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MERCK & CO INC
Form 11-K
June 27, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K
ANNUAL REPORT
Pursuant to Section of 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, 2001

OR

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

For the transition period from January 1, 2001 to December 31, 2001

Commission File Number: 1-3305
Employer Identification Number: 66-0288298
Plan Number: 061

MERCK PUERTO RICO 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 Puerto Rico Employee Savings and Security Plan
Employer Identification Number: 66-0288298
Plan Number: 061

INDEX

| | Page |
|---|------|
| REPORT OF INDEPENDENT ACCOUNTANTS | 1-2 |
| FINANCIAL STATEMENTS | |
| Statement of Net Assets Available for Benefits as of December 31, 2001 and 2000 | 3 |
| Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2001 | 4 |

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| | |
|--|-----|
| NOTES TO FINANCIAL STATEMENTS | 5-8 |
| SUPPLEMENTAL SCHEDULE* | |
| H - Line 4i - Schedule of Assets (Held at End of Year) | 9 |
| SIGNATURE | 10 |
| CONSENT OF INDEPENDENT ACCOUNTANTS | 11 |

*Other schedules required by Section 2520.103-8 are omitted because they are not required.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Participants 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 Merck Puerto Rico Employee Savings and Security Plan (the "Plan") as of December 31, 2001 and the changes in net assets available for benefits for the year ended December 31, 2001 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 audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.

Our audit was 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 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 audit 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.

The Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan's trustee. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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PricewaterhouseCoopers LLP
San Juan, PR
May 3, 2002

1

THE FOLLOWING REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY
ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Merck Sharp & Dohme Quimica de Puerto Rico, Inc. and
Merck Sharp & Dohme (I.A.) Corp.:

We have audited the accompanying statement of net assets available for benefits of the Merck Puerto Rico Employee Savings and Security Plan (the "Plan") as of December 31, 2000 and 1999, and the related statement of changes in net assets available for benefits for the year ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2000 and 1999, and the changes in its net assets available for benefits for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes is presented for purposes of additional analysis and is not a 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. The supplemental schedule has been subjected to the auditing procedures applied in the audit 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.

ARTHUR ANDERSEN LLP

San Juan, Puerto Rico
May 4, 2001

2

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MERCK PUERTO RICO

EMPLOYEE SAVINGS AND SECURITY PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| ASSETS | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|-----------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Investments at market value | \$ 29,831,972 | \$ 41,733,662 |
| Investments at contract value | 2,103,597 | 2,055,578 |
| | ----- | ----- |
| Total investments | 31,935,569 | 43,789,240 |
| | ----- | ----- |
| Receivables | | |
| Employer's contribution | 40,915 | 90,157 |
| Participants' contributions | 144,925 | 323,019 |
| Accrued interest and dividends | 159,598 | 149,916 |
| | ----- | ----- |
| Total receivables | 345,438 | 563,092 |
| | ----- | ----- |
| Net assets available for benefits | \$ 32,281,007 | \$ 44,352,332 |
| | ===== | ===== |

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

3

MERCK PUERTO RICO

EMPLOYEE SAVINGS AND SECURITY PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | YEAR ENDED DECEMBER 31, 2001 |
|---|---------------------------------|
| | ----- |
| Additions to net assets attributed to | |
| Investment income | |
| Net depreciation in market value of investments | \$ (14,751,966) |
| Interest and dividends | 795,883 |
| | ----- |
| Total investment income (loss) | (13,956,083) |
| | ----- |
| Contributions to the Plan | |
| By participants | 4,347,687 |
| By the employer | 1,165,468 |
| | ----- |

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| | |
|---|---------------|
| Total contributions | 5,513,155 |
| | ----- |
| Total additions (deductions) | (8,442,928) |
| | ----- |
| Deductions from net assets attributed to Benefits paid to participants | (3,628,397) |
| | ----- |
| Net (decrease) | (12,071,325) |
| | ----- |
| Net assets available for benefits Beginning of year | 44,352,332 |
| | ----- |
| End of year | \$ 32,281,007 |
| | ===== |

