts, in 2005 and 2004, respectively, \$91.5 million and \$84.4 million related to employee severance benefits, \$25.3 million and \$21.5 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 related to a modification in the terms of certain employees' stock option grants in 2004 only.

The following table summarizes the charges and spending relating to the global restructuring program and other programs:

	Separation Costs ⁽¹⁾	Accelerated Depreciation	Other	Total
Restructuring reserves as of January 1, 2005	\$ 45.7	\$ -	\$ -	\$ 45.7
Expense	273.9	84.6	159.5	518.0
(Payments) receipts, net	(79.3)	-	(32.0)	(111.3)
Non-cash activity	-	(84.6)	(127.5)	(212.1)
Restructuring reserves as of December 31, 2005	\$ 240.3	\$ -	\$ -	\$ 240.3
Expense	\$ 113.7	\$ 763.8	\$ 58.0	\$ 935.5
(Payments) receipts, net	(176.3)	-	(9.4) ⁽²⁾	(185.7)
Non-cash activity	-	(763.8)	(48.6)	(812.4)
Restructuring reserves as of December 31, 2006	\$ 177.7	\$ -	\$ -	\$ 177.7

⁽¹⁾ Includes separation costs associated with the global restructuring program as well as amounts from other restructuring programs. The other restructuring programs were substantially complete as of the end of the first quarter of 2006.

⁽²⁾ Includes proceeds from the sales of facilities in connection with the global restructuring program.

The Company also closed its basic research center in Terlings Park, United Kingdom in 2006. In anticipation of the closing, the Company incurred additional accelerated depreciation costs of \$103.1 million recorded to Research and development expense during 2005 not reflected in the above table, which reduced the assets of this research center down to their net realizable values. Subsequent to December 31, 2005, no further research and development was performed at this site.

The Company records restructuring activities in accordance with FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits — an amendment of FASB Statement No. 5 and 43* and FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits*, and FASB Statement No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets* and FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. For segment reporting, restructuring charges are recorded in unallocated expense.

5. Research Collaborations, Acquisitions and License Agreements

Merck continues its strategy of establishing strong external alliances to complement its substantial internal research capabilities, including research collaborations, acquisitions, licensing pre-clinical and clinical compounds and technology transfers to drive both near- and long-term growth. During 2006, Merck signed 53 such agreements.

On December 29, 2006, Merck completed the acquisition of Sirna Therapeutics, Inc. ("Sirna") for \$13 per share in cash, for a total value of approximately \$1.1 billion, which included the purchase of all outstanding Sirna shares, warrants and stock options. The aggregate purchase price of \$1.1 billion was paid on January 3, 2007, and

accordingly, is reflected as a liability within Accrued and other current liabilities in the Company's consolidated balance sheet at December 31, 2006. Sirna was a publicly-held biotechnology company that is a leader in developing a new class of medicines based on RNA interference ("RNAi") technology, which could significantly alter the treatment of disease. RNAi-based therapeutics selectively catalyze the destruction of the RNA transcribed from an individual gene. The acquisition of Sirna is expected to increase Merck's ability to use RNAi technology to turn off a targeted gene in a human cell, potentially rendering inoperative a gene responsible for triggering a specific disease. The transaction was accounted for under the purchase method of accounting, in which the assets acquired and the liabilities assumed from Sirna at the date of acquisition were recorded at their respective fair values as of the acquisition date in the Company's consolidated financial statements. The determination of fair values requires management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets has been recorded as goodwill of \$345.9 million. The goodwill was fully allocated to the Pharmaceutical segment and is not deductible for tax purposes. Also, the Company recorded a charge of \$466.2 million for acquired research associated with Sirna's compounds currently under development, for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed. The acquired research charge related to the development of treatments for both the hepatitis B and hepatitis C viruses, which are in preclinical development, as well as licensing agreements held by Sirna. The charge, which is not deductible for tax purposes, was recorded in Research and development expense and was determined based upon the present value of expected future cash flows of new product candidates resulting from this technology adjusted for the probability of its technical and marketing success utilizing an income approach reflecting appropriate risk-adjusted discount rates of 27.0% to 30.0%. The ongoing activity with respect to each of these compounds under development is not expected to be material to the Company's research and development expenses. The allocation of the purchase price also resulted in the recognition of an intangible asset of \$357.8 million and a related deferred tax liability of \$146.3 million, as well as other assets and liabilities – net of \$112.6 million. The intangible asset relates to Sirna's developed technology that can be used immediately in the research and development process and has alternative future uses. This intangible asset will be amortized to Research and development expense on a straight line basis over a seven year useful life. Pro forma financial information is not required because Sirna's historical financial results are not significant when compared with the Company's financial results. The transaction closed on December 29, 2006, and accordingly, Sirna's operating results were not reflected in the Company's results of operations for 2006.

Also, in December 2006, Merck and Idera Pharmaceuticals ("Idera") announced that they had formed a broad collaboration to research, develop and commercialize Idera's Toll-like Receptor ("TLR") agonists. Under the terms of the agreement, Merck will receive worldwide exclusive rights to a number of Idera's agonist compounds targeting TLR 7, 8 and 9 for use in combination with Merck's therapeutic and prophylactic vaccines under development for oncology, infectious diseases and Alzheimer's disease. Merck and Idera will engage in a two-year research and development collaboration to generate novel agonists targeting TLR 7 and TLR 8 and incorporating both Merck and Idera chemistry for use in the licensed fields. Merck paid an upfront license fee of \$20 million to Idera, which was recorded as Research and development expense, and purchased \$10 million of its common stock at \$5.50 per share. In addition, Merck will fund the research and development collaboration. Idera is eligible to receive milestone payments of up to \$165 million if vaccines are successfully developed in each of the three fields. Additional milestones of up to \$260 million would be payable for follow-on indications in the oncology field and the successful development of additional vaccines containing Idera's TLR agonists. There is no limit to the number of vaccines to which Merck can apply Idera's agonists within the licensed fields. In addition, Idera will receive royalties on products commercialized under the collaboration.

In November 2006, the Company expanded the scope of its existing strategic collaboration with FoxHollow Technologies, Inc. ("FoxHollow") for atherosclerotic plaque analysis. Additionally, Merck acquired a stake in FoxHollow with the purchase of \$95 million of newly-issued shares of FoxHollow common stock for \$29.629 per share, representing approximately an 11% stake. These shares are recorded as an equity method investment in the Consolidated Balance Sheet at December 31, 2006. The existing strategic collaboration, entered into in 2005, provided for FoxHollow to receive an upfront payment with the opportunity for additional payments if the collaboration continued. Under the terms of the expanded collaboration agreement, Merck will pay \$40 million to FoxHollow over four years in exchange for FoxHollow's agreement to collaborate exclusively with Merck in specified disease areas. Merck will also provide a minimum of \$60 million in funding to FoxHollow over the first

three years of the four year collaboration program term, for research activities to be conducted by FoxHollow under Merck's direction. FoxHollow will receive milestone payments on successful development of drug products or diagnostic tests utilizing results from the collaboration, as well as royalties.

In October 2006, Merck and Ambrilia Biopharma Inc. ("Ambrilia"), a biopharmaceutical company developing innovative therapeutics in the fields of cancer and infectious diseases, announced they entered into an exclusive licensing agreement granting Merck the worldwide rights to Ambrilia's HIV/AIDS protease inhibitor program. Under the terms of the agreement, Ambrilia granted Merck the exclusive worldwide rights to its lead compound, PPL-100, which has completed a Phase I single-dose pharmacokinetic study and is currently in a Phase I repeat dose pharmacokinetic study. In return, Ambrilia received an upfront licensing fee of \$17 million on signing, which the Company recorded as Research and development expense in 2006, and is eligible for cash payments totaling up to \$215 million upon successful completion of development, clinical, regulatory and sales milestones. Ambrilia will receive royalties on all future product sales.

In June 2006, the Company acquired all of the outstanding equity of GlycoFi, Inc. ("GlycoFi") for approximately \$373 million in cash (\$400 million purchase price net of \$25 million in shares already owned and net transaction costs). GlycoFi was a privately-held biotechnology company that is a leader in the field of yeast glycoengineering, which is the addition of specific carbohydrate modifications to the proteins in yeast, and optimization of biologic drug molecules. GlycoFi's technology platform is used in the development of glycoprotein, as well as the optimization of a glycoprotein target. In connection with the acquisition, the Company recorded a charge of \$296.3 million for acquired research associated with GlycoFi's technology platform to be used in the research and development process, for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed. This charge is not deductible for tax purposes. The Company expects this technology to be fully developed over the next one to two years. The charge was recorded in Research and development expense and was determined based upon the present value of expected future cash flows of new product candidates resulting from this technology adjusted for the probability of its technical and marketing success utilizing an income approach reflecting the appropriate risk-adjusted discount rate. The Company also recorded a \$99.4 million intangible asset (\$57.6 million net of deferred taxes) related to GlycoFi's developed technology that can be used immediately in the research and development process and has alternative future uses. This intangible asset will be amortized to Research and development expense on a straight-line basis over a five year useful life. The remaining net assets acquired in this transaction were not material. Because GlycoFi 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. GlycoFi's results of operations have been included with the Company's consolidated financial results since the acquisition date.

In May 2006, the Company acquired all of the equity of Abmaxis, Inc. ("Abmaxis") for approximately \$80 million in cash. Abmaxis was a privately-held biopharmaceutical company dedicated to the discovery and optimization of monoclonal antibody ("MAb") products for human therapeutics and diagnostics. Abmaxis developed and validated a breakthrough antibody engineering technology platform, Abmaxis *in-silico* Immunization, which has alternative future uses to the Company with no significant technological or engineering risks at the date of acquisition. In connection with the acquisition, the Company allocated substantially all of the purchase price to Abmaxis' technology platform and recorded an intangible asset of \$135.3 million (\$78.5 million net of deferred taxes). This intangible asset will be amortized to Research and development expense on a straight-line basis over a five year useful life. The remaining net assets acquired in this transaction were not material. Because Abmaxis 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. Abmaxis' results of operations have been included with the Company's consolidated financial results since the acquisition date.

In March 2006, Neuromed Pharmaceuticals Ltd. ("Neuromed") and Merck signed a research collaboration and license agreement to research, develop and commercialize novel compounds for the treatment of pain and other neurological disorders, including Neuromed's lead compound, NMED-160 (MK-6721), which is currently in Phase II development for the treatment of pain. Under the terms of the agreement, Neuromed received an upfront payment of \$25 million which the Company recorded as Research and development expense in 2006. The

successful development and launch of NMED-160 for an initial single indication on a worldwide basis would trigger milestone payments totaling \$202 million. Milestones could increase to approximately \$450 million if a further indication for NMED-160 is developed and approved and an additional compound is developed and approved for two indications. Neuromed would also receive royalties on worldwide sales of NMED-160 and any additional compounds developed under this agreement.

In 2005, Agensys, Inc. (“Agensys”), a cancer biotechnology company, and Merck announced the formation of a global alliance to jointly develop and commercialize AGS-PSCA, Agensys’ fully human MAb to Prostate Stem Cell Antigen. Also in 2005, Merck entered into an agreement with Geron Corporation to develop a cancer vaccine against telomerase, an enzyme, active in most cancer cells that maintains telomere length at the ends of chromosomes, which allows the cancer to grow and metastasize over long periods of time.

In 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 at the time of acquisition, suberoylanilide hydroxamic acid, known as vorinostat, for the treatment of cutaneous T-cell lymphoma was approved by the Food and Drug Administration in October 2006 and is marketed as *Zolinza* in the United States. Consideration for the acquisition consisted of an upfront payment, as well as 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, included in Research and development expense, 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. 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.

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 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.

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 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 2006, 2005 and 2004. 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, 2006, 2005 and 2004.

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). The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

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, 2006, the Company was a party to seven pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes in which the notional amounts match the amount of the hedged fixed-rate notes. There is one swap maturing in 2007 with a notional amount of \$350 million; two swaps maturing in 2011 with notional amounts of \$125 million each; one swap maturing in 2013 with a notional amount of \$500 million and three swaps maturing in 2015 with notional amounts of \$250 million each. 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. 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. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the Company's financial instruments at December 31, 2006 and 2005. Fair values were estimated based on market prices, where available, or dealer quotes.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 5,914.7	\$ 5,914.7	\$ 9,585.3	\$ 9,585.3
Short-term investments	2,798.3	2,798.3	6,052.3	6,052.3
Long-term investments	7,788.2	7,788.2	1,107.9	1,107.9
Purchased currency options	43.9	43.9	145.4	145.4
Forward exchange contracts	11.1	11.1	13.7	13.7
Interest rate swaps	26.3	26.3	13.5	13.5
Liabilities				
Loans payable and current portion of long-term debt	\$ 1,285.1	\$ 1,284.3	\$ 2,972.0	\$ 2,974.4
Long-term debt	5,551.0	5,612.7	5,125.6	5,171.4
Forward exchange contracts	25.5	25.5	26.0	26.0

In connection with the American Jobs Creation Act of 2004 ("AJCA") the Company repatriated \$15.9 billion during 2005 (see Note 17). As of December 31, 2005, \$5.2 billion of the AJCA repatriation was invested in fully collateralized overnight repurchase agreements and was included in Short-term investments in the Consolidated Balance Sheet. In early 2006, the Company reinvested these repurchase agreement balances into other short- and long-term investments.

A summary of the December 31 carrying values and fair values of the Company's investments and gross unrealized gains and losses on the Company's available-for-sale-investments recorded, net of tax, in AOCI is as follows:

	2006			
	Carrying Value	Fair Value	Gross Unrealized Gains	Losses
Corporate notes and bonds	\$ 5,189.5	\$ 5,189.5	\$ 7.2	\$ (5.0)
U.S. Government and agency securities	2,028.2	2,028.2	2.3	(3.7)
Commercial paper	1,110.2	1,110.2	-	-
Municipal securities	708.5	708.5	4.3	(1.3)
Mortgaged-backed securities	615.4	615.4	1.8	(0.7)
Asset-backed securities	456.5	456.5	0.8	(0.4)
Foreign government bonds	191.2	191.2	-	(0.7)
Repurchase agreements	81.5	81.5	-	-
Other debt securities	47.1	47.1	8.8	-
Equity securities	158.4	158.4	85.5	(0.7)
Total Available-for-sale	\$10,586.5	\$10,586.5	\$110.7	\$ (12.5)

Substantially all of the Company's unrealized losses at December 31, 2006 were in continuous loss positions for less than 12 months.

	Carrying Value	Fair Value	2005	
			Gross Unrealized Gains	Losses
Repurchase agreements	\$5,214.2	\$5,214.2	\$ -	\$ -
Corporate notes and bonds	755.7	755.7	0.1	-
Commercial paper	654.7	654.7	-	-
Municipal securities	288.3	288.3	0.5	(1.3)
U.S. Government and agency securities	51.9	51.9	-	(0.1)
Other debt securities	45.0	45.0	10.1	(0.3)
Equity securities	150.4	150.4	60.0	(4.9)
Total Available-for-sale	\$7,160.2	\$7,160.2	\$70.7	\$ (6.6)

Available-for-sale debt securities maturing within one year totaled \$2.8 billion at December 31, 2006. Of the remaining debt securities, \$6.3 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-fifth of the Company's accounts receivable at December 31, 2006. 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:

	2006	2005
Finished goods	\$ 403.8	\$ 400.0
Raw materials and work in process	1,688.9	1,929.8
Supplies	92.8	82.1
Total (approximates current cost)	2,185.5	2,411.9
Reduction to LIFO costs	-	-
	\$2,185.5	\$2,411.9
Recognized as:		
Inventories	\$1,769.4	\$1,658.1
Other assets	\$ 416.1	\$ 753.8

Inventories valued under the LIFO method comprised approximately 62% of inventories at both December 31, 2006 and 2005. Amounts recognized as Other assets are comprised entirely of raw materials and work in process inventories, which include inventories for products not expected to be sold within one year, principally vaccines, and, as of December 31, 2005, inventories produced in preparation for product launches.

8. Other Intangibles

Other intangibles at December 31 consisted of:

	2006	2005
Patents and product rights	\$1,656.3	\$1,656.3
Other	775.9	180.4
Total acquired cost	\$2,432.2	\$1,836.7
Patents and product rights	\$1,321.5	\$1,191.8
Other	166.8	126.2
Total accumulated amortization	\$1,488.3	\$1,318.0

The increase in other intangibles in 2006 primarily reflects intangibles in connection with the acquisitions of Sirna, GlycoFi and Abmaxis (see Note 5). Aggregate amortization expense was \$170.3 million in 2006, \$163.9 million in 2005, and \$192.0 million in 2004. The estimated aggregate amortization expense for each of the next five years is as follows: 2007, \$235.7 million; 2008, \$183.8 million; 2009, \$134.2 million; 2010, \$132.1 million and \$104.6 million in 2011.

9. Joint Ventures and Other Equity Method Affiliates

Equity income from affiliates reflects the performance of the Company's joint ventures and other equity method affiliates and was comprised of the following:

Years Ended December 31	2006	2005	2004
Merck/Schering-Plough	\$1,218.6	\$ 570.4	\$ 132.0
AstraZeneca LP	783.7	833.5	646.5
Other ⁽¹⁾	292.1	313.2	229.7
	\$2,294.4	\$1,717.1	\$1,008.2

⁽¹⁾ Primarily reflects results from Merial Limited, and joint ventures with Sanofi Pasteur and Johnson & Johnson.

Merck/Schering-Plough

In 2000, the Company and Schering-Plough Corporation ("Schering-Plough") (collectively the "Partners") 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. These agreements generally provide for equal sharing of development costs and for co-promotion of approved products by each company. 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* (marketed as *Ezetrol* outside the United States). As reported by the Merck/Schering-Plough cholesterol partnership (the "MSP Partnership"), global sales of *Zetia* totaled \$1.93 billion in 2006, \$1.4 billion in 2005 and \$1.1 billion in 2004. 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* outside of the United States). Global sales of *Vytorin* were \$1.96 billion in 2006, \$1.0 billion in 2005 and \$132.4 million in 2004.

The cholesterol agreements provide for the sharing of operating income generated by the MSP Partnership based upon percentages that vary by product, sales level and country. In the U.S. market, the Partners share profits on *Zetia* and *Vytorin* equally, with the exception of the first \$300 million of annual *Zetia* sales, on which Schering-Plough receives a greater share of profits. Operating income includes expenses that the Partners have contractually agreed to share, such as a portion of manufacturing costs, specifically identified promotion costs (including direct-to-consumer advertising and direct and identifiable out-of-pocket promotion) and other agreed upon costs for specific services such as on-going clinical research, market support, market research, market expansion, as well as a specialty sales force and physician education programs. Expenses incurred in support of the MSP Partnership but not shared between the Partners, such as marketing and administrative expenses (including certain sales force costs), as well as certain manufacturing costs, are not included in Equity income from affiliates.

However, these costs are reflected in the overall results of the Company. Certain research and development expenses are generally shared equally by the Partners, after adjusting for earned milestones.

The respiratory therapeutic agreements provide for the joint development and marketing by the Partners of a once-daily, fixed-combination tablet containing the active ingredients montelukast sodium and loratadine. Montelukast sodium is sold by Merck as *Singulair* and loratadine is sold by Schering-Plough as Claritin. In January 2002, the respiratory partnership reported on results of Phase III clinical trials of a fixed-combination tablet containing montelukast sodium and loratadine. This Phase III study did not demonstrate sufficient added benefits in the treatment of seasonal allergic rhinitis. Although the montelukast sodium and loratadine combination tablet does not have approval in any country, Phase III clinical development is ongoing.

AstraZeneca LP

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 \$1.8 billion, \$1.7 billion and \$1.5 billion in 2006, 2005 and 2004, respectively, primarily relating to sales of *Nexium* and *Prilosec*. In addition, Merck earns certain Partnership returns which are recorded in Equity income from affiliates as reflected in the table above. 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. 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, exercisable two years after Astra’s purchase of Merck’s interest in the KBI products. The exercise of this option by Astra is also provided for in the year 2017 or if combined annual sales of the two products fall below a minimum amount provided, in each case, only so long as either the Merck option in 2008 or AstraZeneca’s option in 2010 has been exercised. The exercise price is based on the net present value of estimated future net sales of *Nexium* and *Prilosec* as determined at the time of exercise.

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.

Sanofi Pasteur MSD

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 \$913.9 million for 2006, \$865.1 million for 2005 and \$807.0 million for 2004.

Merial Limited

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 \$2.2 billion for 2006, \$2.0 billion for 2005 and \$1.8 billion for 2004.

Johnson & Johnson ° Merck Consumer Pharmaceuticals Company

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 \$252.6 million for 2006, \$253.3 million for 2005 and \$315.3 million for 2004.

Investments in affiliates accounted for using the equity method, including the above joint ventures, totaled \$3.5 billion at December 31, 2006 and \$3.0 billion at December 31, 2005. These amounts are reported in Other assets.

Summarized information for those affiliates is as follows:

<i>Years Ended December 31</i>	2006	2005	2004
Sales	\$14,277.8	\$11,804.6	\$9,821.1
Materials and production costs	5,308.7	4,627.4	4,140.9
Other expense, net	4,042.9	3,918.0	3,691.4
Income before taxes	4,926.2	3,259.2	1,988.8

<i>December 31</i>	2006	2005
Current assets	\$7,772.7	\$6,389.0
Noncurrent assets	1,483.6	1,430.5
Current liabilities	4,074.9	3,420.0
Noncurrent liabilities	215.6	160.4

10. Loans Payable, Long-Term Debt and Other Commitments

Loans payable at December 31, 2006 and 2005 included \$336.2 million and \$337.5 million, respectively, of long-dated notes that are subject to repayment at the option of the holders on an annual basis. Loans payable at December 31, 2006 and 2005 also included \$500.0 million of notes with annual interest rate resets which were redeemed by the Company in February 2007, upon notification from the remarketing agent that, due to an overall rise in interest rates, it would not exercise its annual option to remarket the notes. Loans payable at December 31, 2006 and 2005, also included \$349.8 million of fixed-rate notes due in 2007, and \$510.1 million of fixed rate notes due in 2006, respectively. In December 2006, a foreign subsidiary of the Company entered into an 18-month, \$100 million line of credit with a financial institution. At December 31, 2006, borrowings under the line of credit were \$90 million and are included in Loans payable. Loans payable at December 31, 2005 included \$1.6 billion of commercial paper borrowings issued by a foreign subsidiary under a \$3.0 billion commercial paper borrowing facility established in October 2005 to provide funding for a portion of the Company's repatriation in connection with the AJCA (see Note 17). There was no commercial paper outstanding at December 31, 2006. The weighted average interest rate for all of these borrowings was 4.9% and 4.3% at December 31, 2006 and 2005, respectively.

