Merck & Co. Inc.
Form 10-K
February 28, 2011

As filed with the Securities and Exchange Commission on February 28, 2011

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

FORM 10-K

(MARK ONE)

þ	**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** For the Fiscal Year Ended December 31, 2010
	or
o	**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. 1-6571

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. 22-1918501*

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

Title of Each Class	*Name of Each Exchange on which Registered*
Common Stock ($0.50 par value)	New York Stock Exchange

Number of shares of Common Stock ($0.50 par value) outstanding as of January 31, 2011: 3,083,080,697.

Aggregate market value of Common Stock ($0.50 par value) held by non-affiliates on June 30, 2010 based on closing price on June 30, 2010: $107,724,000,000.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** þ **No** o

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** o **No** þ

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** þ **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** þ **No** o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** o **No** þ

Documents Incorporated by Reference:

Document	*Part of Form 10-K*
Proxy Statement for the Annual Meeting of Shareholders to be held May 24, 2011, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this report	Part III

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PART I

Item 1. Business.

The Company is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The Company s operations are principally managed on a products basis and are comprised of four operating segments, which are the Pharmaceutical, Animal Health, Consumer Care and Alliances segments, and one reportable segment, which is the Pharmaceutical segment. The Pharmaceutical segment includes human health pharmaceutical and vaccine products marketed either directly by the Company or through joint ventures. Human health pharmaceutical products consist of therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. The Company 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, pharmacy benefit managers and other institutions. Vaccine products consist of preventive pediatric, adolescent and adult vaccines, primarily administered at physician offices. The Company sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company also has animal health operations that discover, develop, manufacture and market animal health products, including vaccines, which the Company sells to veterinarians, distributors and animal producers. Additionally, the Company has consumer care operations that develop, manufacture and market over-the-counter, foot care and sun care products, which are sold through wholesale and retail drug, food chain and mass merchandiser outlets in the United States and Canada.

On November 3, 2009, Merck & Co., Inc. (Old Merck) and Schering-Plough Corporation (Schering-Plough) merged (the Merger). In the Merger, Schering-Plough acquired all of the shares of Old Merck, which became a wholly-owned subsidiary of Schering-Plough and was renamed Merck Sharp & Dohme Corp. Schering-Plough continued as the surviving public company and was renamed Merck & Co., Inc. (New Merck or the Company). However, for accounting purposes only, the Merger was treated as an acquisition with Old Merck considered the accounting acquirer. Accordingly, the accompanying financial statements reflect Old Merck s stand-alone operations as they existed prior to the completion of the Merger. The results of Schering-Plough s business have been included in New Merck s financial statements only for periods subsequent to the completion of the Merger. Therefore, New Merck s financial results for 2009 do not reflect a full year of legacy Schering-Plough operations. References in this report and in the accompanying financial statements to Merck for periods prior to the Merger refer to Old Merck and for periods after the completion of the Merger to New Merck.

For financial information and other information about the Pharmaceutical 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.

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Overview

During 2010, the Company made progress driving revenue growth for key products, expanding its global reach including within emerging markets, improving its cost structure, making strategic investments in its business and

advancing its late-stage pipeline, while continuing the task of integrating the legacy companies post-Merger.

Sales increased to $46.0 billion in 2010 driven largely by incremental revenue resulting from the inclusion of a full year of results for legacy Schering-Plough products, such as *Remicade* (infliximab), a treatment for inflammatory diseases, *Nasonex* (mometasone furoate monohydrate), an inhaled nasal corticosteroid for the treatment of nasal allergy symptoms, *Temodar* (temozolomide), a treatment for certain types of brain tumors, *PegIntron* (peginterferon alpha-2b) for treating chronic hepatitis C, and *Clarinex* (desloratadine), a non-sedating antihistamine, as well as by the inclusion of a full year of results for *Zetia* (ezetimibe) and *Vytorin* (ezetimibe/simvastatin), cholesterol modifying medicines. Prior to the Merger, substantially all sales of *Zetia* and *Vytorin* were

recognized by the Merck/Schering-Plough Partnership (the MSP Partnership) and the results of Old Merck s interest in the MSP Partnership were recorded in *Equity income from affiliates*. As a result of the Merger, the MSP Partnership is wholly-owned by the Company and therefore revenues from these products are now reflected in *Sales*. Additionally, the Company recognized a full year of sales in 2010 from legacy Schering-Plough animal health and consumer care products. Sales for 2009 only include revenue from legacy Schering-Plough and MSP Partnership products for the post-Merger period through December 31, 2009. Also contributing to the sales increase was growth in *Januvia* (sitagliptin phosphate) and *Janumet* (sitagliptin phosphate and metformin hydrochloride) for the treatment of type 2 diabetes, *Isentress* (raltegravir), an antiretroviral therapy for use in combination therapy for the treatment of HIV-1 infection in adult patients, and *Singulair* (montelukast sodium), a medicine indicated for the chronic treatment of asthma and the relief of symptoms of allergic rhinitis. These increases were partially offset by lower sales of *Cozaar* (losartan potassium) and *Hyzaar* (losartan potassium and hydrochlorothiazide) for the treatment of hypertension, which lost patent protection in the United States in April 2010 and in a number of major European markets in March 2010. Revenue was also negatively affected by lower sales of *Fosamax* (alendronate sodium) and *Fosamax Plus D* (alendronate sodium/cholecalciferol) for the treatment and, in the case of *Fosamax*, prevention of osteoporosis, which have lost market exclusivity in the United States and in several major European markets, and lower revenue from the Company s relationship with AstraZeneca LP (AZLP), as well as by lower sales of *Gardasil* [human papillomavirus quadrivalent (types 6, 11, 16 and 18) vaccine, recombinant], a vaccine to help prevent cervical, vulvar, vaginal and anal cancers, precancerous or dysplastic lesions, and genital warts caused by the human papillomavirus (HPV) types contained in the vaccine, and lower sales of *Zocor* (simvastatin), the Company s statin for modifying cholesterol. In addition, the implementation of certain provisions of U.S. health care reform legislation during 2010 resulted in increased Medicaid rebates and other impacts that reduced revenues by approximately $170 million. Additionally, many countries in the European Union (EU) have undertaken austerity measures aimed at reducing costs in health care and have implemented pricing actions that negatively impacted sales in 2010.

Sales of *Remicade* and a follow-on product, *Simponi*, were $2.8 billion in the aggregate in 2010. The Company is involved in an arbitration with Centocor Ortho Biotech, Inc. (Centocor), a subsidiary of Johnson & Johnson, in which Centocor is seeking to terminate the Company s rights to continue to market *Remicade* and *Simponi*. The arbitration hearing has concluded and the Company is awaiting the arbitration panel s decision. See Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below. An unfavorable outcome in the arbitration would have a material adverse effect on the Company s financial position, liquidity and results of operations.

Since the Merger, the Company has continued the advancement of drug candidates through its pipeline. During 2010, the U.S. Food and Drug Administration (FDA) approved *Dulera* Inhalation Aerosol (mometasone furoate/formoterol fumarate dihydrate), a new fixed-dose combination asthma treatment for patients 12 years of age and older. In addition, the intravenous formulation of *Brinavess* (vernakalant), for which Merck has exclusive marketing rights outside of the United States, Canada and Mexico, was granted marketing approval in the EU for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less.

Also during 2010, the FDA approved a new indication for *Gardasil* for the prevention of anal cancer caused by HPV types 16 and 18 and for the prevention of anal intraepithelial neoplasia grades 1, 2 and 3 (anal dysplasias and precancerous lesions) caused by HPV types 6, 11, 16 and 18, in males and females 9 through 26 years of age. Additionally, in September 2010, two supplemental New Drug Applications (sNDA) for *Saphris* (asenapine) for the treatment of schizophrenia in adults and acute treatment of bipolar I disorder in adults were approved in the United States to expand the product s indications. Also during 2010, the Company entered into a co-promotion agreement for the commercialization of *Daxas*, a treatment for symptomatic chronic obstructive pulmonary disease, which the Company launched in certain European markets.

The Company currently has three candidates under review with the FDA: boceprevir, an investigational oral hepatitis C protease inhibitor; MK-0431A XR, the Company s investigational extended-release formulation of *Janumet*; and MK-0431D, an investigational combination of *Januvia* and *Zocor* for the treatment of diabetes and dyslipidemia. In addition, SCH 900121, NOMAC/E2, an oral contraceptive that combines a selective progestin with 17-beta estradiol, is currently under review in the EU. Additionally, MK-3009, Cubicin daptomycin for injection, is

currently under review in Japan where the Company has marketing rights. Also, the Company currently has 19 candidates in Phase III development and anticipates making a New Drug Application (NDA) with respect to certain of these candidates in 2011 including MK-8669, ridaforolimus, a novel mTOR inhibitor being evaluated for the treatment of metastatic soft tissue and bone sarcomas; MK-2452, *Saflutan* (tafluprost), for the reduction of elevated intraocular pressure in appropriate patients with primary open-angle glaucoma and ocular hypertension; MK-0653C, ezetimibe combined with atorvastatin, which is an investigational medication for the treatment of dyslipidemia; and MK-0974, telcagepant, the Company s investigational medication for acute treatment of migraine. Another Phase III candidate is vorapaxar with respect to which the Company was recently informed by the chairman of one of the studies to discontinue study drug and that investigators were to begin to close out the study in a timely and orderly fashion. The Company recorded a material impairment charge on the related intangible asset. See Research and Development below.

The Company continues to make progress in achieving cost savings across all areas, including from consolidation in both sales and marketing and research and development, the application of the Company s lean manufacturing and sourcing strategies to the expanded operations, and the full integration of the MSP Partnership. These savings result from various actions, including the Merger Restructuring Program discussed below, previously announced ongoing cost reduction activities at both legacy companies, as well as from non-restructuring-related activities such as the Company s procurement savings initiative. During 2010, the Company realized more than $2.0 billion in net cost savings from all of these activities.

In February 2010, the Company commenced actions under a global restructuring program (the Merger Restructuring Program) in conjunction with the integration of the legacy Merck and legacy Schering-Plough businesses. This Merger Restructuring Program is intended to optimize the cost structure of the combined company. Additional actions under the program continued during 2010. As part of the restructuring actions taken thus far under the Merger Restructuring Program, the Company expects to reduce its total workforce measured at the time of the Merger by approximately 17% across the Company worldwide. In addition, the Company has eliminated over 2,500 positions which were vacant at the time of the Merger. These workforce reductions will primarily come from the elimination of duplicative positions in sales, administrative and headquarters organizations, as well as from the sale or closure of certain manufacturing and research and development sites and the consolidation of office facilities. The Company will continue to pursue productivity efficiencies and evaluate its manufacturing supply chain capabilities on an ongoing basis which may result in future restructuring actions. During this period, the Company also will continue to hire new employees in strategic growth areas of the business as necessary. In connection with the Merger Restructuring Program, separation costs under the Company s existing severance programs worldwide were recorded in the fourth quarter of 2009 to the extent such costs were probable and reasonably estimable. The Company commenced accruing costs related to enhanced termination benefits offered to employees under the Merger Restructuring Program in the first quarter of 2010 when the necessary criteria were met. The Company recorded total pretax restructuring costs of $1.8 billion in 2010 and $1.5 billion in 2009 related to this program. The restructuring actions taken thus far under the Merger Restructuring Program are expected to be substantially completed by the end of 2012, with the exception of certain manufacturing facilities actions, with the total cumulative pretax costs estimated to be approximately $3.8 billion to $4.6 billion. The Company estimates that approximately two-thirds of the cumulative pretax costs relate to cash outlays, primarily related to employee separation expense. Approximately one-third of the cumulative pretax costs are non-cash, relating primarily to the accelerated depreciation of facilities to be closed or divested. The Company expects the restructuring actions taken thus far under the Merger Restructuring Program to result in annual savings in 2012 of approximately $2.7 billion to $3.1 billion.

In March 2010, the United States enacted health care reform legislation. Important market reforms began during 2010 and will continue through full implementation in 2014. During 2010, Merck incurred costs as a result of the legislation, including increased Medicaid rebates and other impacts that reduced revenues. The Company also recorded a charge in 2010 associated with this legislation that changed tax law to require taxation of the prescription

drug subsidy of the Company s retiree health benefit plans for which companies receive reimbursement under Medicare Part D. Additional provisions of the legislation will come into effect in 2011, including the assessment of an annual health care reform fee on all branded prescription drug manufacturers and importers and the requirement that drug manufacturers pay a 50% discount on Medicare Part D utilization incurred by beneficiaries when they are

in the Medicare Part D coverage gap (i.e., the so-called donut hole). These new provisions will decrease revenues and increase costs.