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

4

MERCK PUERTO RICO

EMPLOYEE SAVINGS AND SECURITY PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PLAN:

The following description of the Merck Puerto Rico 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 is a profit sharing plan designed to provide an opportunity for employees of Merck Sharp & Dohme Quimica de Puerto Rico, Inc. and Merck Sharp & Dohme (I.A.) Corp. (the "Companies") to become stockholders of Merck & Co., Inc. ("Merck") and to encourage them to save on a regular basis by setting aside part of their earnings. Regular full-time and part-time employees of the Companies, as defined in the Plan document, who are not covered by a collective bargaining agreement, are eligible to enroll in the Plan on the first day of January or July, following the completion of one year of service.

The Plan is administered by the Employee Benefits Committee appointed by the President of the Companies. All costs of administering the Plan are borne by the Companies.

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

Contributions

Participants may contribute from 2% up to 15% of their base pay, provided that pre-tax contributions shall not exceed 10% of base compensation, subject to ERISA limits. In addition, the Companies match 50% of employee contributions up to 5% of base pay per pay period. The Companies' matching contributions are

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invested entirely in the Merck Common Stock Fund (non-participant directed) and may not be reallocated into any other investment option.

Participants direct the investment of their contributions into any investment option including the Merck Common Stock Fund (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

Each participant's account is credited with the participant's contribution, the Companies' 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 of the Companies' matching contributions, plus actual earnings thereon.

5

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

Participants are entitled to receive automatic, voluntary, in-service (which include hardship withdrawals), or mandatory distributions as provided in the 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The investments of the Plan are stated at quoted market prices in an active market (except for participant loans which are presented at the outstanding balance). Shares of mutual funds are presented at quoted market prices which

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represent the net asset value of the shares held by the Plan at the reporting date.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. The Plan presents in the statement of changes in assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on them.

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.

Transfer of Assets to Other Plans

Company employees or retirees may elect to transfer their savings to other plans qualified by the Puerto Rico Department of Treasury or by the U.S. Internal Revenue Service.

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 statement of net assets available for benefits.

6

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

3. INVESTMENTS:

The following presents investments that represent 5% or more of the Plan's net assets as of year-end.

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|--------------------|----------------------|----------------------|
| | ----- | ----- |
| Merck Common Stock | \$ 26,241,792 * | \$ 38,318,297 * |
| Participant loan | 2,103,597 | ** |

* Includes non-participant directed portion

** This investment did not represent 5% of the Plan's net assets as of December

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31, 2000.

During 2001, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by (\$14,751,966) as follows:

| | | |
|--------------------|----|--------------|
| Mutual Funds | \$ | (506,194) |
| Merck Common Stock | | (14,245,772) |
| | | ----- |
| | \$ | (14,751,966) |
| | | ===== |

4. NON-PARTICIPANT-DIRECTED INVESTMENTS:

Information about the net assets and the significant components of the changes in net assets relating to the non-participant-directed investments is as follows:

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|-------------------------|----------------------|----------------------|
| | ----- | ----- |
| Net Assets | | |
| Merck Common Stock Fund | \$ 8,399,740 | \$ 12,457,228 |
| | ----- | ----- |

| | YEAR ENDED DECEMBER 31, 2001 |
|--|---------------------------------|
| | ----- |
| Changes in Net Assets | |
| Contributions | \$ 1,153,008 |
| Dividends and interest | 241,118 |
| Net depreciation | (4,572,793) |
| Benefits paid to participants | (888,153) |
| Transfers to participant directed investments and other Plans | 9,332 |
| | ----- |
| | \$ (4,057,488) |
| | ===== |

7

5. 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

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definition provided in Section 3(14) of ERISA. Therefore, Merck Common Stock Fund transactions qualify as party-in-interest transactions.