Long-term debt at December 31 consisted of:

	2006	2005
6.0% Astra note due 2008	\$1,380.0	\$1,380.0
4.8% notes due 2015	1,017.0	992.0
4.4% notes due 2013	503.0	509.8
6.4% debentures due 2028	499.2	499.2
5.8% notes due 2036	497.6	-
6.0% debentures due 2028	497.0	496.8
2.5% notes due 2007	-	343.0
Variable-rate borrowing due 2009	300.0	300.0
5.1% notes due 2011	249.1	-
6.3% debentures due 2026	247.8	247.6
Other	360.3	357.2
	\$5,551.0	\$5,125.6

The Company was a party to interest rate swap contracts which effectively convert the 2.5%, the 4.4%, the 5.1% and \$750 million of the 4.8% fixed-rate notes to floating-rate instruments (see Note 6).

Other (as presented in the table above) at December 31, 2006 and 2005 consisted primarily of \$328.6 million of borrowings at variable rates averaging 4.7% and 3.8%, 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 11.6%.

The aggregate maturities of long-term debt for each of the next five years are as follows: 2007, \$449.0 million; 2008, \$1.4 billion; 2009, \$307.2 million; 2010, \$6.0 million; 2011, \$258.7 million.

Rental expense under the Company's operating leases, net of sublease income, was \$201.4 million in 2006. The minimum aggregate rental commitments under noncancellable leases are as follows: 2007, \$65.8 million;

2008, \$45.4 million; 2009, \$33.1 million; 2010, \$22.9 million; 2011, \$10.4 million and thereafter, \$33.9 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, individual and putative class actions have been filed against the Company in state and federal courts alleging personal injury and/or economic loss with respect to the purchase or use of *Vioxx*. All such actions filed in federal court are coordinated in a multidistrict litigation in the U.S. District Court for the Eastern District of Louisiana (the "MDL") before District Judge Eldon E. Fallon. A number of such actions filed in state court are coordinated in separate coordinated proceedings in state courts in New Jersey, California and Texas, and the counties of Philadelphia, Pennsylvania and Clark County, Nevada. As of December 31, 2006, the Company had been served or was aware that it had been named as a defendant in approximately 27,400 lawsuits, which include approximately 46,100 plaintiff groups, alleging personal injuries resulting from the use of *Vioxx*, and in approximately 264 putative class actions alleging personal injuries and/or economic loss. (All of the actions discussed in this paragraph are collectively referred to as the "*Vioxx* Product Liability Lawsuits".) Of these lawsuits, approximately 8,300 lawsuits representing approximately 23,700 plaintiff groups are or are slated to be in the federal MDL and approximately 16,800 lawsuits representing approximately 16,800 plaintiff groups are included in a coordinated proceeding in New Jersey Superior Court before Judge Carol E. Higbee.

In addition to the *Vioxx* Product Liability Lawsuits discussed above, the claims of over 4,025 plaintiffs had been dismissed as of December 31, 2006. Of these, there have been over 1,225 plaintiffs whose claims were dismissed with prejudice (i.e., they cannot be brought again) either by plaintiffs themselves or by the courts. Over 2,800 additional plaintiffs have had their claims dismissed without prejudice (i.e., they can be brought again).

In the MDL, Judge Fallon in July 2005 indicated that he would schedule for trial a series of cases during the period November 2005 through 2006, in the following categories: (i) heart attack with short term use; (ii) heart attack with long term use; (iii) stroke; and (iv) cardiovascular injury involving a prescription written after April 2002 when the labeling for *Vioxx* was revised to include the results of the VIGOR trial. These trials began in November 2005 and concluded in December 2006. The next scheduled trial in the MDL is a re-trial in *Barnett v. Merck* on the issue of damages as discussed below.

Merck has entered into a tolling agreement (the "Tolling Agreement") with the MDL Plaintiffs' Steering Committee that establishes a procedure to halt the running of the statute of limitations (tolling) as to certain categories of claims allegedly arising from the use of *Vioxx* by non-New Jersey citizens. The Tolling Agreement applies to individuals who have not filed lawsuits and may or may not eventually file lawsuits and only to those

claimants who seek to toll claims alleging injuries resulting from a thrombotic cardiovascular event that results in a myocardial infarction or ischemic stroke. The Tolling Agreement provides counsel additional time to evaluate potential claims. The Tolling Agreement requires any tolled claims to be filed in federal court. As of December 31, 2006, approximately 14,180 claimants had entered into Tolling Agreements.

Merck voluntarily withdrew *Vioxx* from the market on September 30, 2004. Many states have a two-year statute of limitations for product liability claims, requiring that claims must be filed within two years after the plaintiffs learned or could have learned of their potential cause of action. As a result, some may view September 30, 2006 as a deadline for filing *Vioxx* cases. It is important to note, however, that the law regarding statutes of limitations can be complex, varies from state to state, can be fact-specific, and in some cases, might be affected by the existence of pending class actions. For example, some states have three year statutes of limitations and, in some instances, the statute of limitations is even longer. Merck expects that there will be legal arguments concerning the proper application of these statutes, and the decisions will be up to the judges presiding in individual cases in state and federal proceedings.

The Company has previously disclosed the outcomes of several *Vioxx* Product Liability Lawsuits that were tried prior to September 30, 2006 (see chart below).

In August 2006, in *Barnett v. Merck*, a case before Judge Fallon in the MDL, a jury in New Orleans, Louisiana returned a plaintiff verdict in the second federal *Vioxx* case to go to trial. The jury awarded \$50 million in compensatory damages and \$1 million in punitive damages. On August 30, 2006, Judge Fallon overturned as excessive the damages portion of the verdict and ordered a new trial on damages. Judge Fallon has set re-trial for October 29, 2007 on the issue of damages. Merck has filed motions for a new trial on all issues and for Judgment as a Matter of Law, both of which are currently pending before the Court. Plaintiff has opposed Merck's motion and has asked the Judge to reduce the amount of the award rather than re-try the case.

Juries found in favor of Merck on all counts in the fourth and fifth cases to go to trial in the MDL. The jury returned its verdict for Merck in *Mason v. Merck* on November 8, 2006 and in *Dedrick v. Merck* on December 13, 2006.

On November 22, 2006, Judge Fallon denied a motion filed in the MDL to certify a nationwide class of all persons who allegedly suffered personal injury as a result of taking *Vioxx*.

On December 15, 2006, the jury in *Albright v. Merck*, a case tried in state court in Birmingham, Alabama, returned a verdict for Merck on all counts.

The Company previously disclosed that in April 2006, in *Garza v. Merck*, a jury in Rio Grande City, Texas returned a verdict in favor of the plaintiff. In September 2006, the Texas state court granted the Company's request to investigate possible jury bias because a juror admitted that he had, prior to the trial, on several occasions borrowed money from the plaintiff. On December 21, 2006, the court entered judgment for plaintiff in the amount of \$7.75 million, plus interest, reduced from the original award of \$32 million because of the Texas state cap on punitive damages. The Company is seeking a new trial and will appeal the verdict if the court does not grant a new trial.

On October 31, 2006, in California Superior Court in Los Angeles, a consolidated trial began in the cases *Appell v. Merck* and *Arrigale v. Merck*. On January 18, 2007, Judge Victoria Chaney declared a mistrial as to both plaintiffs after the jury reported that it was deadlocked.

On October 5, 2006, in the coordinated proceeding in New Jersey Superior Court, Judge Higbee dismissed claims of the United Kingdom plaintiffs. These plaintiffs have appealed.

The first case scheduled for trial in the Texas coordinated proceeding, *Rigby v. Merck*, was scheduled to begin trial on November 7, 2006. The *Rigby* case was voluntarily dismissed on October 23, 2006 when the plaintiff filed a notice of non-suit with the Court.

A consolidated trial, *Hermans v. Merck* and *Humeston v. Merck*, began on January 17, 2007, in the coordinated proceeding in New Jersey Superior Court before Judge Higbee. *Humeston v. Merck* was first tried in 2005, but Judge Higbee set aside the November 2005 jury verdict in favor of Merck and ordered a new trial on the

grounds of newly discovered evidence. The Hermans/Humeston trial is separated into two phases: a general phase regarding Merck's conduct and a plaintiff-specific phase. There will be jury questions and a deliberation after phase I regarding Merck's conduct. If the jury answers any of the questions in the affirmative, the case will move to phase II. In phase II each plaintiff will present his or her specific case. At the end of phase II, the jury will deliberate and will answer questions with respect to each of the two plaintiffs. The jury will answer separate verdict sheets but in the course of only one deliberation. If the case moves to a punitive phase, there will be a single presentation for each side and one jury deliberation for both plaintiffs.

The first case scheduled for trial in the Philadelphia coordinated proceeding, *McCool v. Merck*, was scheduled to begin trial on February 26, 2007. The plaintiff voluntarily dismissed with prejudice her case on January 16, 2007.

On September 28, 2006, the New Jersey Superior Court, Appellate Division, heard argument on plaintiffs' appeal of Judge Higbee's dismissal of the *Sinclair v. Merck* case. This putative class action was originally filed in December 2004 and sought the creation of a medical monitoring fund. Judge Higbee had granted the Company's motion to dismiss in May 2005. On January 16, 2007, the Appellate Division reversed the decision and remanded the case back to Judge Higbee for further factual inquiry. The Company has petitioned the New Jersey Supreme Court for review of the Appellate Division's decision.

To date in the *Vioxx* Product Liability Lawsuits, of the 29 plaintiffs whose claims have been scheduled for trial, the claims of seven were dismissed, the claims of seven were withdrawn from the trial calendar by plaintiffs, and juries have decided in Merck's favor nine times and in plaintiffs' favor four times. In addition, in the recent California trial involving two plaintiffs, the jury could not reach a verdict for either plaintiff and a mistrial was declared. A New Jersey state judge set aside one of the nine Merck verdicts. With respect to the four plaintiffs' verdicts, Merck already has filed an appeal or sought judicial review in each of those cases, and in one of those four, a federal judge overturned the damage award shortly after trial. In addition, a consolidated trial with two plaintiffs is currently ongoing in the coordinated proceeding in New Jersey Superior Court before Judge Higbee and another trial, *Schwaller v. Merck*, has commenced in state court in Madison County, Illinois.

The following chart sets forth the results of all U.S. *Vioxx* Product Liability trials to date.

Verdict Date	Plaintiff	State or Federal Court	Result	Comments
Aug. 19, 2005	Ernst	Texas	Verdict for Plaintiff	Jury awarded plaintiff \$253.4 million; the Court reduced amount to approximately \$26.1 million plus interest. The judgment is now on appeal.
Nov. 3, 2005	Humeston	N.J.	Verdict for Merck; then judge overturned the verdict	Judge has ordered a new trial, which is currently ongoing.
Feb. 17, 2006	Plunkett	Federal	Mistrial after jury deadlocked in first trial; verdict for Merck in retrial	Merck prevailed in February 2006 retrial. Plaintiff has moved for a new trial.
April 5, 2006	McDarby	N.J.	Verdict for Plaintiff	Plaintiff was awarded \$13.5 million in damages. Merck's motion for a new trial is pending, as is plaintiff's motion for attorney's fees.
April 5, 2006	Cona	N.J.	Verdict for Merck on failure to warn claim	However, the jury awarded plaintiff the nominal sum of \$135 for his Consumer Fraud Act claim. Merck's motion for a new trial on the Consumer Fraud Act claim is pending, as is plaintiff's motion for attorney's fees.
April 21, 2006	Garza	Texas	Verdict for Plaintiff	Judge reduced \$32 million jury award to \$7.75 million plus interest. Merck has moved for a new trial.
July 13, 2006	Doherty	N.J.	Verdict for Merck	Plaintiff has moved for a new trial.
Aug. 2, 2006	Grossberg	California	Verdict for Merck	Plaintiff has moved for a new trial.
Aug. 17, 2006	Barnett	Federal	Verdict for Plaintiff	Plaintiff awarded \$51 million in damages. The judge ruled the award was "grossly excessive," and has scheduled a new trial on damages in October 2007. Merck's motion for a new trial on the remaining issues is pending.
Sept. 26, 2006	Smith	Federal	Verdict for Merck	
Nov. 15, 2006	Mason	Federal	Verdict for Merck	
Dec. 13, 2006	Dedrick	Federal	Verdict for Merck	Plaintiff has moved for a new trial.
Dec. 15, 2006	Albright	Alabama	Verdict for Merck	Plaintiff has moved for a new trial.
Jan. 18, 2007	Arrigale/Appell	California	Mistrial declared after the jury deadlocked	

Other Lawsuits

As previously disclosed, on July 29, 2005, a New Jersey state trial court certified a nationwide class of third-party payors (such as unions and health insurance plans) that paid in whole or in part for the *Vioxx* used by their plan members or insureds. The named plaintiff in that case seeks recovery of certain *Vioxx* purchase costs (plus penalties) based on allegations that the purported class members paid more for *Vioxx* than they would have had they known of the product's alleged risks. Merck believes that the class was improperly certified. The trial court's ruling is procedural only; it does not address the merits of plaintiffs' allegations, which the Company intends to defend vigorously. On March 31, 2006, the New Jersey Superior Court, Appellate Division, affirmed the class certification order. On July 19, 2006, the New Jersey Supreme Court decided to exercise its discretion to hear the Company's appeal of the Appellate Division's decision. On August 24, 2006, the Appellate Division ordered a stay of the proceedings in Superior Court pending a ruling by the Supreme Court. Oral argument before the New Jersey Supreme Court is scheduled to take place in March 2007.

As previously reported, the Company has also been named as a defendant in separate lawsuits brought by the Attorneys General of Alaska, Louisiana, Mississippi, Montana, Texas and Utah. These actions allege that the Company misrepresented the safety of *Vioxx* and seek (i) recovery of the cost of *Vioxx* purchased or reimbursed by the state and its agencies; (ii) reimbursement of all sums paid by the state and its agencies for medical services for the treatment of persons injured by *Vioxx*; (iii) damages under various common law theories; and/or (iv) remedies

under various state statutory theories, including state consumer fraud and/or fair business practices or Medicaid fraud statutes, including civil penalties.

Shareholder Lawsuits

As previously disclosed, in addition to the *Vioxx* Product Liability Lawsuits, the Company and various current and former officers and directors are defendants in various putative class actions and individual lawsuits under the federal securities laws and state securities laws (the “*Vioxx* Securities Lawsuits”). All of the *Vioxx* Securities Lawsuits pending in federal court have been transferred by the Judicial Panel on Multidistrict Litigation (the “JPML”) to the United States District Court for the District of New Jersey before District Judge Stanley R. Chesler for inclusion in a nationwide MDL (the “Shareholder MDL”). Judge Chesler has consolidated the *Vioxx* Securities Lawsuits for all purposes. Plaintiffs request certification of a class of purchasers of Company stock between May 21, 1999 and October 29, 2004. The complaint alleges 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, and seeks unspecified compensatory damages and the costs of suit, including attorneys’ fees. The complaint also asserts a claim under Section 20A of the Securities and Exchange Act against certain defendants relating to their sales of Merck stock. In addition, the complaint includes allegations under Sections 11, 12 and 15 of the Securities Act of 1933 that certain defendants 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. Defendants have filed a motion to dismiss the complaint. Oral argument on the motion to dismiss is scheduled to take place in March 2007.

As previously disclosed, on August 15, 2005, a complaint was filed in Oregon state court by the State of Oregon through the Oregon state treasurer on behalf of the Oregon Public Employee Retirement Fund against the Company and certain current and former officers and directors. The complaint, which was brought under Oregon securities law, alleges that plaintiff has suffered damages in connection with its purchases of Merck common stock at artificially inflated prices due to the Company’s alleged violations of law related to disclosures about *Vioxx*. The current and former officers and directors have entered into a tolling agreement and, on June 30, 2006, were dismissed without prejudice from the case. On July 19, 2006, the Court denied the Company’s motion to dismiss the complaint, but required plaintiff to amend the complaint. Plaintiff filed an amended complaint on September 21, 2006. Merck filed a motion to require plaintiffs to make the complaint more definite and certain, which was denied by the Court. Merck filed an answer to the complaint in January 2007.

As previously disclosed, various shareholder derivative actions filed in federal court were transferred to the Shareholder MDL and consolidated for all purposes by Judge Chesler (the “*Vioxx* Derivative Lawsuits”). The consolidated complaint arose out of substantially the same factual allegations that are made in the *Vioxx* Securities Lawsuits. The *Vioxx* Derivative Lawsuits, which were purportedly brought to assert rights of the Company, assert claims against certain members of the Board past and present and certain executive officers for breach of fiduciary duty, waste of corporate assets, unjust enrichment, abuse of control and gross mismanagement. On May 5, 2006, Judge Chesler granted defendants’ motion to dismiss and denied plaintiffs’ request for leave to amend their complaint. Plaintiffs’ appeal of the District Court’s decision refusing them leave to amend the complaint is currently pending before the United States Court of Appeals for the Third Circuit.

As previously disclosed, on October 29, 2004, two individual shareholders made a demand on the Board of Directors of the Company to take legal action against Mr. Raymond Gilmartin, former 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 July 2006, the Board received another shareholder letter demanding that the Board take legal action against the Board and management of Merck for allegedly causing damage to the Company relating to the Company’s allegedly improper marketing of *Vioxx*. In December 2006, each of these demands was rejected by the Board of Directors.

As previously announced, the Board of Directors 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. In December 2004, the Special Committee retained the Honorable John S. Martin, Jr. of Debevoise & Plimpton LLP to conduct an independent investigation of senior management’s conduct

with respect to the cardiovascular safety profile of *Vioxx* during the period *Vioxx* was developed and marketed. The review was completed in the third quarter of 2006 and the full report (including appendices) was made public in September 2006.

In addition, as previously disclosed, various putative class actions filed in federal court under the Employee Retirement Income Security Act (“ERISA”) against the Company and certain current and former officers and directors (the “*Vioxx* ERISA Lawsuits” and, together with the *Vioxx* Securities Lawsuits and the *Vioxx* Derivative Lawsuits, the “*Vioxx* Shareholder Lawsuits”) have been transferred to the Shareholder MDL and consolidated for all purposes. The consolidated complaint asserts claims on behalf of certain of the Company’s current and former employees who are participants in certain of the Company’s retirement plans for breach of fiduciary duty. The lawsuits make similar allegations to the allegations contained in the *Vioxx* Securities Lawsuits. On October 7, 2005, defendants moved to dismiss the ERISA complaint. On July 11, 2006, Judge Chesler granted in part and denied in part defendants’ motion to dismiss.

International Lawsuits

As previously disclosed, in addition to the lawsuits discussed above, the Company has been named as a defendant in litigation relating to *Vioxx* in various countries (collectively, the “*Vioxx* Foreign Lawsuits”) in Europe, as well as Canada, Brazil, Argentina, Australia, Turkey, and Israel.

Additional Lawsuits

Based on media reports and other sources, the Company anticipates that additional *Vioxx* Product Liability Lawsuits, *Vioxx* Shareholder Lawsuits and *Vioxx* Foreign 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

As previously disclosed, the Company has product liability insurance for claims brought in the *Vioxx* Product Liability Lawsuits with stated upper limits of 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 has Directors and Officers insurance coverage applicable to the *Vioxx* Securities Lawsuits and *Vioxx* Derivative Lawsuits with stated upper limits of approximately \$190 million. The Company has fiduciary and other insurance for the *Vioxx* ERISA Lawsuits with stated upper limits of approximately \$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 disputes with certain insurers about the availability of some or all of this insurance coverage and there are likely to be additional disputes. The Company’s insurance coverage with respect to the *Vioxx* Lawsuits will not be adequate to cover its defense costs and any losses.

As previously disclosed, the Company’s upper level excess insurers (which provide excess insurance potentially applicable to all of the *Vioxx* Lawsuits) have commenced an arbitration seeking, among other things, to cancel those policies, to void all of their obligations under those policies and to raise other coverage issues with respect to the *Vioxx* Lawsuits. 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.

Investigations

As previously disclosed, 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 has received subpoenas from the U.S. Department of Justice (the “DOJ”) 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. In addition, as previously disclosed, investigations are being conducted by local authorities in certain cities in Europe in order to determine whether any criminal charges should be brought concerning *Vioxx*. The Company is cooperating with

these governmental entities in their respective investigations (the “*Vioxx* Investigations”). The Company cannot predict the outcome of these inquiries; however, they could result in potential civil and/or criminal dispositions.

As previously disclosed, the Company has received a number of Civil Investigative Demands (“CID”) from a group of Attorneys General from 31 states and the District of Columbia who are investigating whether the Company violated state consumer protection laws when marketing *Vioxx*. The Company is cooperating with the Attorneys General in responding to the CIDs.

In addition, the Company received a subpoena in September 2006 from the State of California Attorney General seeking documents and information related to the placement of *Vioxx* on California’s Medi-Cal formulary. The Company is cooperating with the Attorney General in responding to the subpoena.

Reserves

The Company currently anticipates that a number of *Vioxx* Product Liability Lawsuits will be tried throughout 2007. A trial in the Oregon securities case is scheduled for 2007, but the Company cannot predict whether this trial will proceed on schedule or the timing of any of the other *Vioxx* Shareholder Lawsuit trials. 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, including for those cases in which verdicts or judgments have been entered against the Company, and are now in post-verdict proceedings or on appeal. In each of those cases the Company believes it has strong points to raise on appeal and therefore that unfavorable outcomes in such cases are not probable. Unfavorable outcomes in the *Vioxx* Litigation (as defined below) could have a material adverse effect on the Company’s financial position, liquidity and results of operations.

Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable. As of December 31, 2005, the Company had a reserve of \$685 million solely for its future legal defense costs related to the *Vioxx* Litigation.