Earnings per common share (EPS) assuming dilution for 2010 were $0.28, which reflect a net unfavorable impact resulting from the amortization of purchase accounting adjustments, in-process research and development (IPR&D) impairment charges, including a charge related to the vorapaxar clinical development program, restructuring and merger-related costs, as well as a legal reserve relating to *Vioxx* (the *Vioxx* Liability Reserve) discussed below, partially offset by the gain recognized on AstraZeneca s exercise of its option to acquire certain assets from the Company. Non-GAAP EPS in 2010 were $3.42 excluding these items (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Income and Non-GAAP EPS below).

In December 2010, Merck announced that its Board of Directors had elected Kenneth C. Frazier, then Merck s president, as chief executive officer and president, as well as a member of the board, effective January 1, 2011. Mr. Frazier succeeds Richard T. Clark, who will continue to serve as chairman of the board.

Product Sales

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

Years Ended December 31	**2010**	2009	2008
Pharmaceutical:			
Bone, Respiratory, Immunology and Dermatology			
Singulair	**$ 4,987**	$ 4,660	$ 4,337
Remicade	**2,714**	431	
Nasonex	**1,220**	165	
Fosamax	**926**	1,100	1,553
Clarinex	**659**	101	
Arcoxia	**398**	358	377
Proventil	**210**	26	
Asmanex	**208**	37	
Cardiovascular			
Zetia	**2,297**	403	6
Vytorin	**2,014**	441	84
Integrilin	**266**	46	
Diabetes and Obesity			
Januvia	**2,385**	1,922	1,397
Janumet	**954**	658	351
Diversified Brands			
Cozaar/Hyzaar	**2,104**	3,561	3,558
Zocor	**468**	558	660
Propecia	**447**	440	429
Claritin Rx	**420**	71	
Vasotec/Vaseretic	**255**	311	357
Remeron	**223**	38	
Proscar	**216**	291	324
Infectious Disease			
Isentress	**1,090**	752	361
PegIntron	**737**	149	
Cancidas	**611**	617	596
Primaxin	**610**	689	760
Invanz	**362**	293	265
Avelox	**316**	66	
Rebetol	**221**	36	
Crixivan/Stocrin	**206**	206	275
Neurosciences and Ophthalmology			
Maxalt	**550**	575	529
Cosopt/Trusopt	**484**	503	781
Subutex/Suboxone	**111**	36	
Oncology			
Temodar	**1,065**	188	
Emend	**378**	317	264

Caelyx	**284**	47	
Intron A	**209**	38	
Vaccines[2]			
ProQuad/M-M-R II/Varivax	**1,378**	1,369	1,268
Gardasil	**988**	1,118	1,403
RotaTeq	**519**	522	665
Pneumovax	**376**	346	249
Zostavax	**243**	277	312
Women s Health and Endocrine			
NuvaRing	**559**	88	
Follistim AQ	**528**	96	
Implanon	**236**	37	
Cerazette	**209**	35	
Other pharmaceutical[3]	**4,170**	1,218	920
Total Pharmaceutical segment sales	**39,811**	25,236	22,081
Other segment sales[4]	**5,578**	2,114	1,694
Total segment sales	**45,389**	27,350	23,775
Other[5]	**598**	78	75
	$ 45,987	$ 27,428	$ 23,850

(1) *Sales of legacy Schering-Plough products reflect results for 2010 and the post-Merger period in 2009. In addition, prior to the Merger, substantially all sales of* Zetia *and* Vytorin *were recognized by the MSP Partnership and the results of Old Merck s interest in the MSP Partnership were recorded in* Equity income from affiliates. *As a result of the Merger, the MSP Partnership is wholly-owned by the Company; accordingly, all sales of MSP Partnership products after the Merger are reflected in the table above. Sales of* Zetia *and* Vytorin *in 2008 reflect Old Merck s sales of these products in Latin America which was not part of the MSP Partnership.*

(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. *These amounts do, however, reflect supply sales to Sanofi Pasteur MSD.*

(3) *Other pharmaceutical primarily reflects sales of other human pharmaceutical products, including products within the franchises not listed separately*.

(4) *Reflects other non-reportable segments including Animal Health and Consumer Care, and revenue from the Company s relationship with AZLP primarily relating to sales of Nexium, as well as Prilosec. Revenue from AZLP was $1.3 billion, $1.4 billion and $1.6 billion in 2010, 2009 and 2008, respectively.*

(5) *Other revenues are primarily comprised of miscellaneous corporate revenues, third-party manufacturing sales, sales related to divested products or businesses and other supply sales not included in segment results.*

Pharmaceutical
The Company s pharmaceutical products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are:

Bone, Respiratory, Immunology and Dermatology: *Singulair*; *Remicade*; *Nasonex*; *Fosamax; Clarinex*; *Arcoxia* (etoricoxib) for the treatment of arthritis and pain; *Asmanex Twisthaler* (mometasone furoate inhalation powder), an oral dry-powder corticosteroid inhaler for first-line maintenance treatment of asthma in patients 4 and older; and *Proventil HFA* (albuterol sulfate) inhalation aerosol for the relief of bronchospasm in patients 12 years or older.

Cardiovascular: *Zetia* (marketed as *Ezetrol* outside the United States); *Vytorin* (marketed as *Inegy* outside the United States); and *Integrilin* (eptifibatide) Injection, a platelet receptor GP IIb/IIIa inhibitor for the treatment of patients with acute coronary syndrome and those undergoing percutaneous coronary intervention in the United States, as well as for the prevention of early myocardial infarction in patients with acute coronary syndrome in most countries.

Diabetes and Obesity: *Januvia* and *Janumet* for the treatment of type 2 diabetes.

Diversified Brands: *Cozaar*; *Hyzaar*; *Zocor; Propecia* (finasteride), a product for the treatment of male pattern hair loss; *Claritin Rx; Vasotec* (enalapril maleate) and *Vaseretic* (enalapril maleate-hydrochlorothiazide), hypertension and/or heart failure products; *Proscar* (finasteride), a urology product for the treatment of symptomatic benign prostate enlargement; and *Remeron* (mirtazapine), an antidepressant.

Infectious Disease: *Isentress*; *PegIntron*; *Primaxin* (imipenem and cilastatin sodium); *Cancidas* (caspofungin acetate), an anti-fungal product; *Invanz* (ertapenem sodium) for the treatment of certain infections; *Avelox* (moxifloxacin), which the Company only markets in the United States, a broad-spectrum fluoroquinolone antibiotic for certain respiratory and skin infections; *Rebetol* (ribavirin, USP) Capsules and Oral Solution for use in combination with *PegIntron* or *Intron A* (interferon alpha-2b, recombinant) for treating chronic hepatitis C; and *Crixivan* (indinavir sulfate) and *Stocrin* (efavirenz), antiretroviral therapies for the treatment of HIV infection.

Neurosciences and Ophthalmology: *Maxalt* (rizatriptan benzoate), a product for acute treatment of migraine; and *Cosopt* (dorzolamide hydrochloride and timolol maleate ophthalmic solution) and *Trusopt* (dorzolamide hydrochloride ophthalmic solution).

Oncology: *Temodar*; *Emend* (aprepitant) for the prevention of chemotherapy-induced and post-operative nausea and vomiting; and *Intron A* for Injection, marketed for chronic hepatitis B and C and numerous anticancer indications worldwide, including as adjuvant therapy for malignant melanoma.

Vaccines: *ProQuad* (Measles, Mumps, Rubella and Varicella Virus Vaccine Live), a pediatric combination vaccine to help prevent measles, mumps, rubella and varicella; *M-M-R* II (Measles, Mumps and Rubella Virus Vaccine Live), a vaccine to help prevent measles, mumps and rubella; *Varivax* (Varicella Virus Vaccine Live), a vaccine to help prevent chickenpox (varicella); *Gardasil; RotaTeq* (Rotavirus Vaccine, Live, Oral, Pentavalent), a vaccine to help protect against rotavirus gastroenteritis in infants and children; *Pneumovax* (pneumococcal vaccine polyvalent), a vaccine to help prevent pneumococcal disease; and *Zostavax* (Zoster Vaccine Live), a vaccine to help prevent shingles (herpes zoster) in patients aged 60 or older.

Women s Health and Endocrine: *NuvaRing* (etonogestrel/ethinyl estradiol vaginal ring), a vaginal contraceptive ring; *Follistim AQ* (follitropin beta injection), a fertility treatment; *Implanon* (etonogestrel implant), a single-rod subdermal contraceptive implant; and *Cerazette*, a progestin only oral contraceptive.

Animal Health

The Animal Health segment discovers, develops, manufactures and markets animal health products, including vaccines. Principal marketed products in this segment include:

Livestock Products: *Nuflor* antibiotic range for use in cattle and swine; *Bovilis*/*Vista* vaccine lines for infectious diseases in cattle; *Banamine* bovine and swine anti-inflammatory; *Estrumate* for treatment of fertility disorders in cattle; *Regumate*/*Matrix* fertility management for swine and horses; *Resflor* combination broad-spectrum antibiotic and non-steroidal anti-inflammatory drug for bovine respiratory disease; *Zilmax* and *Revalor* to

improve production efficiencies in beef cattle; *M+Pac* swine pneumonia vaccine; and *Porcilis* vaccine line for infectious diseases in swine.

Poultry Products: *Nobilis*/*Innovax,* vaccine lines for poultry; and *Paracox* and *Coccivac* coccidiosis vaccines.

Companion Animal Products: *Nobivac*/*Continuum* vaccine lines for flexible dog and cat vaccination; *Otomax*/*Mometamax*/*Posatex* ear ointments for acute and chronic otitis; *Caninsulin*/*Vetsulin* diabetes mellitus treatment for dogs and cats; *Panacur*/*Safeguard* broad-spectrum anthelmintic (de-wormer) for use in many animals; and *Scalibor*/*Exspot* for protecting against bites from fleas, ticks, mosquitoes and sandflies.

Aquaculture Products: *Slice* parasiticide for sea lice in salmon; *Aquavac*/*Norvax* vaccines against bacterial and viral disease in fish; *Compact PD* vaccine for salmon; and *Aquaflor* antibiotic for farm-raised fish.

Consumer Care
The Consumer Care segment develops, manufactures and markets over-the-counter, foot care and sun care products. Principal products in this segment include:

Over-the-Counter Products: *Claritin* non-drowsy antihistamines; *MiraLAX* treatment for occasional constipation; *Coricidin HBP* decongestant-free cold/flu medicine for people with high blood pressure; *Afrin* nasal decongestant spray; and *Zegerid OTC* treatment for frequent heartburn.

Foot Care: *Dr. Scholl s* foot care products; *Lotrimin* topical antifungal products; and *Tinactin* topical antifungal products and foot and sneaker odor/wetness products.

Sun Care: *Coppertone* sun care lotions, sprays and dry oils; and *Solarcaine* sunburn relief products.

For a further discussion of sales of the Company s products, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Product Approvals

In June 2010, the FDA approved *Dulera* Inhalation Aerosol, a new fixed-dose combination asthma treatment for patients 12 years of age and older. *Dulera* combines an inhaled corticosteroid with a long-acting beta$_2$-agonist.

In September 2010, the intravenous formulation of *Brinavess* was granted marketing approval in the EU, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less. *Brinavess* acts preferentially in the atria and is the first product in a new class of pharmacologic agents for cardioversion of atrial fibrillation to launch in the EU. In April 2009, Cardiome Pharma Corp. and Merck announced a collaboration and license agreement for the development and commercialization of vernakalant. The agreement provides Merck exclusive rights outside of the United States, Canada and Mexico to vernakalant intravenous formulation.

In August 2009, the FDA approved *Saphris* (asenapine) for the acute treatment of schizophrenia in adults and for the acute treatment of manic or mixed episodes associated with bipolar I disorder with or without psychotic features in adults. In September 2010, two sNDAs for *Saphris* were approved in the United States to expand the product s indications to the treatment of schizophrenia in adults, as monotherapy for the acute treatment of manic or mixed episodes associated with bipolar I disorder in adults, and as adjunctive therapy with either lithium or valproate for the acute treatment of manic or mixed episodes associated with bipolar I disorder in adults. In September 2010, asenapine,

to be sold under the brand name *Sycrest*, received marketing approval in the EU for the treatment of moderate to severe manic episodes associated with bipolar I disorder in adults; the marketing approval did not include an indication for schizophrenia. The marketing approval applies to all EU member states. In October 2010, Merck and H. Lundbeck A/S (Lundbeck) announced a worldwide commercialization agreement for *Sycrest* sublingual tablets (5 mg, 10 mg). Under the terms of the agreement, Lundbeck paid a fee and will make product supply payments in exchange for exclusive commercial rights to *Sycrest* in all markets outside the United States, China and Japan. Merck will retain exclusive commercial rights to asenapine in the United States, China and Japan. Concurrently, Merck is continuing to pursue regulatory approval for asenapine in other parts of the world.