6. PLAN TERMINATION:

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

7. TAX STATUS:

The Plan obtained a tax determination letter from the Puerto Rico Department of Treasury dated February 18, 1998 indicating that it had been designed in accordance with applicable sections of the Puerto Rico Internal Revenue Code of 1994 ("PRIRC"). The Plan sponsor and legal counsel believe that the Plan is designed and operated in compliance with the PRIRC. The Plan sponsor also believes that the Plan is designed and currently operated as a qualified plan under the United States Internal Revenue Code. However, the Plan has been amended since the receipt of the determination letter. A favorable determination letter was received from the Internal Revenue Service in November, 1998. Therefore, no provision for income taxes has been made.

8

SCHEDULE H
EIN: 66-0288298
PLAN NO.: 061

MERCK PUERTO RICO

EMPLOYEE SAVINGS AND SECURITY PLAN

LINE 4i -- SCHEDULE OF ASSETS (HELD AT END OF YEAR)

| (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 | (d) COS |
|-----|---|--|---------|
| * | Merck & Co., Inc. | Merck Common Stock | ** |
| * | Fidelity Investments | Fidelity Equity-Income Fund | *** |
| | | Fidelity Retirement Money Market Fund | *** |
| | | Fidelity Spartan U.S. Equity Index Fund | *** |
| | | Fidelity Spartan Government Income Fund | *** |
| | | Fidelity Low-Priced Stock Fund | *** |
| | | Fidelity Dividend Growth Fund | *** |
| | Putnam Investments | Putnam Vista A Fund | *** |
| | | Putnam International Voyager Fund | *** |
| | | Putnam Global Equity Fund A | *** |
| | T. Rowe Price | T. Rowe Price Blue Chip Growth Fund | *** |
| | The Vanguard Group | Vanguard Asset Allocation Fund | *** |
| | The Capital Group Company | American Funds Europacific A | *** |
| | American Century Investment Services, Inc. | American Century Emerging Markets Investments Fund | *** |
| | Franklin Templeton | Franklin Small-Mid Cap Growth Fund A | *** |
| | Liberty Wagner Asset Management, L.P. | Liberty Acorn Fund - Class Z | *** |
| | Janus | Janus Enterprise Fund | *** |

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| | | |
|-----------------------|---|-----|
| | Janus Growth and Income Fund | *** |
| PIMCO | PIMCO Total Return Fund - Institutional Class | *** |
| | PIMCO Long-Term US Government Fund - Institutional Class | *** |
| | PIMCO Foreign Bond Fund - Institutional Class | |
| * Participants' Loans | Interest rates ranging from 6.5% to 10.5% and with maturities through 2012 | |
| | Total | |

- * Denotes a party-in-interest to the Plan.
- ** Historical cost is not available from the Trustee.
- *** Cost is not required for participant directed investments.

The accompanying notes to financial statements are an integral part of this schedule.

9

SIGNATURE

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 Puerto Rico Employee Savings and Security Plan by the undersigned thereunto duly authorized.

Merck & Co., Inc., as
plan administrator

By: /s/ CAROLINE DORSA

Caroline Dorsa
Vice President
& Treasurer

June 27, 2002

10

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated May 3, 2002 included in the financial statements and exhibits required by Form 11-K Annual Report for the Merck Puerto Rico Employee Savings and Security Plan into the previously filed Registration Statements of Merck & Co., Inc. on Forms S-8 (Nos. 33-21087,

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33-21088, 33-36101, 33-40177, 33-51235, 33-53463, 33-64273, 33-64665, 333-23293, 333-23295, 333-91769, 333-30526, 333-31762, 333-40282, 333-52264, 333-53246, 333-56696, 333-72206 and 333-65796), on Forms S-4 (No. 33-50667 and 333-61982) and on Forms S-3 (Nos. 33-60322, 33-39349, 33-51785, 33-57421, 333-17045, 333-36383, 333-77569 and 333-72546). It should be noted that we have not audited any financial statements of the Plan subsequent to December 31, 2001 or performed any audit procedures subsequent to the date of our report.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico
May 3, 2002