

Edgar Filing: MERCK & CO INC - Form 11-K

MERCK & CO INC  
Form 11-K  
June 30, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 11-K  
ANNUAL REPORT  
PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-3305  
Employer Identification Number: 22-1109110  
Plan Number: 001

MERCK & CO., INC. EMPLOYEE SAVINGS AND SECURITY PLAN

-----  
(Full title of the plan)

MERCK & CO., INC.

-----  
(Name of issuer of the securities held pursuant to the plan)

P.O. Box 100  
Whitehouse Station, New Jersey 08889-0100

-----  
(Address of principal executive office)

MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

EMPLOYER IDENTIFICATION NUMBER: 22-1109110  
PLAN NUMBER: 001  
INDEX

Report of Independent Accountants

Financial Statements:

Statements of Net Assets Available for Benefits as of  
December 31, 2002 and 2001

Statement of Changes in Net Assets Available for  
Benefits for the Year Ended December 31, 2002

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Notes to Financial Statements

Supplemental Schedule\*:

H - Line 4i - Schedule of Assets (Held at End of Year)

Signature

Exhibit Index

Exhibit 23 - Consent of Independent Accountants

Exhibit 99.1 - Certification by the Chief Executive Officer of the Merck & Co., Inc. Employee Savings and Security Plan Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2 - Certification by the Chief Financial Officer of the Merck & Co., Inc. Employee Savings and Security Plan Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because they are not applicable.

[PRICEWATERHOUSECOOPERS LOGO]

PRICEWATERHOUSECOOPERS LLP  
400 Campus Drive  
P.O. Box 988  
Florham Park NJ 07932  
Telephone (973) 236-4000  
Facsimile (973) 236-5000

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Participants in the Merck & Co., Inc.  
Employee Savings and Security Plan and  
Merck & Co., Inc.:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Merck & Co., Inc. Employee Savings and Security Plan (the "Plan") as of December 31, 2002 and 2001 and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan'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 auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a

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required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

June 20, 2003

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31,	
	2002	2001
<b>ASSETS</b>		
Investment in the Master Trust	\$2,479,000,771	\$2,631,042,137
Participant loans at contract value	36,825,429	37,605,117
	-----	-----
Total investments	2,515,826,200	2,668,647,254
	-----	-----
<b>RECEIVABLES</b>		
Employer's contribution	5,797,892	132,484
Participants' contributions	13,422,754	282,035
	-----	-----
Total receivables	19,220,646	414,519
	-----	-----
Net assets available for benefits	\$2,535,046,846	\$2,669,061,773
	=====	=====

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

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED  
DECEMBER 31,  
2002

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ADDITIONS TO NET ASSETS ATTRIBUTED TO	
Contributions to the Plan	
By participants	\$ 182,592,732
By employer	73,324,006
	-----
Total contributions	255,916,738
Transfers in	1,418,797
	-----
Total additions	257,335,535
	-----
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO	
Investment loss from the Master Trust	
	236,421,113
Benefits paid to participants	
	148,873,763
Transfers out	
	6,055,586
	-----
Total deductions	391,350,462
	-----
Net decrease	134,014,927
NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of year	
	2,669,061,773
	-----
End of year	\$2,535,046,846
	=====

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

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### NOTES TO FINANCIAL STATEMENTS

#### 1. DESCRIPTION OF PLAN

The following description of the Merck & Co., Inc. Employee Savings and Security Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

#### GENERAL

The Plan was designed to provide an easy, economical way for employees to become stockholders of Merck & Co., Inc. (the "Company" or "Merck") as well as a systematic means of saving and investing for the future. Regular full-time, part-time, and temporary employees of the Company and of certain wholly-owned subsidiaries as defined by the Plan document who were not covered by a collective bargaining agreement are eligible to enroll in the Plan as of the first day of the third month following their date of hire.

The Plan is administered by a management committee appointed by the

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Chief Executive Officer of the Company.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

### MASTER TRUST

The assets of the Plan are maintained, for investment purposes only, on a commingled basis with the assets of the Merck & Co., Inc. Employee Stock Purchase & Savings Plan and the Merck-Medco Managed Care 401(k) Savings Plan in the Merck & Co., Inc. Employee Savings & Security Plan and the Merck & Co., Inc. Employee Stock Purchase & Savings Plan Trust (the "Master Trust"). The plans do not own specific Master Trust assets but rather maintain individual beneficial interests in such assets. The portion of fund assets allocable to each plan is based upon the participant's account balance within each plan. Investment income for each fund is allocated to each plan based on the relationship of each plan's beneficial interest in the fund to the total beneficial interest of all plans in the fund.