Joint Ventures

AstraZeneca LP
In 1982, Old Merck entered into an agreement with Astra AB (Astra) to develop and market Astra products in the United States. In 1994, Old Merck 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 (omeprazole), 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, Old Merck and Astra restructured the joint venture whereby Old Merck 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 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.

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 AZLP generally accepted accounting principles (GAAP) earnings. The AstraZeneca merger triggered a partial redemption in March 2008 of Old Merck s interest in certain AZLP product rights. Upon this redemption, Old Merck received $4.3 billion from AZLP. This amount was based primarily on a multiple of Old 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). Old Merck recorded a $1.5 billion pretax gain on the partial redemption in 2008. The partial redemption of Old Merck s interest in the product rights did not result in a change in Old Merck s 1% limited partnership interest. As described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations below, after certain adjustments, Old Merck recorded an aggregate pretax gain of $2.2 billion in 2008.

In conjunction with the 1998 restructuring discussed above, Astra purchased an option (the Asset Option) for a payment of $443 million, which was recorded as deferred income, to buy Old Merck s interest in the KBI products, excluding the gastrointestinal medicines Nexium and Prilosec (the Non-PPI Products). In April 2010, AstraZeneca exercised the Asset Option. Merck received $647 million from AstraZeneca representing the net present value as of March 31, 2008 of projected future pretax revenue to be received by Old Merck from the Non-PPI Products (the Appraised Value), which was recorded as a reduction to the Company s investment in AZLP. The Company recognized the $443 million of deferred income in 2010 as a component of *Other (income) expense, net*. In addition, in 1998, Old Merck granted Astra an option (the Shares Option) to buy Old Merck s common stock interest in KBI and, therefore, Old Merck s interest in Nexium and Prilosec, exercisable in 2012. The exercise price for the Shares Option will be based on the net present value of estimated future net sales of Nexium and Prilosec as determined at the time of exercise, subject to certain true-up mechanisms. The Company believes that it is likely that AstraZeneca will exercise the Shares Option.

Sanofi Pasteur MSD
In 1994, Old Merck 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. Old Merck 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.

Johnson & Johnson°Merck Consumer Pharmaceuticals Company
In 1989, Old 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 also includes Canada. Significant

joint venture products are *Pepcid AC* (famotidine), an over-the-counter form of Old Merck s ulcer medication *Pepcid* (famotidine), as well as *Pepcid Complete,* an over-the-counter product that combines the Company s ulcer medication with antacids (calcium carbonate and magnesium hydroxide).

Licenses

In 1998, a subsidiary of Schering-Plough entered into a licensing agreement with Centocor, a Johnson & Johnson company, to market *Remicade,* which is prescribed for the treatment of inflammatory diseases. In 2005, Schering-Plough s subsidiary exercised an option under its contract with Centocor for license rights to develop and commercialize *Simponi*, a fully human monoclonal antibody. The Company has exclusive marketing rights to both products outside the United States, Japan and certain other Asian markets. In December 2007, Schering-Plough and Centocor revised their distribution agreement regarding the development, commercialization and distribution of both *Remicade* and *Simponi*, extending the Company s rights to exclusively market *Remicade* to match the duration of the Company s exclusive marketing rights for *Simponi*. In addition, Schering-Plough and Centocor agreed to share certain development costs relating to *Simponi* s auto-injector delivery system. On October 6, 2009, the European Commission (EC) approved *Simponi* as a treatment for rheumatoid arthritis and other immune system disorders in two presentations a novel auto-injector and a prefilled syringe. As a result, the Company s marketing rights for both products extend for 15 years from the first commercial sale of *Simponi* within the EU following the receipt of pricing and reimbursement approval within the EU. After operating expenses and subject to certain adjustments, the Company was entitled to receive an approximate 60% share of profits on the Company s distribution in the Company s marketing territory through December 31, 2009. Beginning in 2010, the Company s share of profits change over time to a 50% share of profits by 2014 for both products and the share of profits will remain fixed thereafter for the remainder of the term. The Company may independently develop and market *Simponi* for a Crohn s disease indication in its territories, with an option for Centocor to participate. Centocor has instituted an arbitration proceeding to terminate this agreement and the Company s rights to distribute these products. See Item 1A. Risk Factors and Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below.

Competition

The markets in which the Company conducts its business and the pharmaceutical industry are highly competitive and highly regulated. The Company s competitors include other worldwide research-based pharmaceutical companies, smaller research companies with more limited therapeutic focus, and generic drug and consumer health care manufacturers. The Company s operations may be affected by technological advances of competitors, industry consolidation, patents granted to competitors, competitive combination products, new products of competitors, the generic availability of competitors branded products, new information from clinical trials of marketed products or post-marketing surveillance and generic competition as the Company s products mature. In addition, patent positions are increasingly being challenged by competitors, and the outcome can be highly uncertain. An adverse result in a patent dispute can preclude commercialization of products or negatively affect sales of existing products and could result in the recognition of an impairment charge with respect to certain products. Competitive pressures have intensified as pressures in the industry have grown. The effect on operations of competitive factors and patent disputes cannot be predicted.

Pharmaceutical competition involves a rigorous 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 positioned to compete in the search for technological innovations. Additional resources to meet market challenges 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 external alliances, such as joint ventures and licenses, and has been refining its sales and marketing efforts to further address changing industry conditions. However, the introduction of new products and processes by competitors may result in price

reductions and product displacements, even for products protected by patents. For example, the number of compounds available to treat a particular disease typically increases over time and can result in slowed sales growth for the Company s products in that therapeutic category.

Global efforts toward health care cost containment continue to exert pressure on product pricing and market access. In 2010, this pressure was particularly intense in several European countries which implemented austerity measures aimed at reducing costs in areas such as health care. In the United States, federal and state governments for many years also have pursued methods to 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 and to provide discounts for outpatient medicines purchased by certain Public Health Service entities and disproportionate share hospitals (hospitals meeting certain criteria). Under the Federal Vaccines for Children entitlement program, the U.S. Centers for Disease Control and Prevention (CDC) funds and purchases recommended pediatric vaccines at a public sector price for the immunization of Medicaid-eligible, uninsured, Native American and certain underinsured children. Merck was awarded a CDC contract in 2010 for the supply of pediatric vaccines for the Vaccines for Children program.

Against this backdrop, the United States enacted major health care reform legislation in 2010. Various insurance market reforms began last year and will continue through full implementation in 2014. The new law is expected to expand access to health care to more than 32 million Americans by the end of the decade that did not previously have regular access to health care. With respect to the effect of the law on the pharmaceutical industry, the law increased the mandated Medicaid rebate from 15.1% to 23.1%, expanded the rebate to Medicaid managed care utilization, and increased the types of entities eligible for the federal 340B drug discount program. The law also requires pharmaceutical manufacturers to pay a 50% discount on Medicare Part D utilization by beneficiaries when they are in the Medicare Part D coverage gap (i.e., the so-called donut hole). Also, beginning in 2011, pharmaceutical manufacturers will be required to pay an annual health care reform fee. The total annual industry fee, which will be $2.5 billion in 2011, will be assessed on each company in proportion to its share of sales to certain government programs, such as Medicare and Medicaid.

Although not included in the health care reform law, Congress has also considered, and may consider again, proposals to increase the government s role in pharmaceutical pricing in the Medicare program. These proposals may include removing the current legal prohibition against the Secretary of the Health and Human Services intervening in price negotiations between Medicare drug benefit program plans and pharmaceutical companies. They may also include mandating the payment of rebates for some or all of the pharmaceutical utilization in Medicare drug benefit plans. In addition, Congress may again consider proposals to allow, under certain conditions, the importation of medicines from other countries.

The full impact of U.S. health care reform, as well as continuing budget pressures on governments around the world, cannot be predicted at this time.

In addressing cost containment pressures, the Company makes a continuing effort to demonstrate that its medicines provide value to patients and to those who pay for health care. The Company works in markets with historically low rates of government spending on health care to encourage those governments to increase their investments and thereby improve their citizens access to appropriate health care, including medicines.

In the animal health business, there is intense competition which is affected by several factors including regulatory and legislative issues, scientific and technological advances, product innovation, the quality and price of the Company s products, effective promotional efforts and the frequent introduction of generic products by competitors.

The Company s consumer care operations face competition from other consumer health care businesses as well as retailers who carry their own private label brands. The Company s competitive position is affected by several factors, including regulatory and legislative issues, scientific and technological advances, the quality and price of the Company s products, promotional efforts and the growth of lower cost private label brands.

Operating conditions have become more challenging under the global pressures of competition, industry regulation, and cost containment efforts. Although no one can predict the effect of these and other factors on the Company s business, the Company continually takes measures to evaluate, adapt and improve the organization and its business practices to better meet customer needs and believes that it is well positioned to respond to the evolving health care environment and market forces.

Government Regulation

The pharmaceutical industry is subject to regulation by regional, country, state and local agencies around the world. Governmental regulation and legislation tends to focus on standards and processes for determining drug safety and effectiveness, as well as conditions for sale or reimbursement, especially related to the pricing of products.

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 and practices have increased the amount of time and resources necessary to develop new products and bring them to market in the United States. U.S. health care reform legislation which passed in 2010 with a full implementation date of 2014, significantly expands access to health care, but also contains a number of provisions imposing new obligations on the pharmaceutical industry, including, for example, an increase in the mandated rebate under the Medicaid program and a new discount requirement in the Medicare Part D program.

The EU has adopted Directives and other legislation concerning the classification, labeling, advertising, wholesale distribution and approval for marketing of medicinal products for human use. These provide mandatory standards throughout the EU, which may be supplemented or implemented with additional regulations by the EU member states. 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.

In January 2008, the EC launched a sector inquiry in the pharmaceutical industry under the rules of EU competition law. A sector inquiry allows the EC to gather information about the general operation of market competition and is not an investigation into suspected anti-competitive behavior of specific firms. As part of this inquiry, Old Merck s offices in Germany were inspected by the authorities beginning in January 2008. The preliminary report of the EC was issued in November 2008, and following the public consultation period, the final report was issued in July 2009. The final report confirmed that there has been a decline in the number of novel medicines reaching the market and instances of delayed market entry of generic medicines and discussed industry practices that may have contributed to these phenomena. Among other things, the final report expressed concern over settlements of patent disputes between originator and generic companies and suggested that the EC should monitor any anti-competitive effects. While the EC has issued further inquiries with respect to the subject of the investigation, including to the Company, the EC has not alleged that the Company or any of its subsidiaries have engaged in any unlawful practices.

The Company believes that it will continue to be able to conduct its operations, including launching new drugs into the market, in this regulatory environment.

Access to Medicines

As a global health care company, Merck s primary role is to discover and develop innovative medicines and vaccines. The Company also recognizes that it has an important role to play in helping to improve access to its products around the world. The Company s efforts in this regard are wide-ranging. For example, the Company has been recognized for pricing many of its products through a differential pricing framework, taking into consideration such factors as a country s level of economic development and public health need.

Building on the Company s own efforts, Merck has undertaken collaborations with many stakeholders to improve access to medicines and enhance the quality of life for people around the world.

For example, in 2010, through a partnership of Merck, the Government of Bhutan, and the Australian Cervical Cancer Foundation, Bhutan became the first low-income country in the world to successfully implement a national HPV vaccination program. Under this program, Merck is providing *Gardasil* free of charge for the first year of the program

and will provide *Gardasil* at the Company s access price for five more years.

Also in 2010, Merck worked with its partner, the Wellcome Trust, to further develop the Hillemann Laboratories which was established in September 2009. This initiative will focus on developing affordable vaccines to prevent diseases that commonly affect low-income countries.

Merck has also in the past provided funds to The Merck Company Foundation, an independent organization, which has partnered with a variety of organizations dedicated to improving global health. One of these partnerships is The African Comprehensive HIV/AIDS Partnership in Botswana, a collaboration with the government of Botswana and the Bill & Melinda Gates Foundation, that was renewed in 2010, and supports Botswana s response to HIV/AIDS through a comprehensive and sustainable approach to HIV prevention, care, treatment, and support.

Privacy and Data Protection

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 attention to privacy and data protection issues with the potential to affect directly the Company s business, including recently enacted laws and regulations in the United States and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information.