During 2006, the Company spent \$500 million in the aggregate, including \$175 million in the fourth quarter, in legal defense costs worldwide related to (i) the *Vioxx* Product Liability Lawsuits, (ii) the *Vioxx* Shareholder Lawsuits, (iii) the *Vioxx* Foreign Lawsuits, and (iv) the *Vioxx* Investigations (collectively, the “*Vioxx* Litigation”). In the third quarter and fourth quarter of 2006, the Company recorded charges of \$598 million and \$75 million, respectively, to increase the reserve solely for its future legal defense costs related to the *Vioxx* Litigation to \$858 million at December 31, 2006. In increasing the reserve, the Company considered the same factors that it considered when it previously established reserves for the *Vioxx* Litigation. Management now believes it has a better estimate of the Company’s expenses and can reasonably estimate such costs through 2008. Some of the significant factors considered in the establishment and ongoing review of the reserve for the *Vioxx* legal defense costs were as follows: the actual costs incurred by the Company; the development of the Company’s legal defense strategy and structure in light of the scope of the *Vioxx* Litigation; the number of cases being brought against the Company; the costs and outcomes of completed trials and the most current information regarding anticipated timing, progression, and related costs of pre-trial activities and trials in the *Vioxx* Product Liability Lawsuits. Events such as scheduled trials, that are expected to occur throughout 2007 and into 2008, and the inherent inability to predict the ultimate outcomes of such trials, limit the Company’s ability to reasonably estimate its legal costs beyond the end of 2008. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves.

Other Product Liability Litigation

As previously disclosed, the Company is a defendant in product liability lawsuits in the United States involving *Fosamax* (the “*Fosamax* Litigation”). As of December 31, 2006, 104 cases had been filed against Merck in either federal or state court, including 4 cases which seek class action certification, as well as damages and medical monitoring. In these actions, plaintiffs allege, among other things, that they have suffered osteonecrosis of the jaw,

generally subsequent to invasive dental procedures such as tooth extraction or dental implants, and/or delayed healing, in association with the use of *Fosamax*. On August 16, 2006, the JPML ordered that the *Fosamax* product liability cases pending in federal courts nationwide should be transferred and consolidated into one multidistrict litigation (the “*Fosamax* MDL”) for coordinated pre-trial proceedings. The *Fosamax* MDL has been transferred to Judge John Keenan in the United States District Court for the Southern District of New York. As a result of the JPML order, over 80 cases are before Judge Keenan. Judge Keenan has issued a Case Management Order setting forth a schedule governing the proceedings which focuses primarily upon resolving the class action certification motions in 2007. The Company intends to defend against these lawsuits.

As of December 31, 2006, the Company established a reserve of approximately \$48 million solely for its future legal defense costs for the *Fosamax* Litigation. Some of the significant factors considered in the establishment of the reserve for the *Fosamax* Litigation legal defense costs were as follows: the actual costs incurred by the Company thus far; the development of the Company’s legal defense strategy and structure in light of the creation of the *Fosamax* MDL; the number of cases being brought against the Company; and the anticipated timing, progression, and related costs of pre-trial activities in the *Fosamax* Litigation. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves. Due to the uncertain nature of litigation, the Company is unable to estimate its costs beyond the end of 2008. Unfavorable outcomes in the *Fosamax* Litigation 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. The Company settled the federal class action, which represented the single largest group of claims and 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 or 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 many other pharmaceutical manufacturers are defendants in similar complaints pending in federal and state court brought individually by a number of counties in the State of New York. The Company and the other defendants are awaiting the final ruling on their motion to dismiss in the Suffolk County case, which was the first of the New York county cases to be filed. In addition, as of December 31, 2006, the Company was a defendant in state cases brought by the Attorneys General of Kentucky, Illinois, Alabama, Wisconsin, Mississippi, Arizona, Hawaii and Alaska, all of which are being defended.

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 court dismissed the federal claims in the Minnesota case with prejudice and the plaintiffs filed a Notice of Appeal. The Federal Court of Appeals for the Eighth Circuit affirmed the dismissal of the federal claims. The state claims in that action were dismissed without prejudice, but have not been refiled in any jurisdiction.

In the California antitrust action, the parties engaged in discovery and the defendant manufacturers filed for summary judgment. In December 2006, the court granted summary judgment in favor of Merck and the other defendants and dismissed the case. The plaintiffs have filed a Notice of Appeal in the California state appeals court.

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 filed a motion to dismiss the complaint on numerous grounds which was recently denied by the court. After denial of the motion to dismiss, the case was dismissed voluntarily by the parties.

As previously disclosed, in January 2003, the DOJ 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 State of Louisiana has filed its own amended complaint, incorporating the allegations contained in the sealed amended complaint. The allegations contained in the sealed amended complaint are unknown.

In April 2005, the Company was named in a qui tam lawsuit under the Nevada False Claims Act. The suit, in which the Nevada Attorney General has intervened, alleges that the Company inappropriately offered nominal pricing and other marketing and pricing inducements to certain customers and also failed to comply with its obligations under the Medicaid Best Price scheme related to such arrangements. In May 2006, the Company's motion to dismiss this action was denied by the district court. The Company is defending against this lawsuit.

Governmental Proceedings

As previously disclosed, the Company has received a subpoena from the DOJ in connection with its investigation of the Company's marketing and selling activities, including nominal pricing programs and samples. The Company has also reported that it has received a CID from the Attorney General of Texas regarding the Company's marketing and selling activities relating to Texas. As previously disclosed, the Company received another CID from the Attorney General of Texas asking for additional information regarding the Company's marketing and selling activities related to Texas, including with respect to certain of its nominal pricing programs and samples. 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 DOJ in connection with its investigation of the Company's pricing of *Pepcid*. In September 2005, the Company received a subpoena from the Illinois Attorney General. The subpoena seeks information related to repackaging of prescription drugs. There was no activity relating to Merck in the Illinois matter in 2006.

As previously disclosed, the Company has received a letter from the DOJ advising it of the existence of a qui tam complaint alleging that the Company violated certain rules related to its calculations of best price and other federal pricing benchmark calculations, certain of which may affect the Company's Medicaid rebate obligation. The DOJ has informed the Company that it does not intend to intervene in this action and has closed its investigation. The lawsuit continues, however.

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, state or foreign regulators or authorities may seek information about practices in the pharmaceutical industry or the Company's business practices in inquiries other than the investigations discussed in this section. It is not feasible to predict the outcome of any such inquiries.

As previously disclosed, on February 23, 2004, the Italian Antitrust Authority ("ICA") adopted a measure commencing a formal investigation of Merck Sharp & Dohme (Italia) S.p.A. ("MSD Italy") and the Company under

Article 14 of the Italian Competition Law and Article 82 EC to ascertain whether the Company and MSD Italy committed an abuse of a dominant position by refusing to grant to ACS Dobfar S.p.A. (“Dobfar”), an Italian company, a voluntary license under the Company’s Italian Supplementary Protection Certificate (“SPC”), pursuant to domestic legislation passed in 2002, to permit Dobfar to manufacture imipenem and cilastatin (“I&C”), the active ingredients in *Tienam*, in Italy for sale outside Italy in countries where patent protection had expired or never existed. A hearing before the ICA was held on May 2, 2005 and on June 17, 2005, the ICA found, on a preliminary basis, that the Company’s refusal to grant the license was an abuse of a dominant position, and imposed interim measures requiring the Company to grant a license to manufacture I&C in Italy for stockpiling purposes only, until expiration of the SPC. On November 16, 2005, the Italian Administrative court denied the Company’s appeal of the ICA’s order. The Company’s SPC expired in January 2006. Proceedings before the ICA continued on the merits of the Article 82 investigation and, in an effort to resolve the matter, the Company offered a commitment to the ICA pursuant to which the Company would grant non-exclusive licenses under its Italian SPC for finasteride with respect to finasteride 5 mg for the treatment of benign prostate hyperplasia. The deadline for the ICA to adopt its final decision as to whether the Company’s commitment warrants the closure of the case is March 16, 2007.

Vaccine Litigation

As previously disclosed, 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, encephalitis, encephalopathy, Guillain-Barre syndrome and transverse myelitis. There are now 6 claimants proceeding or, to the Company’s knowledge, intending to proceed against the Company. The Company will 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 (e.g., hepatitis 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, 2006, there were approximately 250 active thimerosal related lawsuits with approximately 670 plaintiffs. Other defendants include other 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 cases scheduled for trial in 2006 were dismissed — one, a state court case in Ohio voluntarily dismissed by the plaintiffs, and the second, a Federal District Court case in Texas in which the Court entered summary judgment in favor of defendants in 2005 and plaintiffs ultimately voluntarily dismissed their appeal. The Company will 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 Childhood Vaccine Injury Act (the “Vaccine Act”). The Vaccine Act 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 Vaccine Act, 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 not a party to Vaccine Court proceedings because the petitions are brought against the United States Department of Health and Human Services. The cases with trial dates referred to in the preceding paragraph as having been dismissed were brought by plaintiffs who claimed to have made a timely withdrawal of their Vaccine Court petitions.

The Company is aware that there are approximately 4,700 cases pending in the Vaccine Court involving allegations that thimerosal-containing vaccines and/or the *M-M-R II* vaccine cause autism spectrum disorders. Not all of the thimerosal-containing vaccines involved in the Vaccine Court proceeding are Company vaccines. The Company is the sole source of the *M-M-R II* vaccine domestically. In June 2007, the Special Masters presiding over

the Vaccine Court proceedings are scheduled to begin a hearing in which both petitioners and the government will present evidence on the issue of whether these vaccines can cause autism spectrum disorders. That hearing is expected to last a number of weeks. Since it is not a party, the Company will not participate in the proceedings.

Patent Litigation

From time to time, generic manufacturers of pharmaceutical products file Abbreviated New Drug Applications (“ANDA’s”) 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 ANDA’s to the FDA seeking to market in the United States a generic form of *Fosamax*, *Prilosec*, *Nexium*, *Propecia*, *Trusopt* and *Cosopt* prior to the expiration of the Company’s (and AstraZeneca’s in the case of *Prilosec* and *Nexium*) patents concerning these products. The generic companies’ ANDA’s 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 ANDA’s for generic alendronate (*Fosamax*), finasteride (*Propecia*), dorzolamide (*Trusopt*) and dorzolamide/timolol (*Cosopt*), and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDA’s for generic omeprazole (*Prilosec*) and esomeprazole (*Nexium*). 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.

In February 2007, Schering Plough Corporation (“Schering Plough”) received a notice from a generic company indicating that it had filed an ANDA for *Zetia* and that it is challenging the U.S. patents that are listed for *Zetia*. Merck and Schering Plough market *Zetia* through a joint venture and they are considering the appropriate response.

On February 22, 2007, the Company received a notice from a generic company indicating that it had filed an ANDA for montelukast and that it is challenging the U.S. patent that is listed for *Singulair*. The Company is considering the appropriate response.

As previously disclosed, 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. The Company exhausted all options to appeal this decision in 2005. Based on the Court of Appeals’ decision, *Fosamax* and *Fosamax Plus D* will lose market exclusivity in the United States in February 2008 and April 2008, respectively, and the Company expects a significant decline in U.S. *Fosamax* and *Fosamax Plus D* sales after each product’s respective loss of market exclusivity.

In May 2005, the Federal Court of Canada Trial Division issued a decision refusing to bar the approval of generic alendronate on the ground that Merck’s patent for weekly alendronate was likely invalid. This decision cannot be appealed and generic alendronate was launched in Canada in June 2005. In July 2005, Merck was sued in the Federal Court of Canada by Apotex seeking damages for lost sales of generic weekly alendronate due to the patent proceeding.

As previously disclosed, in September 2004, the Company appealed a decision of the Opposition Division (the “Opposition Division”) of the European Patent Office (the “EPO”) that revoked the Company’s patent in Europe that covers the once-weekly administration of alendronate. On March 14, 2006, the Board of Appeal of the EPO upheld the decision of the Opposition Division. Thus, presently the Company is not entitled to market exclusivity for *Fosamax* in most major European markets after 2007. In addition, Merck’s basic patent covering the use of alendronate has been challenged in several European countries. The Company has received adverse decisions in Germany, Holland and the United Kingdom. The decision in the United Kingdom was upheld on appeal. The Company has appealed the decisions in Germany and Holland.

In June 2006, the Company filed lawsuits in federal court against Barr Laboratories, Inc. and Teva Pharmaceutical Industries Ltd. (“Teva”) asserting that their respective manufacturing processes for making their alendronate products would infringe one or more process patents of the Company.

On October 5, 2004, in an action in Australia challenging the validity of the Company's Australian patent for the once-weekly administration of alendronate, the patent was found to be invalid. That decision was upheld on appeal.

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

On January 18, 2006, the Company sued Hi-Tech Pharmacal Co., Inc. ("Hi-Tech") of Amityville, New York for patent infringement in response to Hi-Tech's application to the FDA seeking approval of a generic version of Merck's ophthalmic drugs *Trusopt* and *Cosopt*, which are used for treating elevated intraocular pressure in people with ocular hypertension or glaucoma. In the lawsuit, Merck sued to enforce a patent covering an active ingredient dorzolamide, which is present in both *Trusopt* and *Cosopt*. In that case, the District Court entered judgment in Merck's favor and Hi-Tech appealed. A hearing of the appeal was conducted in December 2006 and a decision is pending. Merck has elected not to enforce two U.S. patents listed with the FDA which cover the combination of dorzolamide and timolol, the two active ingredients in *Cosopt*. This lawsuit automatically stays FDA approval of Hi-Tech's ANDA's for 30 months from January 2006 or until an adverse court decision, whichever may occur earlier. The patent covering dorzolamide provides exclusivity for *Trusopt* and *Cosopt* until October 2008 (including six months of pediatric exclusivity). After such time, the Company expects sales of these products to decline.

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 the Company's patent infringement claims against certain other generic manufacturers' omeprazole products, the trial concluded in June 2006 and a decision is pending.

The Company and AstraZeneca received notice in October 2005 that Ranbaxy Laboratories Limited ("Ranbaxy") has filed an ANDA for esomeprazole magnesium. The ANDA contains Paragraph IV challenges to patents on *Nexium*. On November 21, 2005, the Company and AstraZeneca sued Ranbaxy in the United States District Court in New Jersey. Accordingly, FDA approval of Ranbaxy's ANDA is stayed for 30 months until April 2008 or until an adverse court decision, if any, whichever may occur earlier. The Company and AstraZeneca received notice in January 2006 that IVAX Pharmaceuticals, Inc., subsequently acquired by Teva, had filed an ANDA for esomeprazole magnesium. The ANDA contains Paragraph IV challenges to patents on *Nexium*. On March 8, 2006, the Company and AstraZeneca sued Teva in the United States District Court in New Jersey. Accordingly, FDA approval of Teva's ANDA is stayed for 30 months until September 2008 or until an adverse court decision, if any, whichever may occur earlier.

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. In 2006, the Company reached a settlement with the generic company, Dr. Reddy's Laboratories ("DRL"), under which DRL may sell a generic 1 mg finasteride product beginning in January 2013.

In Europe, the Company is aware of various companies seeking registration for generic losartan (the active ingredient for *Cozaar*). The Company has patent rights to losartan via license from E.I. du Pont de Nemours and Company ("du Pont"). The Company and du Pont have filed patent infringement proceedings against various companies in Portugal, Spain and Norway.

Other Litigation

On July 27, 2005, Merck was served with a further shareholder derivative suit filed in the New Jersey Superior Court for Hunterdon County against the Company and certain current and former officers and directors. This lawsuit seeks to recover or cancel compensation awarded to the Company's executive officers in 2004, and asserts claims for breach of fiduciary duty, waste and unjust enrichment. On July 21, 2006, the Court granted defendants' motion to dismiss based on plaintiff's failure to make pre-suit demand on Merck's Board of Directors and denied plaintiff's request for leave to amend. Thus, this case has been terminated.

In November 2005, an individual shareholder delivered a letter to the Board alleging that the Company had sustained damages through the Company's adoption of its Change in Control Separation Benefits Plan (the "CIC Plan") in November 2004. The shareholder made a demand on the Board to take legal action against the Board's current or former members for allegedly causing damage to the Company with respect to the adoption of the CIC Plan. In response to that demand letter, the independent members of the Board determined at the November 22, 2005 Board meeting that the Board would take the shareholder's request under consideration and it remains under consideration.

As previously disclosed, on August 20, 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 shareholder derivative action 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. Plaintiffs appealed the decision. On December 15, 2005, the U.S. Court of Appeals for the Third Circuit upheld most of the District Court's decision dismissing the suit, and sent the issue of whether the Company's Board of Directors properly refused the shareholder demand relating to the Company's treatment of retail co-payments back to the District Court for reconsideration under a different legal standard. Plaintiffs moved to remand their action to state court on August 18, 2006, and the District Court granted that motion on February 1, 2007. The shareholder derivative suit is currently pending before the Superior Court of New Jersey, Chancery Division, Hunterdon County.

As previously disclosed, 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. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of prolonged litigation. 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. The District Court held hearings to hear objections to the fairness of the proposed settlement and 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. 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.

Three notices of appeal were filed and the appellate court heard oral argument in May 2005. On December 8, 2005, the appellate court issued a decision vacating the district court's judgment and remanding the cases to the district court to allow the district court to resolve certain jurisdictional issues. A hearing was held to address such issues on February 24, 2006. The District Court issued a ruling on August 10, 2006 resolving such jurisdictional issues in favor of the settling plaintiffs. The class members and other party that had previously appealed the District Court's judgment have renewed their appeals. The renewed appeals are presently being briefed.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing two paragraphs. 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, 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.

On June 13, 2006, potassium thiocyanate was accidentally discharged from the Company's plant in West Point, Pennsylvania through the Upper Gwynedd Township Authority's wastewater treatment plant into the Wissahickon Creek, causing a fishkill. Federal and State agencies are investigating the discharge and the Company is currently cooperating with the investigations.

In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled \$129.0 million and \$100.4 million at December 31, 2006 and 2005, 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 \$62.0 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.

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 increased by \$266.5 million in 2006 and \$30.2 million in 2005, and decreased by \$86.8 million in 2004. The changes primarily reflect the impact of shares issued upon exercise of stock options and related income tax benefits, as well as the issuance of restricted shares. In addition, the increase in 2006 reflects the impact of recognizing share-based compensation expense as a result of the adoption of FAS 123R (see Note 14).

A summary of treasury stock transactions (shares in millions) is as follows:

	2006		2005		2004	
	Shares	Cost	Shares	Cost	Shares	Cost
Balance, January 1	794.3	\$26,984.4	767.6	\$26,191.8	754.5	\$25,617.5
Purchases	26.4	1,002.3	33.2	1,015.3	24.9	974.6
Issuances ⁽¹⁾	(12.3)	(419.3)	(6.5)	(222.7)	(11.8)	(400.3)
Balance, December 31	808.4	\$27,567.4	794.3	\$26,984.4	767.6	\$26,191.8

⁽¹⁾ Issued primarily under stock option plans.

At December 31, 2006 and 2005, 10 million shares of preferred stock, without par value, were authorized; none were issued.

14. Share-Based Compensation Plans

The Company has share-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 grant. In addition to stock options, the Company grants performance share units ("PSUs") and restricted stock units ("RSUs") to certain management level employees. These plans were approved by the Company's shareholders. At December 31, 2006, 187.7 million shares were authorized for future grants under the Company's share-based compensation plans. The Company settles employee share-based compensation awards primarily with treasury shares.

Employee stock options are granted to purchase shares of Company stock at the fair market value at the time of grant. These awards generally vest one-third each year over a three-year period, with a contractual term of 10 years. RSUs are stock awards that are granted to employees and entitle the holder to shares of common stock as the awards vest, as well as non-forfeitable dividend equivalents. The fair value of the awards is determined and fixed on the grant date based on the Company's stock price. PSUs are stock awards where the ultimate number of shares issued will be contingent on the Company's performance against a pre-set objective or set of objectives. The fair value of each PSU is determined on the date of grant based on the Company's stock price. Over the performance period, the number of shares of stock that are expected to be issued will be adjusted based on the probability of achievement of a performance target and final compensation expense will be recognized based on the ultimate number of shares issued. The Company did not recognize compensation expense in connection with PSU's in 2006, 2005 or 2004. Both PSU and RSU payouts will be in shares of Company stock after the end of a three-year period, subject to the terms applicable to such awards.

Effective January 1, 2006, the Company adopted FAS 123R. Employee share-based compensation expense was previously recognized using the intrinsic value method which measures share-based compensation expense as the amount at which the market price of the stock at the date of grant exceeds the exercise price. FAS 123R requires the recognition of the fair value of share-based compensation in net income, which the Company recognizes on a straight-line basis over the requisite service period. Additionally, the Company elected the modified prospective transition method for adopting FAS 123R, and therefore, prior periods were not retrospectively adjusted. Under this method, the provisions for FAS 123R apply to all awards granted or modified after January 1, 2006. In addition, the unrecognized expense of awards that have not yet vested at the date of adoption are recognized in net income in the relevant period after the date of adoption. Also effective January 1, 2006, the Company adopted FASB Staff Position 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, which provides the Company an optional short cut method for calculating the historical pool of windfall tax benefits upon adopting FAS 123R.

The following table provides amounts of share-based compensation cost recorded in the Consolidated Statement of Income (substantially all of the 2005 and 2004 amounts were related to RSUs):

<i>Years Ended December 31</i>	2006	2005	2004
Pre-tax share-based compensation expense	\$312.5	\$ 48.0	\$25.7
Income tax benefits	(98.5)	(16.8)	(9.0)
Total share-based compensation expense, net of tax	\$214.0	\$ 31.2	\$16.7

As a result of the adoption of FAS 123R, effective January 1, 2006, the incremental impact on the Company's share-based compensation expense reduced the Company's results of operations as follows:

<i>Year Ended December 31</i>	2006
Income Before Taxes	\$227.8
Net Income	\$159.0
Earnings per Common Share Assuming Dilution	\$ 0.07

FAS 123R requires the Company to present pro forma information for periods prior to the adoption as if the Company had accounted for employee share-based compensation under the fair value method of that Statement. For purposes of pro forma disclosure, the estimated fair value of awards at the date of grant, including those granted to retirement-eligible employees, is amortized to expense over the requisite service period. The following table illustrates the effect on net income and earnings per common share if the Company had applied the fair value method for recognizing employee share-based compensation for the years ended December 31, 2005 and 2004:

<i>Years Ended December 31</i>	2005	2004
Net income, as reported	\$4,631.3	\$5,830.1
Compensation expense, net of tax:		
Reported	31.2	16.7
Fair value method	(357.1)	(491.8)
Pro forma net income	\$4,305.4	\$5,355.0
Earnings per common share:		
Basic - as reported	\$2.11	\$2.63
Basic - pro forma	\$1.96	\$2.41
Assuming dilution - as reported	\$2.10	\$2.62
Assuming dilution - pro forma	\$1.96	\$2.40

The pro forma amounts and the fair value of each option grant were estimated on the date of grant using the Black-Scholes option pricing model. Upon the adoption of FAS 123R, compensation expense is being recognized immediately for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved. This approach is known as the non-substantive vesting period approach. If the Company had been applying this approach for stock options granted to retirement-eligible employees, the effect on pro forma earnings per share assuming dilution for the years ended December 31, 2005 and 2004, as provided in the above table, would not have been significant.