### CONTRIBUTIONS

Participants may contribute from 2% up to 18% of their base pay. Employees earning less than \$90,000 are allowed to contribute a maximum of 18% of base pay. Effective January 1, 2003, employees earning less than \$90,000 are allowed to contribute a maximum of 25% of base pay. Employees earning \$90,000 or more are limited to maximum contributions of 15% of base pay. In addition, the Company matches 75% of employee contributions up to 6% of base pay per pay period. Company matching contributions are invested according to the following age parameters:

Under age 50 -- 50% of Company matching contributions is invested in the Merck Common Stock Fund (non-participant directed) and 50% is invested in the funds to which the participant is currently contributing (participant directed).

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### NOTES TO FINANCIAL STATEMENTS

Age 50 and above -- Participants have the option to invest all Company matching contributions in any of the available fund options (participant directed). Also, the Economic Growth and Tax Relief Reconciliation Act of 2001 permits catch-up contributions that are designed to provide individuals age 50 and above with an additional pre-tax retirement savings opportunity. As such, effective July 1, 2002, eligible participants in the Plan may contribute an additional \$1,000 for 2002. The limit for this "catch-up" contribution increases by \$1,000 each year until it reaches \$5,000 a year in 2006.

Participants direct the investment of their contributions into any investment option available under the Plan, including Merck Common Stock (participant directed). During 2001, the Plan offered 21 mutual funds and the Merck Common Stock Fund. Effective January 1, 2002, the Plan offers 20 mutual funds and the Merck Common Stock Fund.

### PARTICIPANT ACCOUNTS

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Each participant's account is credited with the participant's contribution, the Company's matching contribution and allocation of Plan earnings. The allocation is based on participants' account balances, as defined in the Plan document.

### VESTING

Participants are immediately vested in their contributions, all Company matching contributions, plus actual earnings thereon.

### PARTICIPANT LOANS

Participants may borrow from their account balances with interest charged at the prime rate plus 1%. Loan terms range from one to five years or up to thirty years for the purchase of a primary residence. The minimum loan is \$500 and the maximum loan is the lesser of \$50,000 less the highest outstanding loan balance during the one year period prior to the new loan application date, or 50% of the participant's account balance less any current outstanding loan balance.

### PAYMENT OF BENEFITS

In-service (which include hardship withdrawals) and termination distributions are made throughout the year in accordance with applicable Plan provisions.

## 2. SUMMARY OF ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

The accompanying financial statements are prepared on the accrual basis of accounting.

### USE OF ESTIMATES

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.

### INVESTMENT VALUATION AND INCOME RECOGNITION

Valuation of investments of the Plan represents the Plan's allocable portion of the Master Trust. Participant loans are valued at cost which approximates fair value.

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### NOTES TO FINANCIAL STATEMENTS

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. The net appreciation (depreciation) in market value of investments is based on the beginning of the year market value or value at the time of purchase during the year and is included in the statement of changes in net

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assets available for benefits.

### CONTRIBUTIONS

Employee and Company matching contributions are recorded in the period in which the Company makes the payroll deductions from the participant earnings.

### PAYMENT OF BENEFITS

Benefits are recorded when paid.

### EXPENSES

The Plan's administrative expenses are paid by the Company.

### RISKS AND UNCERTAINTIES

The Plan provides for various investment options in investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

### 3. NON-PARTICIPANT-DIRECTED INVESTMENTS

The non-participant-directed portion of the Company match is invested in the Merck Common Stock Fund. Information about the net assets and the significant components of the changes in net assets relating to the Merck Common Stock Fund is as follows:

	DECEMBER 31,	
	2002	2001
Net assets		
Investment in Master Trust	\$1,275,213,183	\$1,323,494,916
	-----	-----

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED  
DECEMBER 31,  
2002

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Additions to net assets	
Contributions	\$ 91,148,417
Transfers in	64,067,128
Loan repayments	6,673,308
	-----
Total additions	161,888,853
	-----
Deductions from net assets	
Investment loss	(16,475,580)
Benefits paid	(55,985,787)
Transfer out	(131,622,855)
Loan issuance	(6,086,364)
	-----
Total deductions	(210,170,586)
	-----
Net decrease	\$ (48,281,733)
	=====

#### 4. RELATED-PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Fidelity Management Trust Company ("Fidelity"). Fidelity is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

Merck & Co., Inc. also is a party-in-interest to the Plan under the definition provided in Section 3(14) of ERISA. Therefore, Merck Common Stock Fund transactions qualify as party-in-interest transactions.