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, pharmacy benefit managers 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, hospitals and managed care organizations. The Company sells its animal health products to veterinarians, distributors and animal producers. The Company s over-the-counter, foot care and sun care products are sold through wholesale and retail drug, food chain and mass merchandiser outlets in the United States and Canada.

Raw Materials

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

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.

The Food and Drug Administration Modernization Act (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 by the Prescription Drug User Fee Act passed in September 2007. Current U.S. patent law provides additional patent term under Patent Term Restoration for periods when the patented product was under regulatory review before the FDA.

Patent portfolios developed for products introduced by the Company normally provide market exclusivity. The Company has the following key U.S. patent protection (including Patent Term Restoration and Pediatric Exclusivity) for major marketed products:

Product	**Year of Expiration (in U.S.)**[1]
Crixivan	2012 (compound)/2018 (formulation)
Maxalt[2]	2012
Singulair	2012
Cancidas	2013 (compound)/2015 (composition)
Propecia[3]	2013 (formulation/use)
Asmanex	2014 (use)/2018 (formulation)
Avelox[4]	2014
Dulera	2014 (use)/2020 (combination)
Integrilin	2014 (compound)/2015 (use/formulation)
Nasonex	2014 (use/formulation)/2018(formulation)
Temodar[5]	2014
Emend	2015
Follistim AQ	2015
PegIntron	2015 (conjugates)/2020 (Mature IFN-alpha)
Zolinza	2015 (with pending Patent Term Restoration)
Invanz	2016 (compound)/2017 (composition)
Zostavax	2016 (use)
Zetia/Vytorin[6]	2017
NuvaRing	2018 (delivery system)
Noxafil	2019
RotaTeq	2019
Clarinex[7]	2020 (formulation)
Comvax	2020 (method of making/vectors)
Intron A	2020
Recombivax	2020 (method of making/vectors)
Saphris/Sycrest	2020 (use/formulation) (subject to pending Patent Term Restoration application)
Januvia/Janumet	2022 (compound)/2026 (salt)
Isentress	2023
Gardasil	2026 (method of making/use/product by process)

(1) *Compound patent unless otherwise noted.*
(2) *The Company has determined that it will not enforce an additional patent that was set to expire in 2014.*
(3) *By agreement, Dr. Reddy s Laboratories, Inc. may launch a generic in the U.S. on January 1, 2013.*
(4) *By settlement, Teva Pharmaceuticals, Inc. may launch a generic in the U.S. as early as February 2014. Six months Pediatric Market Exclusivity may extend this date to August 2014.*
(5) *By agreement, Barr Laboratories, Inc. may launch a generic in the U.S. on August 11, 2013.*
(6) *By agreement, Glenmark Pharmaceuticals, Inc. may launch a generic in the U.S. on December 12, 2016.*
(7) *By virtue of litigation settlement, generic manufacturers have been given the right to enter the U.S. market as of 2012.*

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 and certain other countries, market exclusivity that may be available under relevant 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.

The patents that provided U.S. market exclusivity for *Cozaar* and *Hyzaar* expired in April 2010. In addition, *Cozaar* and *Hyzaar* lost patent protection in a number of major European markets in March 2010. Accordingly, the Company is experiencing a significant decline in *Cozaar/Hyzaar* worldwide sales and the Company expects such decline to continue. In addition, the patent that provides U.S. market exclusivity for *Singulair*, the Company s largest selling product, expires in August 2012. The Company expects that within the two years following patent expiration, it will lose substantially all U.S. sales of *Singulair*, with most of those declines coming in the first full year following patent expiration. Also, the patent for *Singulair* will expire in a number of major European markets in August 2012 and the Company expects sales of *Singulair* in those markets will decline significantly thereafter (although the six month Pediatric Market Exclusivity may extend this date in some markets to February 2013). The compound patent that provides market exclusivity for *Maxalt* in the United States expires in June 2012 (although the six month Pediatric Market Exclusivity may extend this date to December 2012). In addition, the patent for *Maxalt* will expire in a number of major European markets in 2013. The Company anticipates that sales in the United States and in these European markets will decline significantly after these patent expiries.

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.

For further information with respect to the Company s patents, see Item 1A. Risk Factors and Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below.

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.

Royalty income in 2010 on patent and know-how licenses and other rights amounted to $347 million. Merck also incurred royalty expenses amounting to $1.38 billion in 2010 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 15,500 people are employed in the Company s research activities. Research and development expenses were $11.0 billion in 2010, $5.8 billion in 2009 and $4.8 billion in 2008 (which included restructuring costs in all years, as well as $2.4 billion of IPR&D impairment charges in 2010). 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. The Company s 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 disease areas of unmet medical needs, scientific opportunity and commercial opportunity. Merck is managing its research and development portfolio across diverse approaches to discovery and development by balancing investments appropriately on novel, innovative targets with the potential to have a major impact on human health, on developing best-in-class approaches, and on delivering maximum value of

its new medicines and vaccines through new indications and new formulations. Another important component of the Company s science-based diversification is based on expanding the Company s portfolio of modalities to include not only small molecules and vaccines, but also biologics (peptides, small proteins, antibodies) and RNAi. Further, Merck has moved to diversify its portfolio through its Merck BioVentures division which has the potential to harness the market opportunity presented by biological medicine patent expiries

by delivering high quality follow-on biologic products to enhance access for patients worldwide. The Company will continue to pursue appropriate external licensing opportunities.

The integration efforts for research and development continue to focus on integrating the research operations of the legacy companies, including providing an effective transition for employees, realizing projected merger synergies in the form of cost savings and revenue growth opportunities, and maintaining momentum in the Company s late-stage pipeline. Overall, the Company s global operating model will align franchise and function as well as align resources with disease area priorities and balance capacity across discovery phases and allow the Company to act upon those programs with the highest probability of success. Additionally, across all disease area priorities, the Company s strategy is designed to expand access to worldwide external science and incorporate external research as a key component of the Company s early discovery pipeline in order to translate basic research productivity into late-stage clinical success.

The Company s clinical pipeline includes candidates in multiple disease areas, including atherosclerosis, cancer, cardiovascular diseases, diabetes, infectious diseases, inflammatory/autoimmune diseases, insomnia, migraine, neurodegenerative diseases, ophthalmics, osteoporosis, psychiatric diseases, respiratory diseases and women s health. The Company supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as new technologies.

In 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 or vaccine may be marketed in the United States, recorded data on preclinical and clinical experience are included in the NDA for a drug or the Biologics License Application (BLA) for a vaccine or biologic submitted to the FDA for the required approval.

Once the Company s scientists discover a new small molecule compound or biologics molecule 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, immunogenicity 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.

Vaccine development follows the same general pathway as for drugs. Preclinical testing focuses on the vaccine s safety and ability to elicit a protective immune response (immunogenicity). Pre-marketing vaccine clinical trials are typically done in three phases. Initial Phase I clinical studies are conducted in normal subjects to evaluate the safety, tolerability and immunogenicity of the vaccine candidate. Phase II studies are dose-ranging studies. Finally, Phase III trials provide the necessary data on effectiveness and safety. If successful, the Company submits regulatory filings with the appropriate regulatory agencies. Also during this stage, the proposed manufacturing facility undergoes a pre-approval inspection during which production of the vaccine as it is in progress is examined in detail.

In the United States, the FDA review 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 generally 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 or a complete response letter.

Research and Development Update
The Company currently has a number of candidates under regulatory review in the United States and internationally.

Boceprevir is an investigational oral hepatitis C virus protease inhibitor currently under development. Full data results for two pivotal late-stage studies for boceprevir were presented in November 2010 at the annual meeting of the American Association for the Study of Liver Disease which showed that boceprevir demonstrated significantly higher sustained virologic response rates in adult patients who previously failed treatment and in adult patients who were new to treatment for chronic hepatitis C virus genotype 1 compared to control, the primary objective of the studies. Based on these data, regulatory applications for boceprevir were submitted in 2010 and have been accepted for expedited review in both the United States and the EU.

MK-0431A XR, the Company s investigational extended-release formulation of *Janumet*, was accepted for standard review by the FDA in 2010. The Company is also moving forward as planned with regulatory filings in countries outside the United States. The extended-release formulation of *Janumet* is an investigational treatment for type 2 diabetes that combines sitagliptin, which is the active component of *Januvia*, with metformin extended release, a commonly-prescribed medication for type 2 diabetes, into a single tablet. This formulation is designed to provide a new treatment option for health care providers and patients who need two or more oral agents to help control their blood sugar with the convenience of once daily dosing.

SCH 900121, NOMAC/E2, is an oral contraceptive that combines a selective progestin with 17-beta estradiol, an estrogen that is identical to the one naturally present in a women s body. The drug is currently under review in the EU. It is also in Phase III development for the U.S. market.

MK-3009, Cubicin daptomycin for injection, is currently under review in Japan. As previously disclosed, in 2007, Cubist Pharmaceuticals, Inc. (Cubist) entered into a license agreement with Old Merck for the development and commercialization of Cubicin, for the treatment of staph infection, in Japan where the Company has the commercial rights to the drug candidate. Merck will develop and commercialize Cubicin through its wholly-owned subsidiary in Japan. Cubist commercializes Cubicin in the United States.

MK-0431D is a combination of *Januvia* and *Zocor* for the treatment of diabetes and dyslipidemia which was accepted for standard review by the FDA in 2011.

In addition to the candidates under regulatory review, the Company has 19 drug candidates in Phase III development.

Vorapaxar is a thrombin receptor antagonist or antiplatelet protease activated receptor-1 inhibitor being studied for the prevention and treatment of thrombosis. Merck was studying vorapaxar in two major clinical endpoint trials to evaluate the investigational medicine for the prevention of cardiac events: TRACER, a study in patients with acute coronary syndrome which has ended, and TRA-2P (also known as TIMI 50), a study in patients with prior heart attack, stroke and peripheral artery disease which is continuing in large part. Both studies were designed as event-driven trials in which patients were planned to be followed for a minimum of one year, and both had completed enrollment. In January 2011, Merck announced that the combined Data and Safety Monitoring Board (DSMB) for the two studies had reviewed the available safety and efficacy data, and made recommendations for study changes to the chairpersons of the steering committees for the two studies. The study chairpersons agreed to implement these changes, and as a result: in the TRACER study, patients were to discontinue study drug and investigators were to

begin to close out the study in a timely and orderly fashion. In the TRA-2P study, study drug was continued in patients who had experienced a previous heart attack or peripheral arterial disease (approximately 75% of the patients enrolled in the study), and was immediately discontinued in patients who experienced a stroke prior to entry into the study or during the course of the study. Merck subsequently announced that the chairman of the TRA-2P study reported to investigators that the DSMB had communicated that based on all

of the data (safety and efficacy) available to them from both trials, they recommended that subjects with a history of stroke not receive vorapaxar. The DSMB had observed an increase in intracranial hemorrhage in patients with a history of stroke that is not outweighed by their considerations of potential benefit.

Merck plans to update its projections for regulatory filings for vorapaxar once the Company has received the efficacy and safety data from TRACER and can determine an updated completion date for TRA-2P. TRACER has accumulated the pre-defined number of primary and major secondary endpoints, although not all patients will continue to receive study drug through the pre-specified one-year follow up. Merck continues to expect that the efficacy and safety data from TRACER will become available later in 2011 and will be submitted for presentation at appropriate medical meetings.

As a result of these developments, the Company concluded there was a 2010 impairment triggering event related to the vorapaxar intangible asset. Although there is a great deal of information related to these developments that remains unknown to the Company, utilizing market participant assumptions and considering several different scenarios, the Company concluded that its best estimate of the current fair value of the intangible asset related to vorapaxar was $350 million, which resulted in the recognition of an impairment charge of $1.7 billion during 2010. The Company will continue to monitor the remaining asset value for further impairment.

MK-8669, ridaforolimus, is a novel mTOR (mammalian target of rapamycin) inhibitor being evaluated for the treatment of cancer. Merck is currently developing ridaforolimus in multiple cancer indications under an exclusive license and collaboration agreement with ARIAD Pharmaceuticals, Inc. (ARIAD). In January 2011, ARIAD announced top-line data showing that ridaforolimus met the primary endpoint of improved progression-free survival compared to placebo in the Phase III SUCCEED trial conducted in patients with metastatic soft tissue or bone sarcomas who previously had a favorable response to chemotherapy. Complete findings from the SUCCEED trial will be submitted for presentation at an upcoming medical meeting in 2011. This trial remains active, and study participants continue to be followed to gather additional data on secondary endpoints, including overall survival and the safety profile of ridaforolimus. Merck currently plans to file an NDA with the FDA for oral ridaforolimus in 2011, subject to final collection and analysis of all available data from the trial.