In 2005 and 2004, pro forma compensation expense was calculated using the Black-Scholes model utilizing assumptions based on historical data, such that expense was determined using separate expected term assumptions for each vesting tranche. As a result, pro forma compensation expense for any stock options granted after January 1, 2004 but prior to January 1, 2006 was calculated using the accelerated amortization method prescribed in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Upon adoption of FAS 123R, effective January 1, 2006, the Company recognizes compensation expense using the straight-line method.

The Company continues to use the Black-Scholes option pricing model for option grants after adoption of FAS 123R. In applying this model, the Company uses both historical data and current market data to estimate the fair value of its options. The Black-Scholes model requires several assumptions including expected term of the options, risk-free rate, volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using a blend of historical and implied volatility. The historical component is based on historical monthly price changes. The implied volatility is obtained from market data on the Company's traded options.

The weighted average fair value of options granted in 2006, 2005 and 2004 was \$7.25, \$6.66 and \$10.50 per option, respectively, and were determined using the following assumptions:

<i>Year Ended December 31</i>	2006	2005	2004
Expected dividend yield	4.2%	4.8%	3.4%
Risk-free interest rate	4.6%	4.0%	3.1%
Expected volatility	26%	32%	30%
Expected life (years)	5.7	5.7	5.7

Summarized information relative to the Company's stock option plans (options in thousands) is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000s)
Balance at December 31, 2005	250,088.0	\$ 54.52		
Granted	33,524.2	36.10		
Exercised	(12,256.8)	30.18		
Forfeited	(16,018.7)	56.77		
Outstanding at December 31, 2006	255,336.7	\$ 53.13	5.11	\$666,620.3
Exercisable at December 31, 2006	193,798.7	\$ 58.33	3.35	\$182,489.1

Additional information pertaining to the Company's stock option plans is provided in the table below:

<i>Year Ended December 31</i>	2006	2005	2004
Total intrinsic value of stock options exercised	\$ 67.3	\$ 58.8	\$278.9
Fair value of stock options vested	\$857.4	\$949.3	\$900.7
Cash received from the exercise of stock options	\$369.9	\$136.5	\$240.3

A summary of the Company's nonvested RSUs and PSUs (shares in thousands) at December 31, 2006, is as follows:

	RSUs		PSUs	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	4,765.1	\$ 35.93	1,022.2	\$ 39.73
Granted	1,583.9	35.44	523.3	35.14
Vested	(76.7)	34.68	-	-
Forfeited	(271.7)	35.19	(168.7)	34.75
Nonvested at December 31, 2006	6,000.6	\$ 35.85	1,376.8	\$ 38.59

At December 31, 2006, there was \$273.8 million of total pre-tax unrecognized compensation expense related to nonvested stock options, RSU and PSU awards which will be recognized over a weighted average period of 2.0 years. For segment reporting, share-based compensation is recorded in unallocated expense.

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.

The net cost for the Company's pension and other postretirement benefit plans consisted of the following components:

<i>Years Ended December 31</i>	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	\$ 363.7	\$ 338.8	\$ 307.7	\$ 91.3	\$ 87.9	\$ 86.0
Interest cost	341.3	310.6	286.0	100.1	106.0	105.7
Expected return on plan assets	(436.8)	(400.7)	(367.7)	(112.6)	(103.0)	(89.4)
Net amortization	169.4	156.1	130.0	1.9	22.0	31.0
Termination benefits	29.7	32.0	18.4	3.6	6.5	3.1
Curtailments	-	9.1	-	(2.6)	0.7	(12.3)
Settlements	14.7	(4.2)	23.0	-	-	-
Net pension and postretirement cost	\$ 482.0	\$ 441.7	\$ 397.4	\$ 81.7	\$ 120.1	\$ 124.1

The net pension cost attributable to U.S. plans included in the above table was \$327.2 million in 2006, \$295.3 million in 2005 and \$283.0 million in 2004.

The cost of health care and life insurance benefits for active employees was \$311.6 million in 2006, \$324.6 million in 2005 and \$295.3 million in 2004.

In connection with the Company's restructuring actions (see Note 4), Merck recorded termination charges in 2006, 2005 and 2004 on its pension and other postretirement benefit plans related to expanded eligibility for certain employees exiting the Company. Also, in connection with these restructuring activities, the Company recorded curtailment losses in 2005 on its pension and other postretirement benefit plans.

In 2006 and 2004, amendments that changed participant contributions and the service recognized for eligibility for other postretirement benefit plans generated curtailment gains.

In addition, the Company recorded settlement losses in 2006 and 2004 and a settlement gain in 2005 on certain of its domestic pension plans resulting from employees electing to receive their pension benefits as lump sum payments.

Effective December 31, 2006, the Company adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106 and 132R* ("FAS 158"), except for the requirement to measure plan assets and benefit obligations as of the Company's fiscal year end, which is effective as of December 31, 2008. FAS 158 required the Company to fully recognize the funded status of its benefit plans. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. Previously unrecognized net losses and unrecognized plan changes are recognized as a component of AOCI at December 31, 2006 (see Note 19).

The effects of applying FAS 158 at December 31, 2006 were as follows:

	Before Application of FAS 158	FAS 158 Adjustments	After Application of FAS 158
Prepaid expenses and taxes	\$ 1,417.4	\$ 15.6	\$ 1,433.0
Other assets	7,193.2	(1,211.4)	5,981.8
Accrued and other current liabilities	(6,654.4)	1.1	(6,653.3)
Deferred income taxes and noncurrent liabilities	(6,309.4)	(20.9)	(6,330.3)
Accumulated other comprehensive income (loss)	(51.3)	1,215.6	1,164.3

Summarized information about the changes in plan assets and benefit obligation, the funded status and the amounts recorded at December 31, 2006 and 2005 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Fair value of plan assets at January 1	\$6,070.6	\$5,480.9	\$1,277.4	\$1,165.3
Actual return on plan assets	955.7	391.6	209.9	101.9
Company contributions	494.4	497.7	36.5	46.3
Benefits paid from plan assets	(468.8)	(306.2)	(39.6)	(36.1)
Other	4.8	6.6	-	-
Fair value of plan assets at December 31	\$7,056.7	\$6,070.6	\$1,484.2	\$1,277.4
Benefit obligation at January 1	\$6,523.5	\$5,879.5	\$1,816.6	\$1,892.4
Service cost	363.7	338.8	91.3	87.9
Interest cost	341.3	310.6	100.1	106.0
Actuarial losses (gains)	150.7	286.3	(16.0)	(29.3)
Benefits paid	(502.1)	(329.1)	(62.0)	(88.5)
Plan amendments	11.3	18.2	(111.8)	(159.1)
Curtailments	(22.7)	(12.2)	-	0.7
Termination benefits	29.7	32.0	3.6	6.5
Other	31.4	(0.6)	-	-
Benefit obligation at December 31	\$6,926.8	\$6,523.5	\$1,821.8	\$1,816.6
Funded status at December 31	\$ 129.9	\$ (452.9)	\$ (337.6)	\$ (539.2)
Unrecognized net loss	\$ -	\$2,300.3	\$ -	\$ 682.7
Unrecognized plan changes	-	85.4	-	(338.9)
Net amount recorded	\$ 129.9	\$1,932.8	\$ (337.6)	\$ (195.4)
Recognized as:				
Other assets	\$ 915.7	\$2,347.4	\$ 376.5	\$ -
Accrued and other current liabilities	(20.0)	(8.0)	(24.6)	(24.9)
Deferred income taxes and noncurrent liabilities	(765.8)	(439.3)	(689.5)	(170.5)
Accumulated other comprehensive loss	-	32.7	-	-

The fair value of U.S. pension plan assets included in the preceding table was \$4.4 billion in 2006 and \$3.8 billion in 2005. The pension benefit obligation of U.S. plans included in this table was \$4.2 billion in 2006 and \$4.1 billion in 2005.

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	
	2006	2005	2006	2005
U.S. equities	39%	39%	56%	54%
International equities	34%	33%	28%	29%
Fixed-income investments	22%	19%	15%	15%
Real estate and other investments	4%	3%	0%	0%
Cash and cash equivalents	1%	6%	1%	2%
	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 38% in U.S. equities, 34% in international equities, 23% in fixed-income investments, 4% in real estate and other investments, and 1% in cash and cash equivalents. 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, 15% to 20% 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 2007 are expected to be \$115.0 million and \$81.0 million, respectively.

Expected benefit payments are as follows:

	Pension Benefits	Other Postretirement Benefits
2007	\$ 239.4	\$ 76.4
2008	261.3	81.8
2009	280.6	88.1
2010	300.7	94.6
2011	336.0	101.3
2012 - 2016	2,185.6	611.5

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

At December 31, 2006 and 2005, the accumulated benefit obligation was \$5.4 billion and \$5.0 billion, respectively, for all pension plans and \$3.2 billion and \$3.1 billion, respectively, for U.S. pension plans. The Company recorded a minimum pension liability, representing the extent to which the accumulated benefit obligation exceeded plan assets for certain of the Company's pension plans, of \$29.9 million prior to the adoption of FAS 158 at December 31, 2006, and had a minimum pension liability of \$34.5 million at December 31, 2005.

For pension plans with benefit obligations in excess of plan assets at December 31, 2006 and 2005, the fair value of plan assets was \$785.3 million and \$695.3 million, respectively, and the benefit obligation was \$1.6 billion and \$1.5 billion, respectively. For those plans with accumulated benefit obligations in excess of plan assets at

December 31, 2006 and 2005, the fair value of plan assets was \$187.1 million and \$144.8 million, respectively, and the accumulated benefit obligation was \$535.2 million and \$456.5 million, respectively.

Effective with the adoption of FAS 158, net loss amounts, which 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, are recorded as a component of AOCI. 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. The estimated net loss and prior service cost (credit) amounts that will be amortized from AOCI into net pension and postretirement benefit cost during 2007 are \$123.1 million and \$11.2 million, respectively, for pension plans and are \$25.4 million and \$(43.4) million, respectively, for other postretirement benefit plans.

The Company reassesses its benefit plan assumptions on a regular basis. The weighted average assumptions used in determining pension plan and U.S. pension and other postretirement benefit plan information are as follows:

December 31	Pension Plans			U.S. Pension and Other Postretirement Benefit Plans		
	2006	2005	2004	2006	2005	2004
Net cost						
Discount rate	5.15%	5.40%	5.65%	5.75%	6.00% ⁽¹⁾	6.25%
Expected rate of return on plan assets	7.65%	7.65%	7.70%	8.75%	8.75%	8.75%
Salary growth rate	4.20%	4.10%	4.10%	4.50%	4.50%	4.50%
Benefit obligation						
Discount rate	5.35%	5.15%	5.40%	6.00%	5.75%	6.00%
Salary growth rate	4.20%	4.20%	4.10%	4.50%	4.50%	4.50%

⁽¹⁾ 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 2007, the Company's expected rate of return of 8.75% will remain unchanged from 2006 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	2006	2005
Health care cost trend rate assumed for next year	9.0%	9.0%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%
Year that the trend rate reaches the ultimate trend rate	2014	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	\$ 35.5	\$ (28.2)
Effect on benefit obligation	\$ 272.5	\$ (222.8)

16. Other (Income) Expense, Net

<i>Years Ended December 31</i>	2006	2005	2004
Interest income	\$(764.3)	\$(480.9)	\$(300.1)
Interest expense	375.1	385.5	293.7
Exchange gains	(25.0)	(16.1)	(18.4)
Minority interests	120.5	121.8	154.2
Other, net	(89.0)	(120.5)	(473.4)
	\$(382.7)	\$(110.2)	\$(344.0)

The increase in interest income reflects interest income generated from the Company's investment portfolio derived from higher interest rates and higher average investment portfolio balances. Interest paid was \$387.5 million in 2006, \$354.1 million in 2005 and \$284.6 million in 2004.

The reduced minority interest in 2005 is attributable to the redemption of subsidiary variable-rate preferred units (see Note 12). Other, net in 2004 primarily reflects a \$176.8 million gain from the sale of the Company's 50% equity stake in its European joint venture with Johnson & Johnson, as well as realized gains on the Company's investment portfolio.

17. Taxes on Income

A reconciliation between the Company's effective tax rate and the U.S. statutory rate is as follows:

	2006	Tax Rate		
	Amount	2006	2005	2004
U.S. statutory rate applied to income before taxes	\$ 2,177.5	35.0%	35.0%	35.0%
Differential arising from:				
Foreign earnings	(1,024.1)	(16.5)	(12.8)	(10.0)
Tax exemption for Puerto Rico operations	(87.6)	(1.4)	(1.3)	(1.6)
Acquired research	266.9	4.3	-	0.5
State taxes	129.6	2.1	2.5	1.3
AJCA	-	-	10.4	-
Other	325.3	5.2	3.3	1.9
	\$ 1,787.6	28.7%	37.1%	27.1%

Other includes the tax effect of minority interests, contingency reserves, research credits, export incentives and miscellaneous items. Domestic companies contributed approximately 34% in 2006, 43% in 2005 and 36% in 2004 to consolidated Income before taxes.

Taxes on income consisted of:

<i>Years Ended December 31</i>	2006	2005	2004
Current provision			
Federal	\$1,618.4	\$1,688.1	\$1,429.1
Foreign	458.3	739.6	530.9
State	241.1	295.9	163.8
	2,317.8	2,723.6	2,123.8
Deferred provision			
Federal	(374.1)	97.0	95.6
Foreign	(130.3)	(134.0)	(32.3)
State	(25.8)	46.0	(14.4)
	(530.2)	9.0	48.9
	\$1,787.6	\$2,732.6	\$2,172.7

Deferred income taxes at December 31 consisted of:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Other intangibles	\$ 27.3	\$ 344.1	\$ 36.0	\$ 158.2
Inventory related	455.2	177.7	628.1	266.9
Accelerated depreciation	-	1,262.2	-	1,539.1
Advance payment	338.6	-	338.6	-
Equity investments	142.4	863.8	104.5	676.1
Pensions and OPEB	281.9	188.9	151.3	789.9
Compensation related	249.1	-	151.9	-
Vioxx legal defense costs reserve	306.8	-	241.1	-
Net operating losses	448.4	-	314.9	-
Other	1,404.0	269.2	1,208.9	426.3
Subtotal	3,653.7	3,105.9	3,175.3	3,856.5
Valuation allowance	(101.8)	-	(17.6)	-
Total deferred taxes	\$3,551.9	\$ 3,105.9	\$3,157.7	\$ 3,856.5
Net deferred income taxes	\$ 446.0			\$ 698.8
Recognized as:				
Prepaid expenses and taxes	\$1,177.7		\$ 662.2	
Other assets	183.7		68.5	
Income taxes payable		\$ 62.8		\$ 159.7
Deferred income taxes and noncurrent liabilities		852.6		1,269.8

The Company has net operating loss (“NOL”) carryforwards in a number of jurisdictions, the most significant of which is the United Kingdom with NOL carryforwards of \$182.8 million which have no expiration date. The valuation allowance in both years primarily relates to certain Canadian NOL carryforwards resulting from a legal entity reorganization.

Income taxes paid in 2006, 2005 and 2004 were \$2.4 billion, \$1.7 billion and \$1.9 billion, respectively. Stock option exercises did not have a significant impact on taxes paid in 2006 or 2005. Stock option exercises reduced income taxes paid in 2004 by \$121.7 million.

As previously disclosed, the Internal Revenue Service (“IRS”) has been examining the Company’s tax returns for the years 1993 to 2001 and had issued notices of deficiency with respect to a partnership transaction entered into in 1993, and two minority interest equity financings entered into in 1995 and 2000, respectively. The IRS has recently concluded its examination of the years 1993-2001 and will issue a Final Revenue Agents Report in the first quarter. On February 13, 2007, the Company entered into closing agreements with the IRS covering several specific items, including the 1993 partnership transaction and the 1995 and 2000 minority interest equity financings. Under the terms of the closing agreements, the Company expects to make a payment of approximately \$2.85 billion in the first quarter of 2007. This payment will be offset during 2007 by (i) a tax refund of \$150 million for amounts previously paid related to these matters and (ii) a \$400 million federal tax benefit related to interest included in the payment, resulting in a net cash cost to the Company of approximately \$2.3 billion. The Company has previously established reserves for these matters and while the conclusion of the IRS examination, including the closing agreements, does not have a material effect on the Company’s results of operations, financial position or liquidity, it will have a material adverse effect on the Company’s cash flow for the first quarter of 2007 when the payment is made. The impact for years subsequent to 2001 of the partnership transaction and the minority interest equity financings is included in the closing agreements although those years remain open in all other respects.

As previously disclosed, Merck’s Canadian tax returns for the years 1998 through 2004 are being examined by the Canada Revenue Agency (“CRA”). On October 10, 2006, CRA issued the Company a notice of reassessment containing adjustments related to certain intercompany pricing matters which result in additional tax due of approximately \$1.4 billion (U.S. dollars) plus interest of \$360 million (U.S. dollars). The Company disagrees with the positions taken by CRA and believes they are without merit. The Company intends to contest the assessment through the CRA appeals process and the courts if necessary. In connection with the appeals process, in the notice of reassessment, the Company is required to post a deposit of up to one half of the tax and interest assessed. During January 2007, the Company pledged collateral consisting of cash and cash equivalents of \$802 million to a financial institution which provided a Letter of Guarantee to the CRA. Management believes that resolution of these matters will not have a material adverse effect on the Company’s financial position or liquidity. However, an unfavorable resolution could have a material adverse 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.

As previously disclosed, in October 2004, the AJCA was signed into law. The AJCA created temporary incentives for U.S. multinationals to repatriate accumulated income earned outside the United States as of December 31, 2002. In accordance with the AJCA, the Company repatriated \$15.9 billion during 2005. The Company recorded an income tax charge of \$766.5 million in Taxes on Income in 2005 related to this repatriation, \$185 million of which was paid in 2005 and the remainder was paid in the first quarter of 2006. This charge was partially offset by a \$100 million benefit associated with a decision to implement certain tax planning strategies. The Company has not changed its intention to indefinitely reinvest accumulated earnings earned subsequent to December 31, 2002. At December 31, 2006, foreign earnings of \$12.5 billion have been retained indefinitely by subsidiary companies for reinvestment. No provision will be made for income taxes that would be payable upon the distributions of such earnings and it is not practicable to determine the amount of the related unrecognized deferred income tax liability. In addition, the Company has subsidiaries operating in Puerto Rico and Singapore under tax incentive grants that expire in 2015 and 2026, respectively.

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:

<i>Years Ended December 31</i>	2006	2005	2004
Average common shares outstanding	2,177.6	2,197.0	2,219.0
Common shares issuable ⁽¹⁾	10.1	3.4	7.4
Average common shares outstanding assuming dilution	2,187.7	2,200.4	2,226.4

⁽¹⁾ Issuable primarily under share-based compensation plans.

In 2006, 2005 and 2004, 222.5 million, 242.4 million and 233.1 million common shares issuable under the Company's share-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 income (loss) are as follows:

	Pretax ⁽¹⁾	Tax	After Tax
<i>Year Ended December 31, 2006</i>			
Net unrealized loss on derivatives	\$ (111.2)	\$ 45.2	\$ (66.0)
Net loss realization	25.5	(10.4)	15.1
Derivatives	(85.7)	34.8	(50.9)
Net unrealized gain on investments	33.9	(7.8)	26.1
Net loss realization	0.2	(0.2)	-
Investments	34.1	(8.0)	26.1
Minimum pension liability	34.8	(12.3)	22.5
Cumulative translation adjustment related to equity investees	29.0	(10.1)	18.9
	\$ 12.2	\$ 4.4	\$ 16.6
<i>Year Ended December 31, 2005</i>			
Net unrealized gain on derivatives	\$ 93.6	\$(38.3)	\$ 55.3
Net loss realization	44.0	(18.0)	26.0
Derivatives	137.6	(56.3)	81.3
Net unrealized loss on investments	(23.5)	1.6	(21.9)
Net loss realization	71.1	1.1	72.2
Investments	47.6	2.7	50.3
Minimum pension liability	(11.9)	4.9	(7.0)
Cumulative translation adjustment related to equity investees	(40.6)	14.2	(26.4)
	\$ 132.7	\$(34.5)	\$ 98.2

	Pretax ⁽¹⁾	Tax	After Tax
<i>Year Ended December 31, 2004</i>			
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 loss 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 related to equity investees	40.2	(14.1)	26.1
	\$ (148.7)	\$ 37.3	\$ (111.4)

⁽¹⁾ Net of applicable minority interest.

The components of Accumulated other comprehensive income (loss) are as follows:

<i>December 31</i>	2006	2005
Net unrealized (loss) gain on derivatives	\$ (35.3)	\$ 15.6
Net unrealized gain on investments	85.6	59.5
Minimum pension liability	-	(22.5)
Pension plan net loss	(1,103.7)	-
Other postretirement benefit plan net loss	(315.1)	-
Pension plan changes	(57.8)	-
Other postretirement benefit plan changes	243.4	-
Cumulative translation adjustment related to equity investees	18.6	(0.3)
	\$(1,164.3)	\$ 52.3

At December 31, 2006, \$21.8 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 and are comprised of two reportable segments: the Pharmaceutical segment and the Vaccines segment. During the fourth quarter of 2006, the Vaccines segment, previously included in All Other, met the reportable segment criteria pursuant to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. All prior periods have been recast to reflect Vaccines as a reportable segment.