#### 5. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

#### 6. TAX STATUS

The Plan obtained a tax determination letter from the Internal Revenue Service dated September 18, 1995 indicating that it had been designed in accordance with applicable sections of the Internal Revenue Code ("IRC"). However, the Plan has been amended since the receipt of the determination letter. The Plan sponsor and legal counsel believe that the Plan is designed and currently operated in compliance with the IRC. Therefore, no provision for income taxes has been made.

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

#### NOTES TO FINANCIAL STATEMENTS

#### 7. OTHER MATTERS

Transfers during 2002 consist of transfers of \$1,396,580 between the



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Plan and the Merck & Co., Inc. Employee Stock Purchase and Savings Plan for employees who changed their status during the year, \$16,517 for employees who transferred in from the Merck-Medco Managed Care 401(k) Savings Plan during the year, and \$5,700 for employees who transferred in from the Merck Puerto Rico Employee Savings and Security Plan.

Transfers out consist of transfers of \$171,828 for employees who transferred out to the Merck & Co., Inc. Employee Stock Purchase and Savings Plan, \$5,855,258 for employees who transferred out to the Merck-Medco Managed Care 401(k) Savings Plan, and \$28,500 for employees who transferred out to the Merck Puerto Rico Employee Savings and Security Plan.

### 8. MASTER TRUST

The Plan has a 79% and 81% interest in the Master Trust at December 31, 2002 and December 31, 2001, respectively. The net assets of the Master Trust are as follows:

	DECEMBER 31,	
	2002	2001
Mutual Funds	\$1,472,422,521	\$1,546,205,918
Merck Common Stock	1,651,008,624	1,713,814,350
Accrued interest and dividends	10,375,281	10,068,775
	\$3,133,806,426	\$3,270,089,043

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

### NOTES TO FINANCIAL STATEMENTS

Changes in net assets for the year ended December 31, 2002 for the Master Trust are as follows:

Additions to net assets	
Contributions	
Participant	\$ 235,188,546
Employer	93,535,066
	-----
Total contributions	328,723,612
	-----
Transfers in	8,487,705
Loan repayments	21,359,843
	-----
Total additions	358,571,160

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Deductions from net assets	
Investment loss, net	
Interest and dividends	64,130,614
Net depreciation in mutual funds	(285,057,632)
Net depreciation in Merck Common Stock	(59,679,186)
-----	
Total investment loss	(280,606,204)
-----	
Benefits paid	(180,707,030)
Transfers out	(8,482,149)
Loan issuance	(25,058,394)
-----	
Total deductions	(494,853,777)
-----	
Net decrease	(136,282,617)
-----	
Net assets	
Beginning of year	3,270,089,043
-----	
End of year	\$3,133,806,426
=====	

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MERCK & CO., INC.  
EMPLOYEE SAVINGS AND SECURITY PLAN

LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
DECEMBER 31, 2002

SCHEDULE H  
EIN: 22-1109110  
PLAN NO.: 001

(a)	(b) IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY	(c) DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE
*	Participants' Loans	Interest rates ranging from 6% to 12.5% and with maturities through 2032
		Total

\* Denotes a party-in-interest to the Plan.

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SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the undersigned plan administrator has duly caused this annual report to be signed on behalf of the Merck & Co., Inc. Employee Savings and Security Plan by the undersigned hereunto duly authorized.

Merck & Co., Inc., as plan administrator

By: /s/ Caroline Dorsa

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Caroline Dorsa  
Vice President & Treasurer

June 27, 2003

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### EXHIBIT INDEX

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99.1	Certification by the Chief Executive Officer of the Merck & Co., Inc. Employee Savings and Security Plan Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	14
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