MK-2452, *Saflutan* (tafluprost), is a preservative free, synthetic analogue of the prostaglandin F2 for the reduction of elevated intraocular pressure in appropriate patients with primary open-angle glaucoma and ocular hypertension. In April 2009, Old Merck and Santen Pharmaceutical Co., Ltd. announced a worldwide licensing agreement for tafluprost. The Company continues to anticipate filing an NDA with the FDA for *Saflutan* in 2011.

As previously disclosed, Old Merck submitted for filing an NDA with the FDA for MK-0653C, ezetimibe combined with atorvastatin, which is an investigational medication for the treatment of dyslipidemia, and the FDA refused to file the application in 2009. The FDA has identified additional manufacturing and stability data that are needed; the Company anticipates filing an NDA in 2011.

As previously disclosed, in 2009, Old Merck announced it was delaying the filing of the U.S. application for MK-0974, telcagepant, the Company s investigational calcitonin gene-related peptide (CGRP)-receptor antagonist for the acute treatment of migraine. The decision was based on findings from a Phase IIa exploratory study in which a small number of patients taking telcagepant twice daily for three months for the prevention of migraine were found to have marked elevations in liver transaminases. The daily dosing regimen in the prevention study was different than the dosing regimen used in Phase III studies in which telcagepant was intermittently administered in one or two doses to treat individual migraine attacks as they occurred. Following meetings with regulatory agencies at the end of 2009, Merck is conducting an additional safety study as part of the overall Phase III program for telcagepant. The Company continues to anticipate filing an NDA with the FDA in 2011.

SCH 900616, *Bridion* (sugammadex), is a medication designed to rapidly reverse the effects of certain muscle relaxants used as part of general anesthesia to ensure patients remain immobile during surgical procedures. *Bridion* has received regulatory approval in the EU, Australia, New Zealand, Japan and a number of other markets. Prior to the Merger, Schering-Plough received a complete response letter from the FDA for *Bridion.* Following

further communication from the FDA, the Company is assessing the agency s feedback in order to determine a new timetable for response.

SCH 697243 is an investigational allergy immunotherapy sublingual tablet (AIT) for grass pollen allergy for which the Company has North American rights. In March 2010, data from a Phase III study in children and adolescents (ages 5-17 years) with grass pollen allergic rhinoconjunctivitis were presented at the American Academy of Allergy, Asthma & Immunology Annual Meeting. Allergic rhinoconjunctivitis, or runny nose and itchy, watery eyes due to allergies, is a common condition in children and adolescents. AIT is a dissolvable oral tablet that is designed to prevent allergy symptoms by inducing a protective immune response against allergies, thereby treating the underlying cause of the disease. Merck is investigating AIT for the treatment of grass pollen allergic rhinoconjunctivitis in both children and adults. The anticipated U.S. filing date for SCH 697243 is under assessment.

SCH 039641, an AIT for ragweed allergy, is also in Phase III development for the North American market. The anticipated filing date for SCH 039641 is under assessment.

SCH 418131, *Zenhale*, is a fixed dose combination of two previously approved drugs for the treatment of asthma: mometasone furoate and formoterol fumarate dehydrate. In November 2010, the Company advised the European Medicines Agency (EMA) that it was withdrawing the application for marketing authorization for *Zenhale*, which has been approved for use in asthma patients 12 years of age and older in the United States as *Dulera* Inhalation Aerosol. The Company decided to withdraw the application for *Zenhale* to address questions outstanding between the Company and the Committee for Medicinal Products for Human Use of the EMA. The Company expects to resubmit the application in the future.

MK-0431C, a candidate currently in Phase III clinical development, combines *Januvia* with pioglitazone, another type 2 diabetes therapy. The Company expects it will file an NDA for MK-0431C with the FDA in 2012.

MK-0822, odanacatib, is an oral, once-weekly investigational treatment for osteoporosis in post-menopausal women. Osteoporosis is a disease which reduces bone density and strength and results in an increased risk of bone fractures. Odanacatib is a cathepsin K inhibitor that selectively inhibits the cathepsin K enzyme. Cathepsin K is known to play a central role in the function of osteoclasts, which are cells that break down existing bone tissue, particularly the protein components of bone. Inhibition of cathepsin K is a novel approach to the treatment of osteoporosis. Four-year data on odanacatib were presented in October 2010 at the American Society for Bone and Mineral Research annual meeting. Clinical and preclinical studies continue to provide data on the potential of odanacatib to increase bone density, cortical thickness and bone strength when treating osteoporosis. The Company continues to anticipate filing an NDA with the FDA in 2012.

V503 is a nine-valent HPV vaccine in development to expand protection against cancer-causing HPV types. The Phase III clinical program is underway and Merck anticipates filing a BLA with the FDA in 2012.

MK-0524A is a drug candidate that combines extended-release niacin and a novel flushing inhibitor, laropiprant. MK-0524A has demonstrated the ability to lower LDL-cholesterol (LDL-C or bad cholesterol), raise HDL-cholesterol (HDL-C or good cholesterol) and lower triglycerides with significantly less flushing than traditional extended release niacin alone. High LDL-C, low HDL-C and elevated triglycerides are risk factors associated with heart attacks and strokes. In April 2008, Old Merck received a non-approvable action letter from the FDA in response to its NDA for MK-0524A. At a meeting to discuss the letter, the FDA stated that additional efficacy and safety data were required and suggested that Old Merck wait for the results of the Treatment of HDL to Reduce the Incidence of Vascular Events (HPS2-THRIVE) cardiovascular outcomes study, which is expected to be completed in 2012. The Company anticipates filing an NDA with the FDA for MK-0524A in 2012. MK-0524A has been approved in more than 55 countries outside the United States for the treatment of dyslipidemia, particularly in patients with combined mixed

dyslipidemia (characterized by elevated levels of LDL-C and triglycerides and low HDL-C) and in patients with primary hypercholesterolemia (heterozygous familial and non-familial) and is marketed as *Tredaptive* (or as *Cordaptive* in certain countries). *Tredaptive* should be used in patients in combination with statins, when the cholesterol lowering effects of statin monotherapy is inadequate. *Tredaptive* can be used as monotherapy only in patients in whom statins are considered inappropriate or not tolerated.

MK-0524B is a drug candidate that combines the novel approach to raising HDL-C and lowering triglycerides from extended-release niacin combined with laropiprant with the proven benefits of simvastatin in one combination product. Merck will not seek approval for MK-0524B in the United States until it files its complete response relating to MK-0524A.

MK-4305 is an investigational dual orexin receptor antagonist, a potential new approach to the treatment of chronic insomnia, currently in Phase III development. In June 2010, clinical results from a Phase IIb study were presented at the Annual Meeting of the Associated Professional Sleep Societies which showed MK-4305 was significantly more effective than placebo in improving overall sleep efficiency at night one and at the end of week four in patients with primary insomnia. MK-4305 was generally well-tolerated in the study. Orexins are neuropeptides (chemical messengers) that are released by specialized neurons in the hypothalamus region of the brain and are believed to be an important regulator of the brain s sleep-wake process. Phase III trials studying the efficacy and safety of MK-4305 in elderly and non-elderly insomnia patients are ongoing. Merck anticipates filing regulatory applications for MK-4305 in 2012.

SCH 900962, *Elonva*, corifollitropin alpha injection, which has been approved in the EU for controlled ovarian stimulation in combination with a GnRH antagonist for the development of multiple follicles in women participating in an assisted reproductive technology program, is currently in Phase III development in the United States. The Company continues to anticipate filing an NDA with the FDA in 2012.

SCH 420814, preladenant, is a selective adenosine 2a receptor antagonist in Phase III development for treatment of Parkinson s disease. The Company continues to anticipate filing an NDA with the FDA beyond 2012.

V212 is an inactivated varicella-zoster virus vaccine in Phase III development for prevention of herpes zoster. The Company anticipates filing an NDA with the FDA beyond 2012.

MK-0859, anacetrapib, is an investigational inhibitor of the cholesteryl ester transfer protein (CETP) that is being investigated in lipid management to raise HDL-C and reduce LDL-C. In November 2010, researchers presented results from the Phase III DEFINE (Determining the EFficacy and Tolerability of CETP INhibition with AnacEtrapib) study with anacetrapib at the American Heart Association Scientific Sessions. In the trial of 1,623 patients with coronary heart disease (CHD) or CHD risk equivalents, anacetrapib showed no significant differences from placebo in the primary safety measures studied. There were no significant differences in mean changes in blood pressure between the anacetrapib and placebo treatment groups, nor were there any significant differences in serum electrolytes or aldosterone levels. During the 76-week treatment phase, the pre-specified adjudicated cardiovascular endpoint (defined as cardiovascular death, myocardial infarction, unstable angina or stroke) occurred in 16 anacetrapib-treated patients (2.0%) compared with 21 placebo-treated patients (2.6%). At 24 weeks, anacetrapib decreased LDL-C by 40% and increased HDL-C by 138% in patients already treated with a statin and at guideline-recommended LDL-C goal. Based on these results, the Company intends to move forward and study anacetrapib in a large cardiovascular clinical outcomes trial. The Company anticipates filing an NDA with the FDA beyond 2015.

The chart below reflects the Company s current research pipeline as of February 16, 2011. Candidates shown in Phase III include specific products. Candidates shown in Phase II include the most advanced compound with a specific mechanism or, if listed compounds have the same mechanism, they are each currently intended for commercialization in a given therapeutic area. Small molecules and biologics are given MK-number or SCH-number designations and vaccine candidates are given V-number designations. Candidates in Phase I, additional indications in the same therapeutic area and additional claims, line extensions or formulations for in-line products are not shown.

Phase II

Allergy
SCH 900237, Immunotherapy[(1)]
Cancer
MK-0646 (dalotuzumab)
SCH 727965 (dinaciclib)
***Clostridium difficile* Infection**
MK-3415A
Contraception, Medicated IUS
SCH 900342
COPD
SCH 527123 (navarixin)
Diabetes Mellitus
MK-3102
Hepatitis C
MK-7009 (vaniprevir)
Insomnia
MK-3697
MK-6096
Osteoporosis
MK-5442
Pediatric Vaccine
V419
Pneumoconjugate Vaccine
V114
Progeria
SCH 066336 (lonafarnib)
Psoriasis
SCH 900222
Staph Infection
V710
Thrombosis
MK-4448 (betrixaban)

Phase III

Allergy
SCH 697243, Grass pollen[(1)]
SCH 039641, Ragweed[(1)]
Asthma
SCH 418131 (*Zenhale*) (EU)
Atherosclerosis
MK-0524A (extended-release niacin/

laropiprant) (U.S.)
MK-0524B (extended-release niacin/
laropiprant/simvastatin)
MK-0859 (anacetrapib)
Cervical Cancer
V503 (HPV vaccine (9 valent))
Contraception
SCH 900121 (NOMAC/E2) (U.S.)
Diabetes
MK-0431C (sitagliptin/pioglitazone)
Fertility
SCH 900962 (corifollitropin alfa
injection) (U.S.)
Glaucoma
MK-2452 (*Saflutan*) (U.S.)
Insomnia
MK-4305 (suvorexant)
Migraine
MK-0974 (telcagepant)
Neuromuscular Blockade Reversal
SCH 900616 (*Bridion*) (U.S.)
Osteoporosis
MK-0822 (odanacatib)
Parkinson s Disease
SCH 420814 (preladenant)
Sarcoma
MK-8669 (ridaforolimus)
Thrombosis
SCH 530348 (vorapaxar)
Herpes Zoster
V212 (inactivated VZV vaccine)

Combination Products in Development

Atherosclerosis
MK-0653C (ezetimibe/atorvastatin)

Under Review

Contraception
SCH 900121 (NOMAC/E2) (EU)
Staph Infection
MK-3009 (daptomycin for injection)[(2)]
Diabetes
MK-0431A XR (sitagliptin/
extended-release metformin) (U.S.)
MK-0431D (sitagliptin/simvastatin)
Hepatitis C
SCH 503034 (boceprevir)

Footnotes:
(1) North American rights only.
(2) Japanese rights only.

Employees

As of December 31, 2010, the Company had approximately 94,000 employees worldwide, with approximately 37,600 employed in the United States, including Puerto Rico. Approximately 30% of worldwide employees of the Company are represented by various collective bargaining groups.