The Pharmaceutical segment includes human health pharmaceutical 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 pharmaceutical products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Vaccines segment includes human health vaccine products marketed either directly or through a joint venture. These products consist of preventative pediatric, adolescent and adult vaccines, primarily administered at physician offices. Merck sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Vaccines segment includes the vast majority of the Company's vaccine sales, but excludes certain sales of vaccines by non-U.S. subsidiaries managed

by and included in the Pharmaceutical segment. A large component of the pediatric and adolescent vaccines is funded by the U.S. government through the U.S. Centers for Disease Control and Prevention Vaccines for Children Program.

All Other includes other non-reportable human and animal health segments. The accounting policies for the segments described above are the same as those described in Note 2. Revenues and profits for these segments are as follows:

	Pharmaceutical	Vaccines ⁽¹⁾	All Other	Total
Year Ended December 31, 2006				
Segment revenues	\$ 20,374.8	\$ 1,705.5	\$ 162.1	\$22,242.4
Segment profits	13,649.4	892.8	380.7	14,922.9
Included in segment profits:				
Equity income from affiliates	1,673.1	72.4	315.2	2,060.7
Depreciation and amortization	(153.0)	(5.0)	-	(158.0)
Year Ended December 31, 2005				
Segment revenues	\$ 20,678.8	\$ 984.2	\$ 161.8	\$21,824.8
Segment profits	13,157.9	767.0	355.5	14,280.4
Included in segment profits:				
Equity income from affiliates	1,006.5	108.9	290.1	1,405.5
Depreciation and amortization	(148.8)	(4.2)	-	(153.0)
Year Ended December 31, 2004				
Segment revenues	\$ 21,591.0	\$ 972.8	\$ 185.1	\$22,748.9
Segment profits	13,560.3	881.4	278.2	14,719.9
Included in segment profits:				
Equity income from affiliates	512.8	111.3	196.4	820.5
Depreciation and amortization	(151.8)	(4.3)	-	(156.1)

(1) In accordance with segment reporting requirements, Vaccines segment revenues exclude \$153.9 million, \$119.1 million and \$97.5 million in 2006, 2005 and 2004, respectively, of vaccine sales by certain non-U.S. subsidiaries managed by and included in the Pharmaceutical segment.

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	2006	2005	2004
Segment revenues	\$22,242.4	\$21,824.8	\$22,748.9
Other revenues	393.6	187.1	223.9
	\$22,636.0	\$22,011.9	\$22,972.8

Other revenues are primarily comprised of miscellaneous corporate revenues, sales related to divested products or businesses and other supply sales not included in segment results.

Sales ⁽¹⁾ of the Company's products were as follows:

<i>Years Ended December 31</i>	2006	2005	2004
Singulair	\$ 3,579.0	\$ 2,975.6	\$ 2,622.0
Cozaar/Hyzaar	3,163.1	3,037.2	2,823.7
Fosamax	3,134.4	3,191.2	3,159.7
Zocor	2,802.7	4,381.7	5,196.5
Primaxin	704.8	739.6	640.6
Cosopt/Trusopt	697.1	617.2	558.8
Proscar	618.5	741.4	733.1
Vasotec/Vaseretic	547.2	623.1	719.2
Cancidas	529.8	570.0	430.0
Maxalt	406.4	348.4	309.9
Propecia	351.8	291.9	270.2
Vioxx	-	-	1,489.3
Vaccines/Biologicals ⁽²⁾	1,859.4	1,103.3	1,070.3
Other	4,241.8	3,391.3	2,949.5
	\$22,636.0	\$22,011.9	\$22,972.8

⁽¹⁾ Presented net of discounts and returns.

⁽²⁾ These amounts do not reflect sales of vaccines sold in most major European markets through the Company's joint venture, Sanofi Pasteur MSD, the results of which are reflected in equity income from affiliates.

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 \$1.8 billion, \$1.7 billion and \$1.5 billion in 2006, 2005 and 2004, respectively.

Consolidated revenues by geographic area where derived are as follows:

<i>Years Ended December 31</i>	2006	2005	2004
United States	\$13,776.8	\$12,766.6	\$13,506.2
Europe, Middle East and Africa	4,977.1	5,203.5	5,440.8
Japan	1,479.0	1,637.9	1,668.2
Other	2,403.1	2,403.9	2,357.6
	\$22,636.0	\$22,011.9	\$22,972.8

A reconciliation of total segment profits to consolidated Income before taxes is as follows:

<i>Years Ended December 31</i>	2006	2005	2004
Segment profits	\$14,922.9	\$14,280.4	\$14,719.9
Other profits	256.7	175.3	24.6
Adjustments	516.3	615.3	481.3
Unallocated:			
Interest income	764.3	480.9	300.1
Interest expense	(375.1)	(385.5)	(293.7)
Equity income from affiliates	233.7	311.6	187.7
Depreciation and amortization	(2,110.4)	(1,555.1)	(1,294.6)
Research and development	(4,782.9)	(3,848.0)	(4,010.2)
Other expenses, net	(3,204.1)	(2,711.0)	(2,112.3)
	\$ 6,221.4	\$ 7,363.9	\$ 8,002.8

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 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.

Long-lived assets ⁽¹⁾ by geographic area where located is as follows:

<i>Years Ended December 31</i>	2006	2005	2004
United States	\$11,542.7	\$11,525.6	\$11,894.5
Europe, Middle East and Africa	1,730.7	1,991.2	2,043.4
Japan	942.4	1,074.7	1,127.1
Other	1,353.8	1,411.1	1,413.6
	\$15,569.6	\$16,002.6	\$16,478.6

⁽¹⁾ Long-lived assets are comprised of property, plant and equipment, net; goodwill and intangible assets, net.

The Company does not disaggregate assets on a products and services basis for internal management reporting and, therefore, such information is not presented.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the
Board of Directors of Merck & Co., Inc.:

We have completed integrated audits of Merck & Co., Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, 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 at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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.

As discussed in Note 14 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

As discussed in Note 15 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006.

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, 2006 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, 2006, 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 27, 2007

(b) Supplementary Data

Selected quarterly financial data for 2006 and 2005 are contained in the Condensed Interim Financial Data table below.

Condensed Interim Financial Data (Unaudited)

<i>(\$ in millions except per share amounts)</i>	4th Q ^{(1),(2),(3)}	3rd Q ⁽²⁾	2nd Q ^{(1),(3)}	1st Q
2006 ^{(4),(5)}				
Sales	\$ 6,044.2	\$5,410.4	\$ 5,771.7	\$5,409.8
Materials and production costs	1,669.1	1,544.1	1,445.2	1,342.7
Marketing and administrative expenses	2,345.8	2,370.6	1,734.0	1,715.0
Research and development expenses	1,722.9	945.4	1,172.5	942.0
Restructuring costs	55.8	49.6	(6.9)	43.7
Equity income from affiliates	(584.2)	(595.4)	(611.3)	(503.4)
Other (income) expense, net	(77.1)	(134.7)	(70.1)	(100.6)
Income before taxes	911.9	1,230.8	2,108.3	1,970.4
Net income	473.9	940.6	1,499.3	1,520.0
Basic earnings per common share	\$0.22	\$0.43	\$0.69	\$0.70
Earnings per common share assuming dilution	\$0.22	\$0.43	\$0.69	\$0.69
2005 ⁽⁴⁾				
Sales	\$ 5,765.9	\$5,416.2	\$ 5,467.5	\$5,362.2
Materials and production costs	1,478.8	1,238.8	1,160.6	1,271.4
Marketing and administrative expenses	2,139.1	1,661.4	1,749.5	1,605.5
Research and development expenses	1,112.0	942.6	946.8	846.6
Restructuring costs	228.9	79.8	5.8	7.8
Equity income from affiliates	(586.6)	(480.1)	(334.1)	(316.3)
Other (income) expense, net	(126.3)	(24.7)	14.0	26.5
Income before taxes	1,520.0	1,998.4	1,924.9	1,920.7
Net income	1,119.7	1,420.9	720.6	1,370.1
Basic earnings per common share	\$0.51	\$0.65	\$0.33	\$0.62
Earnings per common share assuming dilution	\$0.51	\$0.65	\$0.33	\$0.62

⁽¹⁾ Amounts for 2006 include acquired research expenses associated with acquisitions.

⁽²⁾ Amounts for fourth and third quarter 2006 and fourth quarter 2005 include the impact of additional Vioxx legal defense reserves (see Note 11). Amounts for fourth quarter 2006 include the impact of Fosamax legal defense reserves (see Note 11).

⁽³⁾ Amounts for 2005 include the impact of the net tax charge primarily associated with the AJCA repatriation (see Note 17).

⁽⁴⁾ Amounts for 2006 and 2005 include the impact of restructuring actions (see Note 4).

⁽⁵⁾ Amounts for 2006 reflect the incremental impact of expensing stock options.

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) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act")) are effective.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Act. 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, 2006 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, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and PricewaterhouseCoopers LLP has issued a report on management's assessment of the effectiveness of the Company's internal control over financial reporting.

There have been no 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.

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 on Form 10-K 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 on Form 10-K 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 this Form 10-K filing. In addition, in May 2006, the Company submitted to the New York Stock Exchange ("NYSE") a certificate of the CEO certifying that he was not aware of any violation by the Company of NYSE Corporate Governance Listing Standards.

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, 2006 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, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and PricewaterhouseCoopers LLP has issued a report on management's assessment of the effectiveness of the Company's internal control over financial reporting, which is included herein.

Richard T. Clark
*Chief Executive Officer
and President*

Judy C. Lewent
*Executive Vice President
and Chief Financial Officer*

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The required information on directors and nominees is incorporated by reference from the discussion under Item 1. Election of Directors of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007. Information on executive officers is set forth in Part I of this document on pages 36 through 39.

The required information on compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the discussion under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

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.

The required information on the identification of the audit committee and the audit committee financial expert is incorporated by reference from the discussion under the heading "Board Committees" of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

Item 11. Executive Compensation.

The information required on executive compensation is incorporated by reference from the discussion under the headings "Compensation Discussion and Analysis", "Summary Compensation Table", "All Other Compensation — 2006" table, "Grants of Plan-Based Awards Table", "Outstanding Equity Awards at Fiscal Year-End Table", "Option Exercises and Stock Vested Table", Retirement Plan Benefits and related "Pension Benefits" table, Nonqualified Deferred Compensation and related tables, Potential Payments on Termination or Change in Control, including the discussion under the subheadings "Separation", "Separation Plan Payment and Benefit Estimates" table, "Individual Agreements", "Change in Control" and "Change in Control Payment and Benefit Estimates" table, as well as all footnote information to the various tables, of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

The required information on director compensation is incorporated by reference from the discussion under the heading “Director Compensation” and related “Director Compensation” table and “Schedule of Director Fees” table of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

The required information under the headings “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” is incorporated by reference from the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

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 from the discussion under the heading “Equity Compensation Plan Information” of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007. Information with respect to security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Security Ownership of Certain Beneficial Owners and Management” of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The required information on transactions with related persons is incorporated by reference from the discussion under the heading “Relationships with Outside Firms” and the discussion with respect to a loan to Dr. Kim under the subheading “Perquisites” of the “Compensation Discussion and Analysis” of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

The required information on director independence is incorporated by reference from the discussion under the heading “Independence of Directors” of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

Item 14. Principal Accountant Fees and Services.

The information required for this item is incorporated by reference from the discussion under “Audit Committee” beginning with the caption “Pre-Approval Policy for Services of Independent Registered Public Accounting Firm” through “All Other Fees” of the Company’s Proxy Statement for the Annual Meeting of Stockholders to be held April 24, 2007.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Form 10-K

1. Financial Statements

Consolidated statement of income for the years ended December 31, 2006, 2005 and 2004

Consolidated statement of retained earnings for the years ended December 31, 2006, 2005 and 2004

Consolidated statement of comprehensive income for the years ended December 31, 2006, 2005 and 2004

Consolidated balance sheet as of December 31, 2006 and 2005

Consolidated statement of cash flows for the years ended December 31, 2006, 2005 and 2004

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
2.2	— Agreement and Plan of Merger by and among Merck & Co., Inc., Spinnaker Acquisition Corp., a wholly owned subsidiary of Merck & Co., Inc. and Sirna Therapeutics, Inc., dated as of October 30, 2006 — Incorporated by reference to Current Report on Form 8-K dated October 30, 2006
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 May 24, 2005) — Incorporated by reference to Current Report on Form 8-K dated May 24, 2005
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)
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*10.4	— 1996 Incentive Stock Plan (amended and restated as of December 19, 2006)
*10.5	— 2001 Incentive Stock Plan (amended and restated as of December 19, 2006)
*10.6	— 2004 Incentive Stock Plan (amended and restated as of December 19, 2006)
*10.7	— 2007 Incentive Stock Plan (as amended effective December 19, 2006)
*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	— Merck & Co., Inc. Separation Benefits Plan for Nonunion Employees (amended and restated effective as of July 11, 2006) — Incorporated by reference to Current Report on Form 8-K dated July 11, 2006
*10.10	— 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
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*10.16	— Plan for Deferred Payment of Directors' Compensation (amended and restated as of October 1, 2006) — Incorporated by reference to Current Report on Form 8-K dated September 26, 2006
*10.17	— 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
*10.18	— Offer Letter between Merck & Co., Inc. and Peter Loescher, dated March 15, 2006 — Incorporated by reference to Form 10-Q Quarterly Report for the period ended March 31, 2006
*10.19	— Letter Agreement between Merck & Co., Inc. and Per Wold-Olsen, dated July 19, 2006 — Incorporated by reference to Current Report on Form 8-K dated July 28, 2006
*10.20	— Letter Agreement between Merck & Co., Inc. and Bradley T. Sheares, dated August 24, 2006
*10.21	— Letter Agreement between Merck & Co., Inc. and David W. Anstice, dated December 15, 2006
10.22	— 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
10.23	— 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
10.24	— 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
10.25	— 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
10.26	— 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 Quarterly Report for the period ended June 30, 1998
10.27	— 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
10.28	— 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
10.29	— 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
10.30	— Form of Voting Agreement made and entered into as of October 30, 2006 by and between Merck & Co., Inc. and Sirna Therapeutics, Inc. — Incorporated by reference to Current Report on Form 8-K dated October 30, 2006
12	— Computation of Ratios of Earnings to Fixed Charges
21	— Subsidiaries of Merck & Co., Inc.

<u>Exhibit Number</u>	<u>Description</u>
23	— Consent of Independent Registered Public Accounting Firm — Contained on page 132 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
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

* Management contract or compensatory plan or arrangement

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

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.

Dated: February 28, 2007

MERCK & CO., INC.

By RICHARD T. CLARK
(Chief Executive Officer and President)

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.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
RICHARD T. CLARK	Chief Executive Officer and President;	February 28, 2007
JUDY C. LEWENT	Principal Executive Officer; Director Executive Vice President and Chief Financial Officer; Principal Financial Officer	February 28, 2007
JOHN CANAN	Vice President, Controller; Principal Accounting Officer	February 28, 2007
LAWRENCE A. BOSSIDY	Director	February 28, 2007
WILLIAM G. BOWEN	Director	February 28, 2007
JOHNNETTA B. COLE	Director	February 28, 2007
WILLIAM B. HARRISON, JR.	Director	February 28, 2007
WILLIAM N. KELLEY	Director	February 28, 2007
ROCHELLE B. LAZARUS	Director	February 28, 2007
THOMAS E. SHENK	Director	February 28, 2007
ANNE M. TATLOCK	Director	February 28, 2007
SAMUEL O. THIER	Director	February 28, 2007
WENDELL P. WEEKS	Director	February 28, 2007
PETER C. WENDELL	Director	February 28, 2007

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)

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, 33-57421, 333-17045, 333-36383, 333-77569, 333-72546, 333-87034 and 333-118186) and on Form S-8 (Nos. 33-21087, 33-21088, 33-51235, 33-53463, 33-64273, 33-64665, 333-91769, 333-30526, 333-31762, 333-53246, 333-56696, 333-72206, 333-65796, 333-101519, 333-109296, 333-117737, 333-117738, 333-139561 and 333-139562) of Merck & Co., Inc. of our report dated February 27, 2007, 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 is incorporated by reference in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
February 27, 2007

EXHIBIT INDEX

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* Management contract or compensatory plan or arrangement.

MERCK & CO., INC.
1996 INCENTIVE STOCK PLAN
(Amended and Restated as of December 19, 2006)

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) **Adjustment of Shares.** In the event of a reorganization, recapitalization, stock split, stock dividend, extraordinary cash dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other similar change in the capital structure of the Company, the Committee shall make equitable adjustments to (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 grant value of Stock Appreciation Rights. Any such determination shall be final, binding and conclusive on all parties.

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.

MERCK & CO., INC.
2001 INCENTIVE STOCK PLAN
(Amended and Restated as of December 19, 2006)

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, extraordinary cash dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other similar change in the capital structure of the Company, the Committee shall make equitable adjustments to (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 grant value of Stock Appreciation Rights. Any such determination shall be final, binding and conclusive on all parties.

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.

MERCK & CO., INC.
2004 INCENTIVE STOCK PLAN

(Amended and Restated as of December 19, 2006)

MERCK & CO., INC.
2004 INCENTIVE STOCK PLAN
(Amended December 19, 2006)

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, extraordinary cash dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other similar change in the capital structure of the Company, the Committee shall make equitable adjustments to (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 grant 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 delegates. 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 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 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.

MERCK & CO., INC.
2007 INCENTIVE STOCK PLAN
(as amended effective December 19, 2006)

MERCK & CO., INC.
2007 INCENTIVE STOCK PLAN
(Effective December 19, 2006)

1. Purpose

The 2007 Incentive Stock Plan (the “Plan”), effective May 1, 2006, 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” as such term is defined in Rule 16(a)-1(f) of the Exchange Act (a “Section 16 Officer”) 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, 2006, subject to the approval of the Plan by a majority of the votes cast at the Annual Meeting of stockholders of the Company on or about April 25, 2006. No Incentive shall be granted under the Plan after April 30, 2011 (or such earlier date that the Plan may be terminated by the Board), 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 (“ISOs”), (b) Nonqualified Options (together with ISOs, “Stock Options”), (c) Stock Appreciation Rights, (d) Restricted Stock Grants, (e) Performance Awards, (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. In general, Incentives may not vest, and Stock Options and Stock Appreciation Rights may not be exercisable, earlier than one year from their grant date except in case of an intervening event, such as for example, a change in control of the Company, or the grantee’s death, retirement, termination of the employment caused by the Company, or other event as established by the Committee, or as required by applicable law.

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 155 million.

(i) A Stock Option or Stock Appreciation Right shall be counted as one share for purposes of the limit set forth in Section 6(a) at the time of grant. A combination of Tandem SAR and Stock Option, where the exercise of the Tandem SAR or Stock Option results in the cancellation of the other, shall be counted as one share for purposes of the limit set forth in Section 6(a) at the time of grant.

(ii) A Restricted Stock Grant, Performance Share, Share Award or Phantom Stock Award shall be counted as four shares for purposes of the limit set forth in Section 6(a) at the time of grant.

(iii) Any shares under this Plan or under the 1991, 1996, 2001 or 2004 Incentive Stock Plans that are not purchased or awarded under an Incentive because such Incentive has lapsed, expired, terminated or been canceled may be used for the further grant of Incentives under the Plan.

(iv) Notwithstanding anything to the contrary: (a) shares tendered in payment of the exercise price of a Stock Option shall not be added to the maximum share limitations described above; (b) shares withheld by the Company to satisfy the tax withholding obligation shall not be added to the maximum share limitations described above; and (c) all shares covered by a Stock Appreciation Right, to the extent that it is exercised and whether or not shares of Common Stock are actually upon exercise of the right, shall be considered issued or transferred pursuant to the Plan.

(v) 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) with respect to Incentives denominated with respect to shares of Common Stock, Incentives covering more than 3 million shares of the Company's Common Stock (such number of shares shall be counted as provided in Section 6(a) and shall be adjusted in accordance with Section 6(c)), or (ii) with respect to Incentives denominated in cash, Incentives with a fair market value exceeding that of 3 million shares of Common Stock determined as of the date such Incentive is granted.

(c) **Adjustment of Shares.** In the event of a reorganization, recapitalization, stock split, stock dividend, extraordinary cash dividend, combination of shares, merger, consolidation, rights offering, spin off, split off, split up or other similar change in the capital structure of the Company, the Committee shall make equitable adjustments to (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 grant 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 ISOs as defined in Section 422 of the Code, and options other than ISOs ("Nonqualified 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, a combination of cash and shares of Common Stock, or through a cashless exercise procedure that allows grantees to sell immediately some or all of the shares underlying the exercised portion of the Option in order to generate sufficient cash to pay the option price. 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 option holder 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 ISOs** . Except as may otherwise be permitted by the Code, an Eligible Employee may not receive a grant of ISOs 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 ISO is granted, that would be exercisable for the first time by such person during any calendar year. If any grant is made in excess of the limits provided in the Code, such grant shall automatically become a Nonqualified Option.

(h) **No dividend equivalents** . Anything in the Plan to the contrary notwithstanding, no dividends or dividend equivalents may be paid on Stock Options.

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 (a “Tandem SAR”), 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. At the time the Tandem SAR 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 Tandem SAR exceed the exercise period for such Stock Option. If a Stock Appreciation Right is granted without an underlying Stock Option (a “Stand Alone SAR”), the period for exercise of the Stock Appreciation Right shall be set by the Committee.

(b) **Value of Stock Appreciation Right**. The grantee of a Tandem SAR 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 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. The grantee of a Stand Alone SAR 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 Stand Alone SAR 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 Stand Alone SAR. 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.

(d) **No dividend equivalents** . Anything in the Plan to the contrary notwithstanding, no dividends or dividend equivalents may be paid on Stock Appreciation Rights.

9. Performance Awards

The Committee may grant awards denominated in shares of Common Stock (“Performance Shares”), or denominated in dollars (“Performance Units”) 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 Awards”). Performance 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 Award. The Performance Goals may include share price, pre-tax profits, earnings per share, return on stockholders’ equity, return on assets, sales, net income, total shareholder return 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 Awards.** The Committee shall establish the method of calculating the amount of payment to be made under a Performance Award if the Performance Goals are met, including the fixing of a maximum payment. 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 Award, whether all, none or any portion of a Performance 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 shares of Common Stock 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 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 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 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 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 or (iii) not paid or accumulated.