In February 2010, the Company commenced actions under a global restructuring program (the Merger Restructuring Program) in conjunction with the integration of the legacy Merck and legacy Schering-Plough businesses. This Merger Restructuring Program is intended to optimize the cost structure of the combined company. Additional actions under the program continued during 2010. As part of the restructuring actions taken thus far

under the Merger Restructuring Program, which the Company anticipates will be substantially completed by the end of 2012 (with the exception of certain manufacturing facilities actions), the Company expects to reduce its total workforce measured at the time of the Merger by approximately 17% across the Company worldwide. In addition, the Company has eliminated over 2,500 positions which were vacant at the time of the Merger. These workforce reductions will primarily come from the elimination of duplicative positions in sales, administrative and headquarters organizations, as well as from the sale or closure of certain manufacturing and research and development sites and the consolidation of office facilities. Since inception of the program through December 31, 2010, the Company has eliminated 11,550 positions under this program. These position eliminations are comprised of actual headcount reductions, and the elimination of contractors and vacant positions.

In October 2008, Old Merck announced a global restructuring program (the 2008 Restructuring Program) to reduce its cost structure, increase efficiency, and enhance competitiveness. As part of the 2008 Restructuring Program, the Company expects to eliminate approximately 7,200 positions 6,800 active employees and 400 vacancies across the Company worldwide by the end of 2011. About 40% of these reductions will occur in the United States. Since inception of the program through December 31, 2010, the Company has eliminated 5,800 positions, including vacancies, under this program.

Prior to the Merger, Schering-Plough commenced a Productivity Transformation Program, which was designed to reduce and avoid costs and increase productivity. The position eliminations associated with this program are largely complete.

Environmental Matters

The Company believes that there are no compliance issues associated with applicable environmental laws and regulations that would have a material adverse effect on the Company. The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites. Expenditures for remediation and environmental liabilities were $16 million in 2010, $17 million in 2009 and $35 million in 2008, and are estimated at $81 million for the years 2011 through 2015. These amounts do not consider potential recoveries from 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 $185 million at December 31, 2010. 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 $150 million in the aggregate. Management also does not believe that these expenditures should have a material adverse effect on the Company s financial position, results of operations, liquidity or capital resources for any year.

Merck believes that climate change could present risks to its business. Some of the potential impacts of climate change to its business include increased operating costs due to additional regulatory requirements, physical risks to the Company s facilities, water limitations and disruptions to its supply chain. These potential risks are integrated into the Company s business planning including investment in reducing energy, water use and greenhouse gas emissions. The Company does not believe these risks are material to its business at this time.

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 56% of sales in 2010, 47% of sales in 2009 and 44% of sales in 2008. The increase in proportion of sales outside the United States in 2010 is primarily due to the inclusion of results of Schering-Plough following the close of the Merger.

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.

As a result of the Merger, Merck has expanded its operations in countries located in Latin America, the Middle East, Africa, Eastern Europe and Asia Pacific. 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 Investors 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 six standing committees are available on the Company s website at *www.merck.com/about/leadership* and all such information is available in print to any stockholder who requests it from the Company.

Item 1A. Risk Factors.

Investors 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 described below and elsewhere. See Cautionary Factors that May Affect Future Results below.

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 in the United States and in other countries, the Company faces strong competition from lower priced 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 business, cash flow, results of operations, financial position and prospects. The patent that provides U.S. market exclusivity for *Singulair,* which is the Company s largest selling product and had U.S. sales of approximately $3.2 billion in 2010, expires in August 2012. The Company expects that within the two years following patent expiration, it will lose substantially all U.S. sales of *Singulair*, with most of those declines coming in the first full year following patent expiration. Also, the patent for *Singulair* will expire in a number of major European markets in August 2012 and the Company expects sales of *Singulair* in those markets will decline significantly thereafter (although the six month Pediatric Market Exclusivity may extend this date in some markets to February 2013). In addition, the patent that provides U.S. market exclusivity for *Maxalt* will expire in June 2012 (although the six month Pediatric Market Exclusivity may extend this date to December 2012). The Company expects a significant decline in U.S. sales thereafter. In addition, as previously disclosed, in 2012, AstraZeneca has the right to exercise its options to acquire the Company s interest in Nexium and Prilosec and the

Company believes that it is likely that AstraZeneca will exercise its right.

A chart listing the U.S. patent protection for the Company s major marketed products is set forth above in Item 1. Business Patents, Trademarks and Licenses.

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 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities 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.

Additionally, certain foreign governments have indicated that compulsory licenses to patents may be granted in the case of national emergencies, which could diminish or eliminate sales and profits from those regions and negatively affect the Company s results of operations. Further, recent court decisions relating to other companies U.S. patents, potential U.S. legislation relating to patent reform, as well as regulatory initiatives may result in further erosion of intellectual property protection.

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 and, in the case of certain legacy Schering-Plough or MSP Partnership products, such a loss could result in a material non-cash impairment charge. 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 patent that provides U.S. market exclusivity for the Company s largest selling product, *Singulair,* expires in August 2012. The Company expects that within the two years following patent expiration, it will lose substantially all U.S. sales of *Singulair*, with most of those declines coming in the first full year following patent expiration. Also, the patent for *Singulair* will expire in a number of major European markets in August 2012 and the Company expects sales of *Singulair* in those markets will decline significantly thereafter (although the six month Pediatric Market Exclusivity may extend this date in some markets to February 2013).

Key Company products generate a significant amount of the Company s profits and cash flows, and any events that adversely affect the markets for its leading products could have a material and negative impact on results of operations and cash flows.

The Company s ability to generate profits and operating cash flow depends largely upon the continued profitability of the Company s key products, such as *Singulair*, *Remicade*, *Vytorin, Zetia, Januvia, Nasonex, Isentress,* and *Temodar.* As a result of the Company s dependence on key products, any event that adversely affects any of these products or the

markets for any of these products could have a significant impact on results of operations and cash flows. These events could include loss of patent protection, increased costs associated with manufacturing, generic or over-the-counter availability of the Company s product or a competitive product, the discovery of previously unknown side effects, increased competition from the introduction of new, more effective treatments and discontinuation or removal from the market of the product for any reason. If any of these events had a material adverse effect on the sales of certain legacy Schering-Plough or MSP Partnership products, such an event could result in a material non-cash impairment charge.

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 *Cozaar*, *Hyzaar* and *Fosamax,* after the loss of market exclusivity mean that the Company s future success is dependent on its pipeline of new products, including new products which it may develop 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. There is a high rate of failure inherent in the research to develop new drugs to treat diseases. As a result, there is a high risk that funds invested by the Company in research programs will not generate financial returns. This risk profile is compounded by the fact that this research has a long investment cycle. To bring a pharmaceutical compound from the discovery phase to market may take a decade or more and failure can occur at any point in the process, including later in the process after significant funds have been invested.

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 resources. 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 approved or 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 *Cozaar, Hyzaar* and *Singular* in 2012*,* 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 success is dependent on the successful development and marketing of new products, which are subject to substantial risks.

Products that appear promising in development may fail to reach market for numerous reasons, including the following:

- findings of ineffectiveness, superior safety or efficacy of competing products, or harmful side effects in clinical or pre-clinical testing;
- failure to receive the necessary regulatory approvals, including delays in the approval of new products and new indications, and increasing uncertainties about the time required to obtain regulatory approvals and the benefit/risk standards applied by regulatory agencies in determining whether to grant approvals;
- lack of economic feasibility due to manufacturing costs or other factors; and

preclusion from commercialization by the proprietary rights of others.

In connection with the Merger, the Company assessed and prioritized its pipeline to identify the most promising, high-potential compounds for development. In the future, if certain legacy Schering-Plough pipeline programs are cancelled or if the Company believes that their commercial prospects have been reduced, the Company may recognize material non-cash impairment charges for those programs that were measured at fair value and capitalized in connection with the Merger. These non-cash impairment charges, which the Company anticipates

would be excluded from the Company s non-GAAP earnings, could be material to the Company s future GAAP earnings. For example, as discussed below, the Company recognized a non-cash impairment charge of $1.7 billion in 2010 with respect to vorapaxar, which is a legacy Schering-Plough pipeline program.

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 EU. 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 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 business, cash flow, results of operations, financial position and prospects.

The Company faces intense competition from competitors products which, in addition to other factors, could in certain circumstances lead to non-cash impairment charges.

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, including the generic availability of competitors branded products, they may be equally safe and effective products

that 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, cash flow, results of operations, financial position and prospects. In addition, if legacy Schering-Plough products that were measured at fair value and capitalized in connection with the Merger, such as *Saphris,* or former MSP Partnership products, *Vytorin* or *Zetia*, experience difficulties in the market that negatively impact product cash flows, the Company may recognize material non-cash impairment charges with respect to the value of those products. These non-cash impairment charges, which the Company anticipates would be excluded from the Company s non-GAAP earnings, could be material to the Company s future GAAP earnings.

The current uncertainty in global economic conditions together with austerity measures being taken by governments in Europe could negatively affect the Company s operating results.

The current uncertainty in global economic conditions may result in a further slowdown to the global economy that could affect the Company s business by reducing the prices that drug wholesalers and retailers, hospitals, government agencies and managed health care providers may be able or willing to pay for the Company s products or by reducing the demand for the Company s products, which could in turn negatively impact the Company s sales and result in a material adverse effect on the Company s business, cash flow, results of operations, financial position and prospects.

While many of the Company s brands experienced positive growth trends in the EU during 2010, the environment in the EU and across Europe is now more challenging. Many countries have announced austerity measures aimed at reducing costs in areas such as health care. The implementation of pricing actions varies by country and many have announced measures to reduce prices of generic and patented drugs. While the Company is taking steps to mitigate the immediate impact in the EU, it is possible that the austerity measures could negatively affect the Company s revenue performance in 2011 and beyond more than the Company anticipates.

The Company faces pricing pressure with respect to its products.

The Company faces increasing pricing pressure globally from managed care organizations, institutions and government agencies and programs that could negatively affect the Company s sales and profit margins. 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 and the Patient Protection and Affordable Care Act. Changes to the health care system enacted as part of health care reform in the United States, as well as increased purchasing power of entities that negotiate on behalf of Medicare, Medicaid, and private sector beneficiaries, could result in further pricing pressures. The increased purchasing power of entities that negotiate on behalf of Medicare, Medicaid, and private sector beneficiaries, could result in further pricing pressures.

Outside the United States, numerous major markets have pervasive government involvement in funding health care and, in that regard, fix the pricing and reimbursement of pharmaceutical and vaccine products. Consequently, in those markets, the Company is subject to government decision making and budgetary actions with respect to its products.

The Company expects pricing pressures to increase in the future.

The health care industry will continue to be subject to increasing regulation and political action.

The Company believes that the health care industry will continue to be subject to increasing regulation as well as political and legal action, as future proposals to reform the health care system are considered by Congress and state legislatures. In 2010, major health care reform was adopted into law in the United States.

Important market reforms began last year and will continue through full implementation in 2014. The new law is expected to expand access to health care to more than 32 million Americans by the end of the decade. In 2010, Merck incurred additional costs as a result of the new law, including increased Medicaid rebates and other impacts that reduced revenues. In 2010, the minimum rebate to states participating in the Medicaid program increased from 15.1% to 23.1% on the Company s branded prescription drugs; the Medicaid rebate was extended to Medicaid Managed Care Organizations; and eligibility for the federal 340B drug discount program was extended to rural referral centers, sole community hospitals, critical access hospitals, certain free standing cancer hospitals, and certain additional children s hospitals.

Beginning in 2011, the law requires drug manufacturers to pay a 50% discount on Medicare Part D utilization incurred by beneficiaries when they are in the Medicare Part D coverage gap (i.e., the so-called donut hole). Also, beginning in 2011, the Company will incur an annual health care reform fee, which is being assessed on all branded prescription drug manufacturers and importers. The fee will be calculated based on the industry s total sales of branded prescription drugs to specified government programs. The percentage of a manufacturer s sales that are included is determined by a tiered scale based on the manufacturer s individual revenues. Each

manufacturer s portion of the total annual fee (the fee for 2011 is $2.5 billion) will be based on the manufacturer s proportion of the total includable sales in the prior year.

The Company cannot predict the likelihood of all future changes in the health care industry in general, or the pharmaceutical industry in particular, or what impact they may have on the Company s results of operations, financial condition or business.

The Company is experiencing difficulties and delays in the manufacturing of certain of its products.

As previously disclosed, Old Merck has, in the past, experienced difficulties in manufacturing certain of its vaccines and other products. These issues are continuing, in particular, with respect to the manufacture of the Company s varicella zoster virus-containing vaccines, such as *Varivax, ProQuad* and *Zostavax*. Similarly, the Company has, in the past, experienced difficulties manufacturing certain of its animal health products and is currently experiencing difficulty manufacturing certain women s health products. The Company is working on these issues, but there can be no assurance of when or if these issues will be finally resolved.