10. Restricted Stock Grants

The Committee may award actual shares of Common Stock (“Restricted Stock”) or phantom shares of Common Stock (“Restricted Stock Units”) 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 Grants”).

(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 (“Restricted Period”) in order to receive the shares, cash or combination thereof under the Restricted Stock Grant. If the grantee leaves the employment of the Company prior to the end of the Restricted Period, the Restricted Stock Grant shall terminate and any 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 Restricted 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 Restricted Period, the grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Stock Grant, including but not limited to any shares of Common Stock. Any 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 any 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 Restricted 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 any certificates for Restricted Stock. Restricted Stock Units may be paid in the form of shares of Common Stock, cash or any combination of shares and cash as determined by the Committee. The Committee may establish rules and procedures to permit a grantee to defer recognition of income upon the expiration of the Restricted Period.

(e) **Dividends.** The Committee may, in its discretion, at the time of the Restricted Stock Grant, provide that any dividends declared on Common Stock during the Restricted Period or dividend equivalents 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 Restricted Period or (iii) not paid or accumulated.

(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).

11. Other Share-Based Awards

The Committee may grant an award of actual shares of common stock (a “Share Award”) or phantom shares of common stock (a “Phantom Stock 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.

12. Transferability

Each ISO 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 the Exchange Act 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 ISOs) 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. Notwithstanding the foregoing, without consent of affected grantees, Incentives may be amended, revised or revoked when necessary to avoid penalties under Section 409A of the Internal Revenue Code of 1986, as amended. 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 who are 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 delegates. 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

Any proceeds received by the Company 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 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 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 Grants and Performance Share Awards.

1. Vesting of Restricted Stock Grants. Upon the occurrence of a Change in Control, each unvested Restricted Stock Grant which is outstanding immediately prior to the Change in Control under the Plan shall immediately become fully vested.
2. Vesting of Performance Award. Upon the occurrence of a Change in Control, each unvested Performance 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 Grants and Performance Awards.
 - (i) If the Common Stock continues to be widely held and freely tradeable following the Change in Control or is exchanged for or converted into securities of a successor entity that are widely held and freely tradeable, then the vested Incentives shall be paid in shares of Common Stock or such other securities as soon as practicable after the date of the Change in Control, or in the form of cash with respect to Performance Units (subject to any existing deferral elections then in effect).
 - (ii) If the Common Stock does not continue to be widely held and freely tradeable following the Change in Control and is not exchanged for or converted into securities of a successor entity that are widely held and freely tradeable, then the vested Incentives 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 Award, the amount determined by the Committee when it grants Performance Awards.
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.

MERCK & CO., Inc.
2006 NON-EMPLOYEE DIRECTORS
STOCK OPTION PLAN
(Effective April 25, 2006; as amended and restated February 27, 2007)

2006 NON-EMPLOYEE DIRECTORS STOCK OPTION PLAN

The 2006 Non-Employee Directors Stock Option Plan (the “Plan”) is established to attract, retain and compensate for service as members of the Board of Directors of Merck & Co., Inc. (the “Company” or “Merck”) highly qualified individuals who are not current or former employees of the Company and to enable them to increase their ownership in the Company’s Common Stock. The Plan will be beneficial to the Company and its stockholders since it will allow these Directors to have a greater personal financial stake in the Company through the ownership of Company stock, in addition to underscoring their common interest with stockholders in increasing the value of the Company stock longer term.

1. *Eligibility*

All members of the Company’s Board of Directors who are not current or former employees of the Company or any of its subsidiaries (“Non-Employee Directors”) shall participate in this Plan.

2. *Awards*

Only nonqualified stock options to purchase shares of Merck Common Stock (“NQSOs”) and Restricted Stock Grants (collectively, “Incentives”) may be granted under this Plan.

3. *Shares Available*

- a) Number of Shares Available: There is hereby reserved for issuance under this Plan 1 million shares of Merck Common Stock, par value \$0.01 per share, which may be authorized but unissued shares, treasury shares, or shares purchased on the open market.
- b) Recapitalization Adjustment: In the event of a reorganization, recapitalization, stock split, stock dividend, extraordinary cash dividend, combination of shares, merger, consolidation, rights offering or other similar change in the capital structure or shares of the Company, adjustments in the number and kind of shares authorized by this Plan, in the number and kind of shares covered by Incentives, and in the option price of outstanding NQSOs under, this Plan shall be made if, and in the same manner as, such adjustments are made to incentives issued under the Company’s then current Incentive Stock Plan subject to any required action by the Board of Directors or the stockholders of the Company and compliance with applicable securities laws.

4. *Annual Grant of Nonqualified Stock Options*

Each year on the first Friday following the Company’s Annual Meeting of Stockholders, each individual elected, reelected or continuing as a Non-Employee Director shall automatically receive an NQSO to purchase 5,000 shares of Merck Common Stock or such other amount as may be determined by the Board from time to time. Notwithstanding the foregoing, if, on that first Friday, the General Counsel of the Company determines, in her/his sole discretion, that the Company is in possession of material, undisclosed information about the Company, then the annual grant of NQSOs to Non-Employee Directors shall be suspended until the second business day after public dissemination of such information and the price, exercisability date and option period shall then be determined by reference to such later date. If Merck Common Stock is not

traded on the New York Stock Exchange on any date a grant would otherwise be awarded, then the grant shall be made the next day thereafter that Merck Common Stock is so traded.

5. Option Price

The price of the NQSO shall be the closing price of Merck Common Stock on the date of the grant as quoted on the New York Stock Exchange.

6. Option Period

An NQSO granted under this Plan shall become exercisable at 12:01 a.m. in three equal installments (subject to rounding) on each of the first, second and third anniversaries of the date of grant and shall expire at 11:59 p.m. on the day before the tenth anniversary thereof ("Option Period"). As used in this Plan, all times shall mean the time for New York, NY.

7. Payment

The NQSO price and any required tax withholding, if any, shall be paid in cash in U.S. dollars at the time the NQSO is exercised or in such other manner as permitted for option exercises under the Company's Incentive Stock Plan (the "ISP") applicable to "officers" (as defined in Rule 16a-1 of the Securities Exchange Act of 1934 (the "Exchange Act")) of Merck and its affiliates. If the Compensation and Benefits Committee of the Board of Directors of the Company approves the use of previously owned shares of Common Stock for any portion of the exercise price for NQSOs granted under the ISP, then that same provision also shall apply to this Plan. The NQSOs 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 in effect from time to time for the ISP.

8. Cessation of Service

Upon cessation of service as a Non-Employee Director (for reasons other than Retirement or death), only those NQSOs immediately exercisable at the date of cessation of service shall be exercisable by the grantee. Such NQSOs must be exercised by 11:59 p.m. on the day before the same day of the third month after such cessation of service (but in no event after the expiration of the Option Period) or they shall be forfeited. For example, if service ends on January 12 and this section applies, the NQSOs would expire no later than 11:59 p.m. on April 11. All other NQSOs shall expire at 11:59 p.m. on the day of such cessation of service.

9. Retirement

If a grantee ceases service as a Non-Employee Director and is then at least age 65 with ten or more years of service or age 70 with five or more years of service (such cessation of service is a "Retirement" and begins on the first day after service ends), then any of his/her outstanding NQSOs shall continue to become exercisable as if service had continued. All outstanding NQSOs must be exercised by the expiration of the Option Period, or such NQSOs shall be forfeited. Notwithstanding the foregoing, if a grantee dies before the NQSOs are forfeited, Section 10 shall control.

10. *Death*

Upon the death of a grantee, all unvested NQSOs shall become immediately exercisable. The NQSOs which become exercisable upon the date of death and those NQSOs which were exercisable on the date of death may be exercised by the grantee's legal representatives or heirs by the earlier of (i) 11:59 p.m. on the day before the third anniversary of the date of death (ii) the expiration of the Option Period; if not exercised by the earlier of (i) or (ii), such NQSOs shall be forfeited. Notwithstanding the foregoing, if local law applicable to a deceased grantee requires a longer or shorter exercise period, these provisions shall comply with that law.

11. *Restricted Stock Grant*

The Board may award actual shares of Common Stock ("Restricted Stock") or phantom shares of Common Stock ("Restricted Stock Units") to a Non-Employee Director, which shares shall be subject to the terms and conditions and as the Board may prescribe from time to time.

12. *Administration and Amendment of the Plan*

This Plan shall be administered by the Board of Directors of Merck. The Board may delegate to any person or group, who may further so delegate, the Board's powers and obligations hereunder as they relate to day to day administration of the exercise process. This Plan may be terminated or amended by the Board of Directors as it deems advisable. However, an amendment revising the price, date of exercisability, option period of, or amount of shares under an NQSO shall not be made more frequently than every six months unless necessary to comply with applicable laws or regulations. Unless approved by the Company's stockholders, no adjustments or reduction of the exercise price of any outstanding NQSO shall be made directly or by cancellation of outstanding NQSOs and the subsequent regranting of NQSOs at a lower price to the same individual. No amendment may revoke or alter in a manner unfavorable to the grantees any Incentives then outstanding, nor may the Board amend this 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. An Incentive may not be granted under this Plan after December 31, 2015 but NQSOs granted prior to that date shall continue to become exercisable and may be exercised, and Restricted Stock Grants shall continue to vest, according to their terms.

13. *Transferability*

Except as set forth in this section, the NQSOs granted under this Plan shall not be exercisable during the grantee's lifetime by anyone other than the grantee, the grantee's legal guardian or the grantee's legal representative, and shall not be transferable other than by will or by the laws of descent and distribution. Incentives granted under this Plan shall be transferable during a grantee's lifetime only in accordance with the following provisions.

The grantee may only transfer an NQSO while serving as a Non-Employee Director of the Company or within one year of ceasing service as a Non-Employee Director due to Retirement as defined in Section 9.

The NQSO may be transferred only to the grantee's spouse, children (including adopted children and stepchildren) and grandchildren (collectively, "Family Members"), to one or more trusts for the benefit of Family Members or, at the discretion of the Board of Directors, to one or more partnerships where the grantee and his Family Members are the only partners, in accordance with the rules set forth in this section. The grantee shall not receive any payment or other consideration for such transfer (except that if the transfer is to a partnership, the grantee shall be permitted to receive an interest in the partnership in consideration for the transfer).

Any NQSO transferred in accordance with this section shall continue to be subject to the same terms and conditions in the hands of the transferee as were applicable to such NQSO prior to the transfer, except that the grantee's right to transfer such NQSO in accordance with this section shall not apply to the transferee. However, if the transferee is a natural person, upon the transferee's death, the NQSO privileges may be exercised by the legal representatives or beneficiaries of the transferee within the exercise periods otherwise applicable to the NQSO.

Any purported transfer of an NQSO under this section shall not be effective unless, prior to such transfer, the grantee has (1) met the minimum stock ownership target then in place for Directors of the Company, (2) notified the Company of the transferee's name and address, the number of shares under the Option to be transferred, and the grant date and exercise price of such shares, and (3) demonstrated, if requested by the Board of Directors, that the proposed transferee qualifies as a permitted transferee under the rules set forth in this section. In addition, the transferee must sign an agreement that he or she is bound by the rules and regulations of the Plan and by the same insider trading restrictions that apply to the grantee and provide any additional documents requested by the Company in order to effect the transfer. No transfer shall be effective unless the Company has in effect a registration statement filed under the Securities Act of 1933 covering the securities to be acquired by the transferee upon exercise of the NQSO, or the General Counsel of Merck has determined that registration of such shares is not necessary.

14. *Compliance with SEC Regulations*

It is the Company's intent that the Plan comply in all respects with Rule 16b-3 of the Exchange Act, and any regulations promulgated thereunder. If any provision of this Plan is later found not to be in compliance with the Rule, the provision shall be deemed null and void. All grants and exercises of NQSOs under this Plan shall be executed in accordance with the requirements of Section 16 of the Exchange Act, as amended, and any regulations promulgated thereunder.

15. *Miscellaneous*

Except as provided in this Plan, no Non-Employee Director shall have any claim or right to be granted an NQSO under this Plan. Neither the Plan nor any action thereunder shall be construed as giving any director any right to be retained in the service of the Company.

16. *Effective Date*

This Plan shall be effective April 25, 2006 or such later date as stockholder approval is obtained.

17. *No Constraint on Corporate Action*

Nothing in this Plan shall be construed (i) to limit or 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, liquidate, sell or transfer all or any part of its

business or assets, or (ii) except as provided in Section 12, 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.

18. *Governing Law*

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

August 24, 2006

Dear Brad:

This letter agreement ("Agreement") supersedes Peter Loescher's letter to you dated July 12, 2006 concerning your employment status with Merck & Co., Inc. ("Merck" or the "Company") and incorporates revisions to the earlier letter discussed by your attorneys and Merck's attorneys. As you and Peter discussed, as part of a general restructuring of Merck's worldwide human health business, your current position as President, U.S. Human Health will be eliminated at the close of business on September 30, 2006 and you will be separated from employment. Merck is offering you severance arrangements set forth below, contingent on your timely acceptance and nonrevocation of the terms set forth in this Agreement:

1. Employment Status

- (a) Transition Assignment. Effective July 12, 2006 you were relieved of operational responsibilities and your sole assignment is to effectuate the full transition of your responsibilities as President, U.S. Human Health, under my direction. Your status as an "officer" as defined in Rule 16a-1(f) as defined under the Securities Exchange Act of 1934 ended at the close of business on July 12, 2006. You agree to use your best efforts to perform this assignment and such other duties as I may assign to you and to otherwise conduct yourself in the best interests of the Company. Your grade and base salary will remain at their current level and you will continue to be eligible to participate in the Company's employee benefit plans and programs, as they may be amended from time to time, on the same terms and conditions applicable to Company employees at your grade level. At my sole discretion, your employment status may be converted at any time to paid inactive status prior to September 30, 2006. While on paid inactive status, your grade and base salary will be unchanged; you will continue to receive monthly salary payments; you will continue to accrue pension credit and be eligible to participate in the plans that you elected under the flexible benefits program; provided, however, that you will not be eligible to participate in the short term and long term disability benefit plans which benefits you agree to waive.
 - (b) Termination of Employment. Your employment will terminate on September 30, 2006 ("Separation Date"), provided that you have not terminated your employment by resignation prior to the Separation Date. Your resignation will be deemed to occur in the event that you engage in conduct inconsistent with your responsibilities and obligations as a Merck employee or if you voluntarily terminate your employment by quitting or commencing employment elsewhere. The termination of your employment on the Separation Date will be a "Separation from Service" ("Separation") under the Merck & Co., Inc. Separation Benefits Plan for Nonunion Employees ("Separation Plan") and you will be eligible for the benefits applicable to a "Bridged Employee" described in the brochure entitled "Special Separation Program for Bridged Employees" (the "Bridged Employee Brochure") under the Separation Plan. The summary plan description ("SPD") that describes the benefits available to you under the Separation Plan and the Bridged Employee Brochure that describes the effect of a separation on other benefits for a "Bridged
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Employee” have been provided to you and are incorporated herein by reference. If there is any conflict between the SPD and this Agreement or between the Bridged Employee Brochure and this Agreement, the SPD or Bridged Employee Brochure, as the case may be, shall govern.

2. **Separation Benefits**. Upon your Separation, you will receive the following separation benefits all in accordance with the SPD and Bridged Employee Brochure:

- (a) **Separation Pay**. Subject to paragraph 3(b) below, you will receive seventy-eight (78) weeks’ pay as described in the SPD, payable in periodic installments in accordance with the Company’s normal payroll periods, minus applicable deductions and withholdings.
- (b) **Retirement Plan**. You will receive the Bridged Pension Benefit described in the Bridged Employee Brochure, subject to paragraph 3(b) below.
- (c) **Medical and Dental Benefits**. You will be eligible to select retiree medical and dental benefits as described in the Bridged Employee Brochure.
- (d) **Life Insurance**. You will be eligible to be considered a retiree for life insurance plan purposes as described in the Bridged Employee Brochure.
- (e) **Outplacement**. You will eligible to receive Senior Executive Service outplacement services over a period of twelve (12) months.
- (f) **Equity Grants**. You will be considered “retired” for purposes of your outstanding unexercised stock options, restricted stock units, leader shares and performance share units, in each case, if any. It is your responsibility to familiarize yourself with the terms of your individual equity grants.
- (g) **Special Payment in Lieu of EIP Bonus**. Subject to paragraph 3(b) below, you will receive a special payment of \$412,500, minus applicable deductions and withholdings, in lieu of an EIP bonus for your performance in 2006. Your deferral election, if any, with respect to such EIP bonus will not apply to this special payment. In the event that you die before this special payment is made, the payment will be made to your estate.

3. **Payments**.

- (a) **Generally**. All payments made pursuant this Agreement will be based on your current base salary and are subject to applicable deductions and withholding. Upon your Separation, except for the payments described in this Agreement and the attached Bridged Employee Brochure, no other compensation will be paid to you or on your behalf.
 - (b) **Section 409A**. Payments generally may not be made on account of separation from service for six months following the termination of employment of a “Specified Employee” as defined in Prop. Treas. Reg. Sec. 1.409A-1(i) or any successor thereto, which in general includes the top 50 employees of a company ranked by compensation. You are a “Specified Employee.” Thus, where payments are characterized in this Agreement as subject to this paragraph, no such payments will be made to you prior to the first day of the seventh month following termination of your employment. Instead, amounts that would otherwise have been payable during the six months immediately following your Separation will be accumulated and paid in a lump sum, without interest, as soon as administratively practicable following such six month period (i.e., on or after April 1, 2007).
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4. **Deferral Program Account**. Your Deferred Program Account, if applicable, will be paid out to you in accordance with the terms and conditions of the Merck deferral program applicable to separated employees, subject to paragraph 3(b) of this Agreement.

5. **Lump Sum Payment**. As soon as practicable after your Separation, Merck will pay to you, subject to appropriate tax withholding, a gross lump sum in the amount of \$137,500. This lump sum payment is not subject to the delay described in paragraph 3(b) of this Agreement. As a condition of receiving this lump sum payment, you agree to execute and return to me the release of claims attached hereto as Attachment "A" on or soon after September 30, 2006. Merck's obligation to pay this lump sum will not arise until the revocation period for such executed release has passed without your revocation thereof.

6. **Financial Counseling**. You may continue to participate in the Company's Executive Financial Services Program through the end of 2007 at the level established for Management Committee members from time to time (currently, reimbursement up to \$10,000 per calendar year).

7. **Nondisparagement**. You agree not to disparage Merck, its affiliates, subsidiaries, or joint ventures, and their products, officers, directors, employees, former employees, representatives and agents, in any way whatsoever; provided, however, that nothing set forth herein will prohibit you from making any statement or engaging in conduct to the extent such statement or conduct is required by law, court order or legal process. The Company agrees that neither its employees who were executive officers of the Company on July 12, 2006 nor members of the Company's Board of Directors will disparage you or your performance as a Merck employee.

8. **Noncompete**. For a period of eighteen months following your Separation Date, you agree not to conduct business in competition with Merck. "Conduct business in competition with Merck" means, for purposes of this Agreement,

(a) to be, or become being connected in any manner with, a Competitor as defined below, directly or indirectly, as an individual or as a director, trustee, officer or employee of, or debt or equity investor in, or consultant or other independent contractor to, a Competitor, or through ownership, management, operation or control of a person or entity that is a Competitor; *provided* that in no event shall ownership of 1% or less of the outstanding equity securities of any issuer whose securities are registered under the Securities Exchange Act of 1934, as amended, standing alone, be prohibited by this subparagraph so long as you do not have, or exercise, any rights to manage, operate or control the business of such issuer; or

(b) individually or in partnership or conjunction with any other person or entity to engage in, work in, work for or with as an employee or consultant, advise, manage, lead, be employed by or affiliated with, or own or operate any enterprise or endeavor, not defined below as a Competitor, that discovers, develops, markets or sells pharmaceutical or biological products or vaccines, unless you have first obtained the consent of Merck's General Counsel. Your request for consent must include the name of the company for which you would like to work (or otherwise become associated), the nature of your proposed employment, association or relationship with such company, and any other information requested by the General Counsel. The consent of the General Counsel required hereunder will not be unreasonably withheld, *provided, however*, that you understand and agree that the decision whether to grant any such requested consent will be determined by the General Counsel in the exercise of his or her sole discretion. No such consent will be effective unless it is set forth in a signed, written communication from the General Counsel to you.

(c) “Competitor” means any of the following companies as well as their parents, subsidiaries, affiliates and successors: Abbott Laboratories, Amgen, AstraZeneca, Bristol Myers Squibb, Glaxo Smith Kline, Genentech, Johnson & Johnson, Eli Lilly, Novartis/Chiron, Pfizer, Roche/Hoffmann-La Roche, Sanofi/Adventis, Schering Plough and Wyeth.

9. **Nonsolicitation** . For a period of eighteen months following your Separation Date, you agree not to solicit, entice, persuade, induce or otherwise attempt to influence any person, who is employed by Merck, its subsidiaries or joint ventures on the date of this Agreement, to leave the employ of Merck, its subsidiaries or joint ventures, by (1) making initial contact with a Merck employee for such purpose or engaging in discussion with a Merck employee about such purpose or result, (2) causing any third party to make initial contact with a Merck employee for the purpose of soliciting, enticing, persuading or inducing them to leave the employ of Merck, or (3) providing a third party information about any Merck employee for the purpose of recruitment of that employee.

10. **Confidential Information** . You acknowledge and agree that, in the course of your employment with the Company, you had access to trade secrets, and confidential and proprietary business information (“Confidential Information”) owned by, or pertinent to, the Company and its subsidiaries or joint ventures. You agree not to disclose Confidential Information except as you determine in good faith, with the advice of counsel, to be required of you by law or legal process, subpoena or court order, provided that, prior to any such required disclosure, you will use your reasonable best efforts to provide sufficient notice to the Company so as to enable the Company to interpose an effective objection to such disclosure.