In addition to the difficulties that the Company is experiencing currently, the Company may experience difficulties and delays inherent in manufacturing its products, such as (i) failure of the Company or any of its vendors or suppliers to comply with Current Good Manufacturing Practices and other applicable regulations and quality assurance guidelines that could lead to manufacturing shutdowns, product shortages and delays in product manufacturing; (ii) construction delays related to the construction of new facilities or the expansion of existing facilities, including those intended to support future demand for the Company s products; and (iii) other manufacturing or distribution problems including changes in manufacturing production sites and limits to manufacturing capacity due to regulatory requirements, changes in types of products produced, or physical limitations that could impact continuous supply. Manufacturing difficulties can result in product shortages, leading to lost sales.

The Company faces significant litigation related to *Vioxx*.

On September 30, 2004, Old Merck voluntarily withdrew *Vioxx*, its arthritis and acute pain medication, from the market worldwide. Although Old Merck has settled the major portion of the U.S. Product Liability litigation, the Company still faces material litigation arising from the voluntary withdrawal of *Vioxx*.

In addition to the *Vioxx* Product Liability Lawsuits, various purported class actions and individual lawsuits have been brought against Old Merck and several current and former officers and directors of Old Merck alleging that Old Merck 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). The *Vioxx* Securities Lawsuits have been transferred by the Judicial Panel on Multidistrict Litigation (the JPML) to the U.S. District Court for the District of New Jersey before District Judge Stanley R. Chesler for inclusion in a nationwide MDL (the Shareholder MDL), and have been consolidated for all purposes. On June 18, 2010, Old Merck moved to dismiss the Fifth Amended Class Action Complaint in the consolidated securities class action. Plaintiffs filed their opposition on August 9, 2010, and Old Merck filed its reply on September 17, 2010. The motion is currently pending before the district court. In addition, several individual securities lawsuits filed by foreign institutional investors also are consolidated with the *Vioxx* Securities Lawsuits; by stipulation, defendants are not required to respond to these complaints until the resolution of any motions to dismiss in the consolidated securities class action. In addition, various putative class actions have been brought against Old Merck and several current and former employees, officers, and directors of the Company alleging violations of ERISA. (All of these suits are referred to as the *Vioxx* ERISA Lawsuits and, together with the *Vioxx* Securities Lawsuits the *Vioxx* Shareholder Lawsuits . The *Vioxx* Shareholder Lawsuits are discussed more fully in Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below.) Old Merck 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 .) Old Merck has also been sued by 12 states, one county and a private citizen as a *qui tam* lawsuit with respect to the marketing of *Vioxx.*

The U.S. Department of Justice (DOJ) has issued subpoenas requesting information relating to Old Merck s research, marketing and selling activities with respect to *Vioxx* in a federal health care investigation under criminal statutes. This investigation includes subpoenas for witnesses to appear before a grand jury. As previously disclosed, in March 2009, Old Merck received a letter from the U.S. Attorney s Office for the District of

Massachusetts identifying it as a target of the grand jury investigation regarding *Vioxx*. In 2010, the Company established a $950 million reserve (the *Vioxx* Liability Reserve) in connection with the anticipated resolution of the DOJ s investigation. The Company s discussions with the government are ongoing. Until they are concluded, there can be no certainty about a definitive resolution. There are also ongoing investigations by local authorities in Europe. The Company is cooperating with authorities in all of these investigations. (All of these investigations, including the DOJ investigation, are referred to as the *Vioxx* Investigations .) The Company cannot predict the outcome of any of these investigations; however, they could result in potential civil and/or criminal remedies.

The *Vioxx* product liability litigation is discussed more fully in Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below. The Company currently anticipates that three U.S. *Vioxx* Product Liability Lawsuits will be tried in 2011. The Company cannot predict the timing of any other trials related to the *Vioxx* Litigation. 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 2010, Merck spent approximately $140 million in the aggregate in legal defense costs worldwide related to (i) the *Vioxx* Lawsuits, and (ii) the *Vioxx* Investigations (collectively, the *Vioxx* Litigation). In 2010, Merck recorded charges of $106 million to add to the reserve solely for its future legal defense costs related to the *Vioxx* Litigation, which was $110 million at December 31, 2009 and $76 million at December 31, 2010 (the *Vioxx* Legal Defense Costs Reserve). The amount of the *Vioxx* Legal Defense Costs Reserve is based on certain assumptions, described below under Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities, and is the best estimate of the minimum amount of defense costs that the Company believes will be incurred in connection with the remaining aspects of the *Vioxx* Litigation, however, events such as additional trials in the *Vioxx* Litigation and other events that could arise in the course of the *Vioxx* Litigation could affect the ultimate amount of defense costs to be incurred by the Company. In addition, as mentioned above, in 2010 the Company established the *Vioxx* Liability Reserve in connection with the anticipated resolution of the DOJ s investigation.

The Company is not currently able to estimate any additional amounts that it may be required to pay in connection with the *Vioxx* Lawsuits or *Vioxx* Investigations. These proceedings are still expected to continue for years and the Company cannot predict 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 not included in the Settlement Program. Other than the *Vioxx* Liability Reserve, the Company has not established any reserves for any potential liability relating to the *Vioxx* Lawsuits not included in the Settlement Program 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.

Issues concerning *Vytorin* and the ENHANCE clinical trial have had an adverse effect on sales of *Vytorin* and *Zetia* in the United States and results from ongoing trials could have an adverse effect on such sales.

The Company sells *Vytorin* and *Zetia.* As previously disclosed, in January 2008, the legacy companies announced the results of the ENHANCE clinical trial, an imaging trial in 720 patients with heterozygous familial hypercholesterolemia, a rare genetic condition that causes very high levels of LDL bad cholesterol and greatly increases the risk for premature coronary artery disease. As previously reported, despite the fact that ezetimibe/simvastatin 10/80 mg (*Vytorin*) significantly lowered LDL bad cholesterol more than simvastatin 80 mg

alone, there was no significant difference between treatment with ezetimibe/simvastatin and simvastatin alone on the pre-specified primary endpoint, a change in the thickness of carotid artery walls over two years as measured by ultrasound. The IMPROVE-IT trial is underway and is designed to provide cardiovascular outcomes data for ezetimibe/simvastatin in patients with acute coronary syndrome. No incremental benefit of ezetimibe/simvastatin on cardiovascular morbidity and mortality over and above that demonstrated for simvastatin has been established.

In January 2009, the FDA announced that it had completed its review of the final clinical study report of ENHANCE. The FDA stated that the results from ENHANCE did not change its position that elevated LDL cholesterol is a risk factor for cardiovascular disease and that lowering LDL cholesterol reduces the risk for cardiovascular disease. For a discussion concerning shareholder litigation arising out of the ENHANCE study, see Item 8. Financial Statements and Supplementary Data, Note 12. Contingencies and Environmental Liabilities below.

The IMPROVE-IT trial is scheduled for completion in 2013. In the IMPROVE-IT trial, a blinded interim efficacy analysis was conducted by the DSMB for the trial when approximately 50% of the endpoints were accrued. The DSMB recommended continuing the trial with no changes in the study protocol. Another blinded interim efficacy analysis is planned by the DSMB when approximately 75% of the primary events have been accrued. If, based on the results of the interim analysis, the trial were to be halted because of concerns related to *Vytorin*, that could have a material adverse effect on sales of *Vytorin* and *Zetia*.

Following the announcements of the ENHANCE clinical trial results, sales of *Vytorin* and *Zetia* declined in 2008, 2009 and 2010 in the United States. These issues concerning the ENHANCE clinical trial have had an adverse effect on sales of *Vytorin* and *Zetia* and could continue to have an adverse effect on such sales. If sales of such products are materially adversely affected, the Company s business, cash flow, results of operations, financial position and prospects could also be materially adversely affected. In addition, unfavorable outcomes resulting from the litigation concerning the sale and promotion of these products could have a material adverse effect on the Company s business, cash flow, results of operations, financial position and prospects.

An arbitration proceeding commenced by Centocor against Schering-Plough may result in the Company s loss of the rights to market *Remicade* and *Simponi.*

A subsidiary of the Company is a party to a Distribution Agreement with Centocor, a wholly owned subsidiary of Johnson & Johnson, under which the Schering-Plough subsidiary has rights to distribute and commercialize the rheumatoid arthritis treatment *Remicade* and *Simponi*, a next-generation treatment, in certain territories.

Under Section 8.2(c) of the Distribution Agreement, If either party is acquired by a third party or otherwise comes under Control (as defined in Section 1.4 [of the Distribution Agreement]) of a third party, it will promptly notify the other party not subject to such change of control. The party not subject to such change of control will have the right, however not later than thirty (30) days from such notification, to notify in writing the party subject to the change of Control of the termination of the Agreement taking effect immediately. As used herein Change of Control shall mean (i) any merger, reorganization, consolidation or combination in which a party to this Agreement is not the surviving corporation; or (ii) any person (within the meaning of Section 13(d) and Section 14(d)(2) of the Securities Exchange Act of 1934), excluding a party s Affiliates, is or becomes the beneficial owner, directly or indirectly, of securities of the party representing more than fifty percent (50%) of either (A) the then-outstanding shares of common stock of the party or (B) the combined voting power of the party s then-outstanding voting securities; or (iii) if individuals who as of the Effective Date [April 3, 1998] constitute the Board of Directors of the party (the Incumbent Board) cease for any reason to constitute at least a majority of the Board of Directors of the party; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the party s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or (iv) approval by the shareholders of a party of a complete liquidation or the complete dissolution of such party.

Section 1.4 of the Distribution Agreement defines Control to mean the ability of any entity (the Controlling entity), directly or indirectly, through ownership of securities, by agreement or by any other method, to direct the manner in which more than fifty percent (50%) of the outstanding voting rights of any other entity (the Controlled entity), whether or not represented by securities, shall be cast, or the right to receive over fifty percent (50%) of the profits or earnings of, or to otherwise control the management decisions of, such other entity (also a Controlled entity).

On May 27, 2009, Centocor delivered to Schering-Plough a notice initiating an arbitration proceeding to resolve whether, as a result of the then proposed Merger, Centocor is permitted to terminate the Distribution Agreement and related agreements. As part of the arbitration process, Centocor has taken the position that it has the right to terminate the Distribution Agreement on the grounds that, in the Merger, Schering-Plough and the Schering-Plough subsidiary party to the Distribution Agreement were (i) acquired by a third party or otherwise come[ing] under Control (as defined in Section 1.4) of a third party and/or (ii) undergoing a Change of Control (as defined in Section 8.2(c)).

The Company is vigorously contesting Centocor s attempt to terminate the Distribution Agreement as a result of the Merger. A hearing in the arbitration was completed in late December 2010. If the arbitration panel were to conclude that Centocor is permitted to terminate the Distribution Agreement as a result of the Merger and Centocor in fact terminates the Distribution Agreement, the Company s subsidiary would not be able to distribute *Remicade* or *Simponi*. In addition, in the arbitration, Centocor is claiming damages, in an amount to be determined , that result from Merck s alleged non-termination of the Distribution Agreement. If Centocor were to prevail in the arbitration, Merck could be liable for the net damages, including any offsets or mitigation, that the arbitration panel finds Centocor incurred as a result of non-termination. Sales of *Remicade* and *Simponi* in 2010 were $2.7 billion and $97 million, respectively. An unfavorable outcome in the arbitration would have a material adverse effect on the Company s financial position, liquidity and results of operations. In addition, the Company would be required to record a material, non-cash impairment charge with respect to the termination of those marketing rights.

Finally, due to the uncertainty surrounding the outcome of the arbitration, the parties may choose to settle the dispute under mutually agreeable terms but any agreement reached with Centocor to resolve the dispute under the Distribution Agreement may result in the terms of the Distribution Agreement being modified in a manner that may reduce the benefits of the Distribution Agreement to the Company.

Pharmaceutical products can develop unexpected safety or efficacy concerns.

Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals, or declining sales, as well as product liability, consumer fraud and/or other claims.

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.

Reliance on third party relationships and outsourcing arrangements could adversely affect the Company s business.

The Company depends on third parties, including suppliers, alliances with other pharmaceutical and biotechnology companies, and third party service providers, for key aspects of its business including development, manufacture and commercialization of its products and support for its information technology systems. Failure of these third parties to meet their contractual, regulatory and other obligations to the Company or the development of factors that materially disrupt the relationships between the Company and these third parties could have a material adverse effect on the Company s business.

The Company is increasingly dependent on sophisticated information technology and infrastructure.