11. **Litigation** . In connection with litigation, investigation, inquiry or proceedings before a court, arbitrator, government or administrative agency or other tribunal, you may be asked by Merck to testify as a witness or to provide information concerning matters you were or might have been involved in during the course of your employment with Merck. You agree to cooperate fully with Merck’s counsel by making yourself available to such counsel, upon reasonable advance notice, to discuss your information or to review your testimony reasonably in advance of such litigation or proceedings, by making yourself available to testify at depositions or trial as required or requested by Merck, and by notifying Merck immediately upon becoming aware of any litigation, investigation, inquiry or proceedings involving Merck. Other than travel expenses and applicable, or statutorily mandated, witness fees, you agree that you will not be paid in connection with your testimony, appearance or participation pursuant to this paragraph in such litigation or proceedings. You further agree that you will not participate in any lawsuit or other legal action or administrative proceeding initiated by a third party against or involving Merck, except as such participation is solicited by Merck or authorized by Merck, unless commanded to do so by a valid and lawfully issued subpoena. You agree that if you are subjected to a subpoena requiring you to bear witness on matters concerning your employment with or your knowledge about Merck, you will contact the Company as soon as reasonably practicable and cooperate fully with the Company in its chosen manner of proceeding. Nothing in this provision shall be construed as precluding you from cooperating with law enforcement or regulatory agencies in connection with any lawful government inquiries.

12. **Breach of Agreement and Forfeiture of Benefits** .

- (a) The forfeiture of benefits provision set forth in the SPD is incorporated by reference into this Agreement with respect to all amounts and benefits payable hereunder.
 - (b) Separate and apart from any other remedy that Merck may have, in the event that Merck reasonably determines that you have breached or violated paragraph 7, 8, 9, 10 or 11 of this Agreement, Merck’s obligation to pay amounts described in paragraphs 2(a), 2(g) and 5 of this Agreement will immediately cease as of the date of such breach or violation and Merck (i) will be
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relieved of any further obligation to make such payments and (ii) will be entitled to demand, and you agree to immediately tender, all benefits and payments previously made to you hereunder.

- (c) You agree that your breach of paragraph 8, 9 or 10 of this Agreement will cause immediate and irreparable injury to Merck and it is and will be impossible to estimate and determine the damage that will be suffered by Merck in the event of your breach. You agree that your breach of any of these paragraphs will cause immediate and irreparable injury to Merck and that it is and will be impossible to estimate and determine the damage that will be suffered in the event of a breach. Separate and apart from any other remedy that Merck may have, you further agree that, in the event of such a breach, Merck will be entitled, in addition to any other available remedies, to (i) temporary and permanent injunctive relief from any such breach by you and by your employers, employees, partners, agents and associates, of the terms set forth in this paragraph, without the necessity of proving actual damages, or immediate or irreparable harm, or of posting a bond, ii) an award of liquidated damages equal to all monies paid to you or received by you in accordance with paragraphs 2(a), 2(g) and 5 of this Agreement, and (iii) all associated attorney's fees and costs.

13. **Reformation**. You agree that if any portion(s) of paragraph(s) 8, 9, 10, 11 or 12 is determined to be invalid, such determination will not affect the enforceability of the remaining portions of such paragraph(s) and such paragraph(s) will be interpreted as if the invalid portions had not been inserted. You agree that if such invalidity is caused by the length of any period of time or the size of any area, then the period of time or the area, or both, will, without need of further action by any party, be deemed to be reduced to a period or area that will cure the invalidity.

14. **Confidentiality**. You agree to hold the existence of this Agreement and the terms and conditions of this Agreement in strict confidence and you agree not to disclose, except as may be required by law or legal process, any such information to any third party other than members of your immediate family, your former spouse, financial advisors, outplacement firm, tax authorities, tax consultants or anyone preparing your tax returns, or legal advisors. Notwithstanding the foregoing, you may disclose to executive search firms and prospective employers the provisions of this Agreement related to your agreement not to conduct business in competition with Merck.

15. **Release**. In consideration of the promises of the Company as set forth in this Agreement, and with the intent to be bound legally, you agree to irrevocably RELEASE AND FOREVER DISCHARGE Merck & Co., Inc., together with its benefit plans, subsidiaries and affiliates and their officers, directors, employees, agents, predecessors, partners, successors, fiduciaries and assigns ("Releasees") from and with respect to any manner of actions, suits, debts, claims, demands whatsoever in law or equity arising out of or in any way relating to your employment with the Company or the termination of your employment, or arising out of or in any way relating to any transaction, occurrence, act or omission or any loss, damage or injury occurring at any time up to and including the date and time on which you sign this Agreement ("Claims"), including, but not limited to (a) any and all Claims based upon any law, statute, ordinance, regulation, constitution or executive order or based in contract, tort or common law or any other legal or equitable theory of relief; (b) any and all Claims based on the Employee Retirement Income Security Act of 1974; (c) any and all Claims arising under the civil rights laws of any federal, state or local jurisdiction, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Americans with Disabilities Act; Sections 503 and 504 of the Rehabilitation Act; the Family and Medical Leave Act; the Age Discrimination in Employment Act; the Pennsylvania Human Relations Act; and the New Jersey Law Against Discrimination; (d) any and all Claims under any whistleblower laws or whistleblower provisions of other laws including, but not limited to, the New Jersey Conscientious Employee Protection Act; and (e) any and all Claims for counsel fees or costs.

You understand that by signing this Agreement, you are waiving any and all Claims against any and all Releasees released by this Agreement to the greatest extent allowable under law. Nothing in this paragraph shall be read as a waiver of any vested rights in any savings or pension plan. The foregoing release does not release or waive claims or rights that cannot be waived by law and does not release or waive any claims or rights to indemnification under Merck's by-laws, or by applicable law, or under Merck's directors and officers insurance, that you may have now or in the future.

16. **No Representation**. You acknowledge that no promise, other than the promises in this Agreement, have been made to you and that in signing this Agreement you are not relying upon any statement or representation made by or on behalf of the Releasees and each or any of them concerning the merits of any Claims or the nature, amount, extent or duration of any damages relating to any Claims or the amount of any money, benefits, or compensation due you or claimed by you, or concerning the Agreement or concerning any other thing or matter.

17. **Voluntariness**. You agree that you are relying solely upon your own judgment; that you are legally competent to sign this Agreement; that you are signing this Agreement of your free will; that you have read and understood the Agreement before signing it; and that you are signing this Agreement in exchange for consideration that you believe is satisfactory and adequate.

18. **No Admissions**. You agree and acknowledge that neither the offer of these arrangements nor this Agreement will be construed as an admission or as evidence that Merck or its agents have failed in any way to act properly in connection with your employment or the termination thereof. To the contrary, the Company specifically denies any wrongful or unlawful treatment towards you. This Agreement has been proposed by the Company solely for the purpose of reaching a mutually acceptable resolution of issues you have raised arising out of the termination of your employment.

19. **Applicable Law**. You acknowledge and agree that your employment relationship with Merck is governed solely and exclusively under the laws of the State of New Jersey and the United States and that any question as to the scope, interpretation and effect of this Agreement will be resolved under the substantive and procedural laws of the State of New Jersey without giving effect to any conflict of laws provisions.

20. **Severability**. All provisions and portions of this Agreement are severable. If any provision or portion of this Agreement or the application of any provision or portion of the Agreement will be determined to be invalid or unenforceable to any extent or for any reason, all other provisions and portions of this Agreement will remain in full force and effect and will continue to be enforceable to the fullest and greatest extent permitted by law.

21. **Amendment, Termination of Plans**. Merck retains the right (to the extent permitted by law) to amend or terminate the Separation Plan and any benefit or plan described in the SPD and/or the Bridged Employee Brochure (or otherwise) at any time, and nothing in this Agreement affects or alters that right. While it has no current intention to do so, Merck also may extend, or enhance, the Separation Plan in the future. If you sign and return the Agreement, any later amendment or termination will not decrease the amount of Separation Pay or the other Separation Benefits you are eligible to receive as described in this Agreement.

22. **Complete Agreement**. This Agreement constitutes the complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, negotiations, or discussions relating to the subject matter of this Agreement.

In accordance with the federal Older Workers' Benefit Protection Act of 1990, you have forty-five (45) days from your initial receipt of this Agreement within which to consider whether to sign the Agreement. Should you choose to sign this Agreement, you are entitled to revoke your acceptance at any time within seven (7) calendar days after signing it. If revoked by you within that time period, the Agreement will be null and void for all purposes. The Agreement will not become effective or enforceable until the revocation period has expired. Lastly, you have the right to consult with an attorney before signing this Agreement.

Please indicate your acceptance of this Agreement by signing and dating this letter and returning it to me. A duplicate of this letter, signed by me, is enclosed for your records.

Very truly yours,

/s/ Richard T. Clark

Richard T. Clark

Chief Executive Officer and President

ACCEPTED:

Bradley Sheares

Dated: _____

Attachment "A"

RELEASE AND WAIVER OF CLAIMS

In consideration of the lump sum to be paid to me by Merck & Co., Inc. ("Merck" or "the Company"), as set forth in paragraph 5 of the agreement between me and Merck dated August 24, 2006 ("the Agreement"), and with the intent to be bound legally, I agree to irrevocably **RELEASE AND FOREVER DISCHARGE** Merck & Co., Inc., together with its benefit plans, subsidiaries and affiliates and their officers, directors, employees, agents, predecessors, partners, successors, fiduciaries and assigns ("Releasees") from and with respect to any manner of actions, suits, debts, claims, demands whatsoever in law or equity arising out of or in any way relating to my employment with the Company or the termination of my employment, or arising out of or in any way relating to any transaction, occurrence, act or omission or any loss, damage or injury occurring at any time up to and including the date and time on which I sign this Release ("Claims"), including, but not limited to (a) any and all Claims based upon any law, statute, ordinance, regulation, constitution or executive order or based in contract, tort or common law or any other legal or equitable theory of relief; (b) any and all Claims based on the Employee Retirement Income Security Act of 1974; (c) any and all Claims arising under the civil rights laws of any federal, state or local jurisdiction, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Americans with Disabilities Act; Sections 503 and 504 of the Rehabilitation Act; the Family and Medical Leave Act; the Age Discrimination in Employment Act; the Pennsylvania Human Relations Act; and the New Jersey Law Against Discrimination; (d) any and all Claims under any whistleblower laws or whistleblower provisions of other laws including, but not limited to, the New Jersey Conscientious Employee Protection Act; and (e) any and all Claims for counsel fees or costs.

I understand that by signing this Release, I am waiving any and all Claims against any and all Releasees released by this Release to the greatest extent allowable under law. Nothing in this Release shall be read as a waiver of any vested rights in any savings or pension plan. This Release does not release or waive claims or rights that cannot be waived by law and does not release or waive any claims or rights (i) to indemnification under Merck's by-laws, or by applicable law, or under Merck's directors and officers insurance, or (ii) arising under the Agreement, that I may have now or in the future. I have had 45 days to consider the terms of this Release and I have been advised of my right to have my counsel review this Release before I sign it. I have the right to revoke my agreement to the terms of this Release by notifying Merck in writing within 7 calendar days after executing the Release.

Accepted:

Dated:

December 15, 2006

David W. Anstice

Dear David:

This letter agreement ("Agreement") will confirm our discussions and sets forth the arrangements that have been made concerning your employment status with Merck & Co., Inc. ("Merck" or the "Company"). We have agreed as follows:

1. Employment Status.

(a) **Job Assignment.** Effective September 15, 2006, you were appointed to the newly created position of Executive Vice President, Strategic Initiatives, reporting to me ("New Assignment"). In the New Assignment, you will serve on Executive Committee and will continue as an "officer" as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934.

(b) **Job Duties.** Your duties in your New Assignment will include: (i) functioning as the primary sustaining sponsor to the Company's End-to-End and Global Support Function initiatives, with full accountability for the successful realization of these two elements of the Company's *Plan to Win*; (ii) helping to refine the Company's strategic direction in key pharmaceutical emerging markets (in particular, China and India); (iii) serving as a member of the Human Health Operating Committee and the Research Strategic Review Committee; (iv) assisting your successors in their transitions to your former roles of President, Asia Pacific Human Health and leader of the Merck/Schering Plough Joint Venture, as necessary; and (v) performing such other duties as may be assigned me. You agree to devote your full business time, attention and best efforts and abilities in the performance of your duties and will not, without the consent of the Company, serve as an employee, director or consultant or other independent contractor to or in respect to any business other than the Company and its affiliates.

(c) **Compensation and Benefits.** While employed in the New Assignment, you will remain eligible for salary increases, bonus (subject to Section 1(d)) and long-term incentives. You will continue to be eligible to participate in the Company's employee benefit plans and programs, as they may be amended from time to time, on the same terms and conditions applicable to Company employees at your grade level.

(d) **Bonus.** You will be eligible for an award under the Company's Executive Incentive Plan ("EIP"), or, in certain cases an amount in lieu of such an award, as follows: (i) for performance year 2006, unless your employment is terminated for Cause (as defined in Section 2(a)), the Company agrees to grant to you an EIP award (or an amount in lieu of such award should your employment ends prior to the payout of such award) in an amount no less than the amount of the EIP award paid to you for performance year 2005, which amount will be payable in 2007 at such time when EIP awards are generally paid to other employees; (ii) for any calendar year subsequent to 2006 during which you are employed for the entire calendar year (*i.e.*, through the close of business on December 31), you will be eligible for an EIP award determined in accordance with the manner in which the Company makes such determinations for employees at your level, including, without limitation, the Company's performance, your division's performance and the scope, impact and complexity of your individual contributions, which award (if any)

and will be payable in the calendar year following the performance year in question at such time as EIP awards are generally paid to other employees; and (iii) for the Severance Year (as defined in Section 2(c)), if any, you will be entitled to an amount in lieu of an EIP award in accordance with Section 4(b).

(e) **No Separation.** You agree that your appointment to the New Assignment is not a “Separation from Service” within the meaning of the Company’s Separation Benefits Plan for Non-Union Employees.

(f) **Length of Assignment.** Your employment will continue to be on an “at will” basis, which means that either you or the Company may terminate the employment relationship at any time, with or without notice, for any lawful reason.

2. **Definitions.**

(a) **Big Pharmaceutical Competitor.** The term “Big Pharmaceutical Competitor” means any of the following companies as well as their parents, subsidiaries, affiliates, joint ventures and successors: Abbott Laboratories, Amgen, AstraZeneca, Bristol Myers Squibb, Glaxo Smith Kline, Genentech, Johnson & Johnson, Eli Lilly, Novartis/Chiron, Pfizer, Roche/Hoffmann-La Roche, Sanofi/Aventis, Schering Plough and Wyeth.

(b) **Cause.** The term “Cause” means your (i) intentional or repeated failure or refusal to perform reasonably assigned duties, (ii) dishonesty, willful misconduct, gross insubordination or gross negligence in the performance of your duties, (iii) involvement in a transaction in connection with the performance of the your duties to the Company or any of its affiliates which transaction is adverse to the interests of the Company or any of its affiliates and which is engaged in for personal profit, (iv) willful violation of any law, rule or regulation in connection with the performance of your duties (other than traffic violations or similar minor offenses), (v) indictment, conviction or plea of no contest with respect to (x) any felony or (y) other crime involving moral turpitude (whether or not a felony), (vi) action or inaction materially adversely affecting the reputation of the Company or any of its affiliates or (vii) breach of the covenants contained in Section 8 of this Agreement or breach of any other agreement to which you and the Company are parties.

(c) **Competitor.** The term “Competitor” means any person, company or other entity that (i) discovers, develops, markets or sells pharmaceutical or biological products or vaccines anywhere in the world; and (ii) is not a Big Pharmaceutical Competitor.

(d) **Severance Event.** The term “Severance Event” means any cessation of your employment at the Company, whether as a result of a decision by you or a decision by the Company, except that a “Severance Event” does not occur if the cessation of your employment occurs as the result of (i) a decision by the Company to terminate your employment for Cause; (ii) a decision by you to leave employment with the Company in the presence of circumstances that would have supported a decision by the Company to terminate your employment for Cause; or (iii) an employment termination that entitles you to receive severance benefits under the Merck & Co., Inc. Change in Control Separation Benefits Plan as in effect from time to time.

(e) **Severance Year.** The term “Severance Year” means that calendar year (if any) during which a Severance Event occurs.

3. **Consideration.** You acknowledge that in exchange for your agreement to accept and abide by the terms of this Agreement you are receiving benefits which are being provided to you solely pursuant to this Agreement and to which you otherwise would not be entitled. Specifically, (a) in consideration of

your initial execution, the Company has agreed to offer to you the New Assignment, a guaranteed EIP award (or amount in lieu of such award) as set forth in Section 1(d) and other terms of this Agreement; and (b) in consideration of your re-execution of this Agreement, the Company is providing you with the Severance Benefits as set forth in Section 4 and other terms of this Agreement.

4. **Severance Benefits.** In consideration of your Agreement to accept and abide by the terms of this Agreement, the Company will provide you with the following benefits ("Severance Benefits") on the condition that your employment ends as the result of a Severance Event (as defined in Section 2(b)) and on the further condition that, upon presentation by the Company after a Severance Event, you re-affirm your acceptance of this Agreement by re-executing this Agreement within the time period set forth in Section 20 and by not subsequently revoking that acceptance:

(a) **Severance Pay.** Subject to Section 5(b), you will receive severance pay in the form of continued monthly salary payments, minus applicable deductions and withholdings, for a period beginning on the day after a Severance Event and ending on the earlier of: (i) that date which is eighteen months after a Severance Event; (ii) July 31, 2013; or (iii) your breach of any of the conditions set forth in Section 8.

(b) **Severance Year Bonus.** Subject to Section 5(b), you will be entitled to payment of an amount in lieu of an EIP award should your employment end in a Severance Year, which amount will be equal to the product obtained by multiplying the amount of your EIP award for the performance year immediately preceding the Severance Year times a fraction the numerator of which is the number of complete months of service provided by you in the Severance Year (*i.e.*, the number of complete months worked by you in the Severance Year immediately preceding the Severance Event) and the denominator of which is 12. The amount (if any) payable in accordance with this Section 4(b) will be payable in the calendar year following the Severance Year at such time as EIP awards are generally paid to other employees. Notwithstanding anything to the contrary above, this Section 4(b) will not apply should a Severance Year occur in calendar year 2006. In such case, the amount (if any) payable in lieu of an EIP award will be as set forth in Section 1(d)(i).

(c) **Financial Counseling.** You will be eligible to continue to participate in the Company's Executive Financial Services Program for the balance of a Severance Year at the then current level established for Executive Committee members from time to time (currently, reimbursement up to \$10,000 per calendar year). In addition, the Company will provide you with reimbursement for tax counseling, if required, relative to your tax obligations, if any, under the laws of any country for a period commencing on January 1st of the calendar year immediately following the Severance Year and ending on December 31st of the third calendar year following the Severance Year. The total cost of such tax/financial counseling payable by Merck under this Section 4(c) will not exceed \$75,000.

(d) **Relocation Benefits.** If you decide to relocate your primary residence outside the United States, then Merck, in accordance with Company policy, will provide one-way return trip airfare and temporary living for a maximum of sixty days for you and your accompanying dependents; will ship your household goods to the point of some other mutually agreed upon area; and will consider you eligible for home sale assistance, with buyout, under the Company's then current Relocation Policy, *provided* that your relocation is completed prior to the two-year anniversary of a Severance Event, and *provided further* that Merck's payment(s) for these benefits will be reduced by any relocation reimbursement/expenses (for the same move) you may be entitled to by arrangement with another employer. You understand and agree that your eligibility for the benefits of this Section 4(d) is contingent on your compliance with the procedures of the then current Company Relocation Policy and other related Company policies.

5. Payments.

(a) **Generally.** All severance payments made pursuant to Section 4(a) of this Agreement will be based on your then current base salary as of the time of a Severance Event and are subject to applicable deductions and withholding. Subject to Section 5(b), the severance payments pursuant to Section 4(a) will be made by electronic transfer or by mail, in accordance with your normal manner of payment, on or about the regularly scheduled paydays for Merck salaried employees or within thirty (30) days after you have re-executed this Agreement and the revocation period of Section 20 has elapsed, whichever is later.

(b) **Section 409 (A).** Payments generally may not be made on account of separation from service for six months following the termination of employment of a "Specified Employee" as defined in Prop. Reg. Sec. 1.409A-1(i) or any successor thereto, which in general includes the top 50 employees of a company ranked by compensation. You are a "Specified Employee," thus to the extent required by Section 409A of the Internal Revenue Code of 1986, as amended, no payments will be made to you prior to the first day of the sixth month following termination of your employment. Instead, amounts that would otherwise have been payable will be accumulated and paid, without interest, as soon as administratively practicable following such six month period.

6. Other Benefits. Your entitlement to benefits under the Company's pension, health and welfare and other plans will be governed by the relevant plan documents and/or Company policies. For avoidance of doubt, you acknowledge that you are not and will not be eligible for severance benefits under the Company's current or any successor Separation Benefits Plan.

7. Release. In consideration of the promises of the Company as set forth in this Agreement, and with the intent to be bound legally, you agree to irrevocably **RELEASE AND FOREVER DISCHARGE** Merck & Co., Inc., together with its benefit plans, subsidiaries, affiliates and joint ventures and their officers, directors, employees, agents, predecessors, partners, successors, fiduciaries and assigns ("Released Parties") from and with respect to any manner of actions, suits, debts, claims, demands whatsoever in law or equity arising out of or in any way relating to your employment with the Company, your transfer to the New Assignment or the cessation of your employment, or arising out of or in any way relating to any transaction, occurrence, act or omission or any loss, damage or injury occurring at any time up to and including the date and time on which you sign this Agreement ("Claims"), including, but not limited to (a) any and all Claims based upon any law, statute, ordinance, regulation, constitution or executive order or based in contract, tort or common law or any other legal or equitable theory of relief; (b) any and all Claims based on the Employee Retirement Income Security Act of 1974; (c) any and all Claims arising under the civil rights laws of any federal, state or local jurisdiction, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Americans with Disabilities Act; Sections 503 and 504 of the Rehabilitation Act; the Family and Medical Leave Act; the Age Discrimination in Employment Act; the Pennsylvania Human Relations Act; and the New Jersey Law Against Discrimination; (d) any and all Claims under any whistleblower laws or whistleblower provisions of other laws including, but not limited to, the New Jersey Conscientious Employee Protection Act; and (e) any and all Claims for counsel fees or costs.

You understand that by signing this Agreement, you are waiving any and all Claims against any and all Released Parties released by this Agreement to the greatest extent allowable under law. Nothing in this paragraph shall be read as a waiver of any vested rights in any savings or pension plan.

8. Conditions of Agreement

(a) **Terms and Conditions**. This Agreement is conditioned on your abiding by all the terms and conditions of this Agreement and the terms and conditions set forth in the Company's Conditions of Employment Agreement, incorporated herein by reference.

(b) **Confidentiality**. You agree to hold the existence of this Agreement, the terms and conditions of this Agreement, the circumstances surrounding your employment with Merck (including, without limitation, your transfer to the New Assignment) and the cessation thereof, in strict confidence and you agree not to disclose, except as may be required by law or legal process, any such information to any third party other than members of your immediate family, tax authorities, tax consultants or legal advisors. You agree that, if you are subjected to a subpoena or other court process or order requiring you to bear witness on matters concerning your employment with or your knowledge about Merck you shall contact the Company immediately unless notification is prohibited by law or order of a court. Nothing in this provision shall be construed as precluding you from cooperating with federal or state law enforcement or regulatory agencies in connection with any lawful government inquiries.

(c) **Non Disparagement**. You agree not to communicate negatively about or to otherwise disparage Merck or its products or each and any of the Released Parties in any way whatsoever.

(d) **Agreement Not to Compete**. You agree that during your continued employment at the Company and for a period of eighteen months after the cessation of your employment at the Company, you will not conduct business in competition with Merck. "Conduct business in competition with Merck," means, for purposes of this Agreement,

(i) to be, or become connected in any manner with, a Big Pharmaceutical Competitor, directly or indirectly, as an individual or as a director, trustee, officer or employee of, or debt or equity investor in, or consultant or other independent contractor to, a Big Pharmaceutical Competitor, or through ownership, management, operation or control of a person or entity that is a Big Pharmaceutical Competitor; *provided* that in no event shall ownership of 1% or less of the outstanding equity securities of any issuer whose securities are registered under the Securities Exchange Act of 1934, as amended, standing alone, be prohibited by this subparagraph so long as you do not have, or exercise, any rights to manage, operate or control the business of such issuer; or

(ii) to be or become an employee, consultant or other independent contractor, director, trustee, or officer of a Competitor, without the prior consent of Merck's General Counsel. Your request for consent must include the name of the company for which you would like to work (or otherwise become associated), the nature of your proposed employment, association or relationship with such company, and any other information requested by the General Counsel. While the decision whether to consent to a request made in accordance with this subparagraph will be within the sole discretion of Merck's General Counsel, such consent will not be unreasonably withheld. No such consent will be effective unless it is set forth in a signed, written communication from the General Counsel to you.

(e) **Non Solicitation**. You agree that during your continued employment at the Company and for a period of eighteen months after the cessation of your employment at the Company, you will not solicit, entice, persuade, induce or otherwise attempt to influence any Merck Employee (as defined below) to leave the employ of Merck, its subsidiaries, affiliates or joint ventures, by (i) making initial contact with a Merck Employee for such purpose or engaging in discussion with a Merck Employee about such purpose or result, (ii) causing any other person to make initial contact with a Merck Employee for

the purpose of soliciting, enticing, persuading or inducing them to leave the employ of Merck, its subsidiaries, affiliates or joint ventures or (iii) providing any other person information about any Merck Employee for the purpose of recruitment of that employee. For the purposes of this Section 8(e), a Merck Employee means any person who, at the time of the action, is, or at anytime in the preceding six (6) months was, employed by Merck, or any of its subsidiaries, affiliates or joint ventures.

(f) **Non Disclosure.** You acknowledge that, in the course of your employment with the Company, you had access to trade secrets and to confidential and/or proprietary information owned by the Company. You agree not to disclose such information to third parties.

(g) **Extension of Time.** The period of time during which you are prohibited from engaging in the activities described in subsections (d) and (e) of this Section 8 will be extended by the length of time, if any, during which you are in breach of those subsections.

(h) **Reformation.** You agree that if any portion of this Section 8 is determined to be invalid, such determination will not affect the enforceability of the remaining portions of Section 8 and this Section 8 will be interpreted as if the invalid portions had not been inserted. You agree that if such invalidity is caused by the length of any period of time or the size of any area in this paragraph, then the period of time or the area, or both, will, without need of further action by any party, be deemed to be reduced to a period or area that will cure the invalidity.

9. **Remedy.** You agree that a violation of any of your agreements contained in Section 8 will cause immediate and irreparable injury to Merck and it is and will be impossible to estimate and determine the damage that will be suffered by Merck in the event of your breach. Separate and apart from any other remedy that Merck may have, you agree that, in the event that you violate any of your agreements in Section 8, Merck will be entitled to (a) temporary and permanent injunctive relief from any such breach by you, your employers, employees, partners, agents, or other associates or any of them, without the necessity of proving actual damages, or immediate and irreparable harm, or of posting a bond; (b) cease and desist from providing you with any further benefits under this Agreement; and (c) an award of liquidated damages equal to all monies paid to you or received by you in accordance with Sections 4(a) and 4(b) of this Agreement; and (d) all associated attorney's fees and costs.

10. **Merck Covenant.** Merck agrees to instruct its Executive Officers and the members of its Board of Directors not to disparage you to third parties.

11. **Litigation.** In connection with litigation, investigation, inquiry or proceedings before a court, arbitrator, government or administrative agency or other tribunal, you may be asked by Merck to testify as a witness or to provide information concerning matters you were involved in during the course of your employment with Merck. You agree to cooperate fully with Merck's counsel by making yourself reasonably available to such counsel to discuss your information or to review your testimony reasonably in advance of such litigation or proceedings, by making yourself available to testify at depositions or trial as required or requested by Merck. Other than travel expenses and applicable, or statutorily mandated, witness fees, you agree that you will not be paid in connection with your testimony, appearance or participation pursuant to this paragraph in such litigation or proceedings. This paragraph does not affect any right you may have to indemnification under Merck's corporate bylaws or policies, or your eligibility to have Merck advance to you reasonable costs, disbursements and counsel fees under certain circumstances, in connection with proceedings related to or arising out of your activities as a Merck employee. Merck will continue to pay for legal counsel bills incurred by you during the course of litigation, subject to the terms of our existing arrangement on this subject.

12. **No Representation**. You acknowledge that no promise, other than the promises in this Agreement, have been made to you and that in signing this Agreement you are not relying upon any statement or representation made by or on behalf of the Released Parties and each or any of them concerning the merits of any Claims or the nature, amount, extent or duration of any damages relating to any Claims or the amount of any money, benefits, or compensation due you or claimed by you, or concerning the Agreement or concerning any other thing or matter.

13. **Voluntariness**. You agree that you are relying solely upon your own judgment; that you are over eighteen years of age and are legally competent to sign this Agreement; that you are signing this Agreement of your free will; that you have read and understood the Agreement before signing it; and that you are signing this Agreement in exchange for consideration that you believe is satisfactory and adequate.

14. **Legal Counsel**. You acknowledge that you have been informed of your right to consult with legal counsel, have been encouraged to do so, that you have in fact engaged legal counsel to represent you with respect to this Agreement and that counsel has negotiated the terms of this Agreement on your behalf.

15. **Complete Agreement**. This Agreement constitutes the complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, negotiations, or discussions relating to the subject matter of this Agreement.

16. **Applicable Law**. You acknowledge and agree that your employment relationship with Merck is governed solely and exclusively under the laws of the State of New Jersey and the United States and that any question as to the scope, interpretation and effect of this Agreement will be resolved under the substantive and procedural laws of the State of New Jersey without giving effect to any conflict of laws provisions.

17. **Other Severance Pay**. You agree that neither Merck nor any of the Released Parties owes you severance pay, termination indemnity or other amounts payable upon a termination of employment in the nature of severance or unemployment compensation ("Other Severance Pay") under the laws or regulations of any state or country. In the event that a court, administrative agency or other such authority rules that you are owed Other Severance Pay, amounts payable under Section 3 of this Agreement will be reduced by the amount of such Other Severance Pay and you agree to be a constructive trustee of such amounts to carry out the purposes of this Section 17.

18. **Severability**. All provisions and portions of this Agreement are severable. If any provision or portion of this Agreement or the application of any provision or portion of the Agreement will be determined to be invalid or unenforceable to any extent or for any reason, all other provisions and portions of this Agreement will remain in full force and effect and will continue to be enforceable to the fullest and greatest extent permitted by law

19. **Initial Execution**. Your initial execution of this Agreement will acknowledge your acceptance of the terms and conditions of this Agreement. By your initial execution, you acknowledge that

- (a) **Acceptance**. You have been given a period of twenty-one (21) days within which to consider your initial execution of this Agreement. You may accept this Agreement at any time within this period of time by signing the Agreement and returning it me.
 - (b) **Revocability**. You have been informed that, upon your initial execution, this Agreement will not become effective or enforceable until seven (7) calendar days after such execution.
-

You may revoke your acceptance of this Agreement at any time within that seven (7) calendar day period by sending written notice to me. Such notice must be received by me within the seven (7) calendar day period in order to be effective and, if so received, would void this Agreement for all purposes.

20. **Re-execution.** Upon the Company's determination that a Severance Event has occurred, it will present this Agreement to you for re-execution. You agree that you must re-execute this Agreement as a condition precedent to your entitlement to the Severance Benefits set forth in Section 4. By your re-execution of this Agreement, you acknowledge that:

- (a) **Acceptance.** You have been given a period of twenty-one (21) days within which to consider whether to re-execute this Agreement. You may accept this Agreement at any time within this period of time by signing the Agreement and returning it me.
- (b) **Revocability.** You have been informed that, upon re-execution, this Agreement as re-executed will not become effective or enforceable until seven (7) calendar days after such re-execution. You may revoke your acceptance of this Agreement as re-executed at any time within that seven (7) calendar day period by sending written notice to me. Such notice must be received by me within the seven (7) calendar day period in order to be effective and, if so received, would void this Agreement as re-executed, but will not affect this Agreement as initially executed.
- (c) **Release.** Upon re-execution, the date of such re-execution will be the date on which you sign this Agreement for the purposes of this Agreement, including without limitation, for the purposes of the Release set forth in Section 7.

21. **Intent to be Bound.** You and the Company have entered into this Agreement with the intent to be legally bound.

[signature page follows]

Please indicate your initial acceptance of this Agreement by signing and dating this letter and returning it to me. A duplicate of this letter, signed by me, is enclosed for your records.

Very truly yours,

/s/ Richard T. Clark

Richard T. Clark
President, CEO
Merck & Co., Inc.

ACCEPTED:

/s/ David W. Anstice

David W. Anstice

Dated: December 15, 2006

RE-EXECUTED:

David W. Anstice

Dated: _____

MERCK & CO., INC. AND SUBSIDIARIES
Computation of Ratios of Earnings to Fixed Charges
(\$ in millions except ratio data)

	Twelve Months Ended December 31, <u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Years Ended December 31,						
Income from Continuing Operations						
Before Taxes	\$ 6,221.4	\$7,363.9	\$7,974.5	\$9,051.6	\$ 9,651.7	\$ 9,948.1
Add (Subtract):						
One-third of rents	67.8	68.2	71.9	75.6	67.2	64.2
Interest expense, gross	375.1	385.5	293.7	350.9	390.6	463.7
Interest capitalized, net of amortization	29.4	(1.0)	(21.3)	(30.1)	(36.9)	(66.1)
Equity (income) loss from affiliates, net of distributions	(362.5)	(615.9)	(421.2)	79.2	(156.1)	(113.7)
Preferred stock dividends, net of tax	<u>120.0</u>	<u>120.0</u>	<u>151.0</u>	<u>150.9</u>	<u>164.3</u>	<u>199.6</u>
Earnings from Continuing Operations	<u>\$ 6,451.2</u>	<u>\$7,320.7</u>	<u>\$8,048.6</u>	<u>\$9,678.1</u>	<u>\$10,080.8</u>	<u>\$10,495.8</u>
One-third of rents	\$ 67.8	\$ 68.2	\$ 71.9	\$ 75.6	\$ 67.2	\$ 64.2
Interest expense, gross	375.1	385.5	293.7	350.9	390.6	463.7
Preferred stock dividends	<u>166.0</u>	<u>166.7</u>	<u>207.1</u>	<u>215.6</u>	<u>234.7</u>	<u>285.1</u>
Fixed Charges from Continuing Operations	<u>\$ 608.9</u>	<u>\$ 620.4</u>	<u>\$ 572.7</u>	<u>\$ 642.1</u>	<u>\$ 692.5</u>	<u>\$ 813.0</u>
Ratio of Earnings to Fixed Charges from Continuing Operations	<u>11</u>	<u>12</u>	<u>14</u>	<u>15</u>	<u>15</u>	<u>13</u>

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.

MERCK & CO., INC. SUBSIDIARIES
as of 12/31/06

The following is a list of subsidiaries of the Company, doing business under the name stated.

Name	Country or State of Incorporation
Abmaxis Inc.	Delaware
AMRAD Pharmaceuticals Pty. Ltd.	Australia
Banyu Pharmaceutical Company, Ltd.	Japan
Blue Jay Investments C.V.	Netherlands
BRC Ltd	Bermuda
Charles E. Frosst (U.K.) Limited	United Kingdom
Chibret A/S	Denmark
Chibret Pharmazeutische GmbH	Germany
China-MSD HIV/AIDS Public Private Partnership, Inc.	China
Chippewa Holdings LLC	Delaware
Cloverleaf International Holdings S.A.	Luxembourg
CM Delaware LLC	Delaware
Comsort, Inc.	Delaware
Coophavet S.A.S. ¹	France
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
GlycoFi, Inc.	Delaware
Hangzhou MSD Pharmaceutical Company Limited ¹	China
Hawk and Falcon L.L.C.	Delaware
Heptafarma Companhia Farmaceutica, Lda.	Portugal
Infodoc AS ¹	Norway
International Indemnity Ltd.	Bermuda
Istituto Di Recherche 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

Name	Country or State of Incorporation
Laboratorios Chibret, S.A.	Spain
Laboratorios Frosst, S.A.	Spain
Laboratorios Medichip S.L.	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 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 Finance Co., Inc.	Delaware
Merck Foreign Sales Corporation Ltd.	Bermuda
Merck Frosst Canada Ltd.	Canada
Merck Frosst Company	Canada
Merck Frosst Finco LP	Canada
Merck Hamilton, Inc.	California
Merck HDAC Research, LLC	Delaware
Merck Holdings II Corp.	Delaware
Merck Holdings, Inc.	Delaware
Merck Institute for Vaccinology	Delaware
Merck Investment Co., Inc.	Delaware
Merck LMC Cash Management (Bermuda) Ltd.	Bermuda
Merck Oncology Holdings, Inc.	Delaware
Merck Resource Management, Inc.	Delaware
Merck Respiratory Health Company	Nevada
Merck SH Inc.	Delaware
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	United Kingdom
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 (Lebanon) S.A.L.	Lebanon
Merck Sharp & Dohme (Middle East) Limited	Cyprus
Merck Sharp & Dohme (New Zealand) Limited	New Zealand
Merck Sharp & Dohme (Panama) S.A.	Panama

Name	Country or State of Incorporation
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 (Switzerland) GmbH	Switzerland
Merck Sharp & Dohme Asia Pacific Services Pte Ltd.	Singapore
Merck Sharp & Dohme B.V.	Netherlands
Merck Sharp & Dohme Bulgaria EOOD	Bulgaria
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	United Kingdom
Merck Sharp & Dohme GmbH	Austria
Merck Sharp & Dohme Holdings de Mexico, S.A. de C.V.	Mexico
Merck Sharp & Dohme Idea AG	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 Limited	United Kingdom
Merck Sharp & Dohme Luxembourg (Holdings) S.a.r.l.	Luxembourg
Merck Sharp & Dohme Manufacturing	Ireland
Merck Sharp & Dohme O.U.	Estonia
Merck Sharp & Dohme of Pakistan Limited	Pakistan
Merck Sharp & Dohme Peru SRL	Peru
Merck Sharp & Dohme Pharmaceuticals LLC	Russia
Merck Sharp & Dohme Quimica de Puerto Rico, Inc.	Delaware
Merck Sharp & Dohme Research Ltd.	Bermuda
Merck Sharp & Dohme Romania SRL	Romania
Merck Sharp & Dohme S. de R.L. de C.V.	Mexico
Merck Sharp & Dohme S.A.	Morocco
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
Merck-Banyu Co., Ltd.	Japan
Merial (IA) LLP ¹	Puerto Rico
Merial (Thailand) Ltd ¹	Thailand
Merial Animal Health Co. Ltd. ¹	China
Merial Animal Health Ltd ¹	United Kingdom
Merial Argentina SA ¹	Argentina
Merial Asia PTE, Ltd. ¹	Singapore

Name	Country or State of Incorporation
Merial Australia PTY LTD ¹	Australia
Merial B.V. ¹	Netherlands
Merial Belgium ¹	Belgium
Merial Colombia S.A. ¹	Colombia
Merial Distribution SAS ¹	France
Merial GmbH ¹	Germany
Merial Hong Kong Limited ¹	Hong Kong
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	United Kingdom/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 Venezuela , C.A. ¹	Venezuela
ML Holdings (Canada) Inc.	Canada
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 Australia Superannuation Pty Ltd.	Australia
MSD Brazil (Investments) B.V.	Netherlands
MSD Chibropharm GmbH	Germany
MSD China (Investments) B.V.	Netherlands
MSD Eurofinance L.P.	Bermuda
MSD Finance B.V.	Netherlands
MSD Finland Oy	Finland
MSD International Holdings, Inc.	Delaware
MSD Ireland (Holdings) S.A.	Luxembourg
MSD Ireland (Investments) Ltd.	Bermuda
MSD Ireland Resources	Ireland
MSD Korea Ltd.	Korea
MSD Lakemedel (Scandinavia) Aktiebolag	Sweden
MSD Latin America Services Ltd.	Bermuda
MSD Latin America Services S. de R.L. de C.V.	Mexico
MSD Limited	United Kingdom
MSD Magyarország Kft	Hungary
MSD Mexico (Investments) B.V.	Netherlands
MSD Overseas Manufacturing Co.	Bermuda

Name	Country or State of Incorporation
MSD Overseas Manufacturing Co. (Ireland)	Ireland
MSD Pharmaceuticals Private Limited	India
MSD Polska Sp.z.o.o.	Poland
MSD Puerto Rico Holdings, Inc.	Puerto Rico
MSD Scandinavia AS	Norway
MSD Sharp & Dohme GmbH	Germany
MSD Somerset Ltd.	Bermuda
MSD Stamford Singapore Pte Ltd	Singapore
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
MSDJ Holdings (Canada) Inc.	Canada
MSD-SP Ltd.	United Kingdom
MSP Distribution Services (C) LLC ¹	Nevada
MSP Distribution Services (R) LLC ¹	Nevada
MSP Singapore Company, LLC ¹	Delaware
MSP Technology (U.S.) Company, LLC ¹	Delaware
Neopharmed S.p.A.	Italy
P.T. Merck Sharp & Dohme Indonesia	Indonesia
Pasteur Vaccins S.A. ¹	France
Readington Investments, Inc.	New Jersey
Rosetta Biosoftware UK Ltd.	United Kingdom
Rosetta Inpharmatics LLC	Delaware
Ruskin Limited	Bermuda
Sanofi Pasteur MSD A/S	Denmark
Sanofi Pasteur MSD AB	Sweden
Sanofi Pasteur MSD AG	Switzerland
Sanofi Pasteur MSD AS	Norway
Sanofi Pasteur MSD ApS	Denmark
Sanofi Pasteur MSD Gestion S.A. ¹	France
Sanofi Pasteur MSD GmbH	Austria
Sanofi Pasteur MSD GmbH	Germany
Sanofi Pasteur MSD Ltd.	United Kingdom
Sanofi Pasteur MSD Ltd.	Ireland
Sanofi Pasteur MSD N.V./S.A.	Belgium
Sanofi Pasteur MSD Oy	Finland
Sanofi Pasteur MSD S.A.	Portugal
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
Sirna Therapeutics, Inc.	Delaware
STELLARx, Inc.	Nevada
TELERx Marketing Inc.	Pennsylvania
The MSD Foundation Limited	United Kingdom

<u>Name</u>	<u>Country or State of Incorporation</u>
Thomas Morson & Son Limited	United Kingdom
Tradewinds Manufacturing SRL	Barbados
Transrow Manufacturing Ltd. ¹	Bermuda
UAB Merck Sharp & Dohme	Lithuania
Variopharm Arzneimittel GmbH	Germany

¹ own less than 100%

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, 2006 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 22nd day of February 2007.

MERCK & CO., Inc.

By /s/ Richard T. Clark
Richard T. Clark
(Chief Executive Officer and President)

/s/ Richard T. Clark
Richard T. Clark

Chief Executive Officer and President
(Principal Executive Officer; Director)

/s/ Judy C. Lewent
Judy C. Lewent

Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

/s/ John Canan
John Canan

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.

/s/ Wendell P. Weeks
Wendell P. Weeks

/s/ William N. Kelley
William N. Kelley

/s/ Peter C. Wendell
Peter C. Wendell

/s/ Rochelle B. Lazarus
Rochelle B. Lazarus

I, Debra A. Bollwage, Senior Assistant Secretary of Merck & Co., Inc. (the "Company"), 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 by Unanimous Written Consent of the Board of Directors of said Company on February 22, 2007 in accordance with the provisions of the By-Laws of said Company:

" Special Resolution No. - 2007

RESOLVED, that the proposed form of Form 10-K Annual Report of the Company for the fiscal year ended December 31, 2006 attached hereto 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 Company this 28th day of February 2007.

[Corporate Seal]

/s/ Debra A. Bollwage

Debra A. Bollwage

Senior Assistant Secretary

CERTIFICATION

I, Richard T. Clark, 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: February 28, 2007

By: /s/ Richard T. Clark

Richard T. Clark

Chief Executive Officer and President

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: February 28, 2007

By: /s/ Judy C. Lewent

Judy C. Lewent

Executive Vice President & Chief Financial Officer

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, 2006 (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: February 28, 2007

/s/ Richard T. Clark

Name: Richard T. Clark

Title: Chief Executive Officer and President

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, 2006 (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: February 28, 2007

/s/ Judy C. Lewent

Name: Judy C. Lewent

Title: Executive Vice President & Chief Financial
Officer