The Company is increasingly dependent on sophisticated information technology and infrastructure. Any significant breakdown, intrusion, interruption or corruption of these systems or data breaches could have a material adverse effect on our business. In addition, the Company currently is proceeding with a multi-year implementation of an enterprise wide resource planning system, which was implemented in the United States in 2010 and which includes modification to the design, operation and documentation of its internal controls over financial reporting. The Company intends to implement the resource planning system in major European markets and Canada in 2011. Any material problems in the implementation could have a material adverse effect on the Company s business.

Developments following regulatory approval may adversely affect sales of the Company s products.

Even after a product reaches market, certain developments following regulatory approval, including results in post-marketing Phase IV trials, may decrease demand for the Company s products, including the following:

the re-review of products that are already marketed;

new scientific information and evolution of scientific theories;

the recall or loss of marketing approval of products that are already marketed;

changing government standards or public expectations regarding safety, efficacy or labeling changes; and

greater scrutiny in advertising and promotion.

In the past several years, clinical trials and post-marketing surveillance of certain marketed drugs of the Company and of competitors within the industry have raised safety concerns that have led to recalls, withdrawals or adverse labeling of marketed products. Clinical trials and post-marketing surveillance of certain marketed drugs also have raised concerns among some prescribers and patients relating to the safety or efficacy of pharmaceutical products in general that have negatively affected the sales of such products. In addition, increased scrutiny of the outcomes of clinical trials have led to increased volatility in market reaction. Further, these matters often attract litigation and, even where the basis for the litigation is groundless, considerable resources may be needed to respond.

In addition, following the wake of product withdrawals and other significant safety issues, health authorities such as the FDA, the EMA and the Pharmaceutical and Medical Device Agency have increased their focus on safety when assessing the benefit/risk balance of drugs. Some health authorities appear to have become more cautious when making decisions about approvability of new products or indications and are re-reviewing select products that are already marketed, adding further to the uncertainties in the regulatory processes. There is also greater regulatory scrutiny, especially in the United States, on advertising and promotion and, in particular, direct-to-consumer advertising.

If previously unknown side effects are discovered or if there is an increase in negative publicity regarding known side effects of any of the Company s products, it could significantly reduce demand for the product or require the Company to take actions that could negatively affect sales, including removing the product from the market, restricting its distribution or applying for labeling changes. Further, in the current environment in which all pharmaceutical companies operate, the Company is at risk for product liability claims for its products.

Negative events in the animal health industry could have a negative impact on future results of operations.

Future sales of key animal health products could be adversely impacted by a number of risk factors including certain risks that are specific to the animal health business. For example, the outbreak of disease carried by animals, such as Bovine Spongiform Encephalopathy (BSE) or mad cow disease, could lead to their widespread death and precautionary destruction as well as the reduced consumption and demand for animals, which could adversely impact the Company s results of operations. Also, the outbreak of any highly contagious diseases near the Company s main production sites could require the Company to immediately halt production of vaccines at such sites or force the Company to incur substantial expenses in procuring raw materials or vaccines elsewhere. Other risks specific to animal health include epidemics and pandemics, government procurement and pricing practices, weather and global agribusiness economic events. As the Animal Health segment of the Company s business becomes more significant, the impact of any such events on future results of operations would also become more significant.

The Company is working with sanofi-aventis to create an animal health joint venture.

As previously disclosed, the Company has agreed to create an animal health joint venture with sanofi-aventis. Under the agreement, both companies will contribute their respective animal health businesses to the new

equally-owned joint venture. The transaction is expected to close in the third quarter of 2011. Once the animal health joint venture is established, there will be a period of integration during which the animal health business could suffer. It is possible that the integration process could result in the loss of key employees, result in the disruption of each company s ongoing animal health business or identify inconsistencies in standards, controls, procedures and policies that adversely affect the joint venture s ability to maintain relationships with customers, suppliers, distributors or other parties.

Disruption from the integration process could have a material adverse effect on the joint venture s business which is expected to be an important contributor to the Company s business and results of operations. The formation of the animal health joint venture is expected to be dilutive to the Company s earnings for the first 12 months after the transaction closes.

Biologics carry unique risks and uncertainties, which could have a negative impact on future results of operations.

The successful development, testing, manufacturing and commercialization of biologics, particularly human and animal health vaccines, is a long, expensive and uncertain process. There are unique risks and uncertainties with biologics, including:

There may be limited access to and supply of normal and diseased tissue samples, cell lines, pathogens, bacteria, viral strains and other biological materials. In addition, government regulations in multiple jurisdictions, such as the United States and European states within the EU, could result in restricted access to, or transport or use of, such materials. If the Company loses access to sufficient sources of such materials, or if tighter restrictions are imposed on the use of such materials, the Company may not be able to conduct research activities as planned and may incur additional development costs.

The development, manufacturing and marketing of biologics are subject to regulation by the FDA, the EMA and other regulatory bodies. These regulations are often more complex and extensive than the regulations applicable to other pharmaceutical products. For example, in the United States, a BLA, including both preclinical and clinical trial data and extensive data regarding the manufacturing procedures, is required for human vaccine candidates and FDA approval is required for the release of each manufactured lot.

Manufacturing biologics, especially in large quantities, is often complex and may require the use of innovative technologies to handle living micro-organisms. Each lot of an approved biologic must undergo thorough testing for identity, strength, quality, purity and potency. Manufacturing biologics requires facilities specifically designed for and validated for this purpose, and sophisticated quality assurance and quality control procedures are necessary. Slight deviations anywhere in the manufacturing process, including filling, labeling, packaging, storage and shipping and quality control and testing, may result in lot failures, product recalls or spoilage. When changes are made to the manufacturing process, the Company may be required to provide pre-clinical and clinical data showing the comparable identity, strength, quality, purity or potency of the products before and after such changes.

Biologics are frequently costly to manufacture because production ingredients are derived from living animal or plant material, and most biologics cannot be made synthetically. In particular, keeping up with the demand for vaccines may be difficult due to the complexity of producing vaccines.

The use of biologically derived ingredients can lead to allegations of harm, including infections or allergic reactions, or closure of product facilities due to possible contamination. Any of these events

could result in substantial costs.

The Company is exposed to market risk from fluctuations in currency exchange rates and interest rates.

The Company operates in multiple jurisdictions and, as such, virtually all sales are denominated in currencies of the local jurisdiction. Additionally, the Company has entered and will enter into acquisition, licensing, borrowings or other financial transactions that may give rise to currency and interest rate exposure.

Since the Company cannot, with certainty, foresee and mitigate against such adverse fluctuations, fluctuations in currency exchange rates and interest rates could negatively affect the Company s results of operations, financial position and cash flows.

In order to mitigate against the adverse impact of these market fluctuations, the Company will from time to time enter into hedging agreements. While hedging agreements, such as currency options and interest rate swaps, may limit some of the exposure to exchange rate and interest rate fluctuations, such attempts to mitigate these risks may be costly and not always successful.

The Company is subject to evolving and complex tax laws, which may result in additional liabilities that may affect results of operations.

The Company is subject to evolving and complex tax laws in the jurisdictions in which it operates. Significant judgment is required for determining the Company s tax liabilities, and the Company s tax returns are periodically examined by various tax authorities. The Company believes that its accrual for tax contingencies is adequate for all open years based on past experience, interpretations of tax law, and judgments about potential actions by tax authorities; however, due to the complexity of tax contingencies, the ultimate resolution of any tax matters may result in payments greater or less than amounts accrued.

In February 2010, President Obama s administration proposed significant changes to the U.S. international tax laws, including changes that would limit U.S. tax deductions for expenses related to un-repatriated foreign-source income and modify the U.S. foreign tax credit rules. We cannot determine whether these proposals will be enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If these or other changes to the U.S. international tax laws are enacted, they could have a significant impact on the financial results of the Company.

In addition, the Company may be impacted by changes in tax laws, including tax rate changes, changes to the laws related to the remittance of foreign earnings (deferral), or other limitations impacting the U.S. tax treatment of foreign earnings, new tax laws, and revised tax law interpretations in domestic and foreign jurisdictions.

The Company may fail to realize the anticipated cost savings, revenue enhancements and other benefits expected from the Merger, which could adversely affect the value of the Company s common stock.

The success of the Merger will depend, in part, on the Company s ability to successfully combine the businesses of Old Merck and Schering-Plough and realize the anticipated benefits and cost savings from the combination of the two companies. If the combined company is not able to achieve these objectives within the anticipated time frame, or at all, the value of the Company s common stock may be adversely affected.

It is possible that the integration process could result in the loss of key employees, result in the disruption of each legacy company s ongoing businesses or identify inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, distributors, creditors, lessors, clinical trial investigators or managers or to achieve the anticipated benefits of the Merger.

Specifically, issues that must be addressed in integrating the operations of the two legacy companies in order to realize the anticipated benefits of the Merger include, among other things:

- integrating the research and development, manufacturing, distribution, marketing and promotion activities and information technology systems of Old Merck and Schering-Plough;

conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the companies;

identifying and eliminating redundant and underperforming operations and assets; and

managing tax costs or inefficiencies associated with integrating the operations of the combined company.

Integration efforts between the two companies will also divert management attention and resources. An inability to realize the full extent of the anticipated benefits of the Merger, as well as any delays encountered in the

integration process, could have an adverse effect on the Company s business and results of operations, which may affect the value of the shares of Company common stock.

In addition, the actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual cost and sales synergies may be lower than the Company expects and may take longer to achieve than anticipated. If the Company is not able to adequately address these challenges, it may be unable to successfully integrate the operations of the two legacy companies, or to realize the anticipated benefits of the integration of the two legacy companies.

Delays encountered in the integration process could have a material adverse effect on the revenues, expenses, operating results and financial condition of the Company. Although the Company expects significant benefits, such as increased cost savings, to result from the Merger, there can be no assurance that the Company will realize all of these anticipated benefits.

Product liability insurance for products may be limited, cost prohibitive or unavailable.

As a result of a number of factors, product liability insurance has become less available while the cost has increased significantly. With respect to product liability, the Company self-insures substantially all of its risk, as the availability of commercial insurance has become more restrictive. 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 legacy Merck products first sold after that date. The Company will continually assess the most efficient means to address its risk; however, there can be no guarantee that insurance coverage will be obtained or, if obtained, will be sufficient to fully cover product liabilities that may arise.

The Company may not be able to realize the expected benefits of its investments in emerging markets.

The Company has been taking steps to increase its presence in emerging markets. However, there is no guarantee that the Company s efforts to expand sales in emerging markets will succeed. Some countries within emerging markets may be especially vulnerable to periods of global financial instability or may have very limited resources to spend on health care. In order for the Company to successfully implement its emerging markets strategy, it must attract and retain qualified personnel. The Company may also be required to increase its reliance on third-party agents within less developed markets. In addition, many of these countries have currencies that fluctuate substantially and if such currencies devalue and we cannot offset the devaluations, the Company s financial performance within such countries could be adversely affected.

For all these reasons, sales within emerging markets carry significant risks. However, a failure to continue to expand the Company s business in emerging markets could have a material adverse effect on the business, financial condition or results of the Company s operations.

The Company has significant global operations, which expose it to additional risks, and any adverse event could have a material negative impact on the Company s results of operations.

The extent of the Company s operations outside the United States are significant. Risks inherent in conducting a global business include:

changes in medical reimbursement policies and programs and pricing restrictions in key markets;

multiple regulatory requirements that could restrict the Company s ability to manufacture and sell its products in key markets;

trade protection measures and import or export licensing requirements;

foreign exchange fluctuations;

diminished protection of intellectual property in some countries; and

possible nationalization and expropriation.

As discussed below, in 2010 the Company was required to remeasure its local currency operations in Venezuela to U.S. dollars as the Venezuelan economy was determined to be hyperinflationary. Also, in January and again in December 2010, the Venezuelan government devalued its currency. These actions have had, and will continue to have, an adverse effect on the Company s results of operations, financial position and cash flows.

Furthermore, the Company believes the credit and economic conditions within Greece, Spain, Italy and Portugal, among other members of the EU, have deteriorated during 2010. These conditions, as well as inherent variability of timing of cash receipts, have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect on the accounts receivable outstanding in these countries. As of December 31, 2010, the Company s accounts receivable in Greece, Italy, Spain and Portugal totaled approximately $1.4 billion of which hospital and public sector receivables in Greece were approximately 15%. During 2010, the Greek government announced it would exchange zero coupon bonds for outstanding 2007-2009 accounts receivable related to certain government sponsored institutions.

In addition, there may be changes to the Company s business and political position if there is instability, disruption or destruction in a significant geographic region, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest; and natural or man-made disasters, including famine, flood, fire, earthquake, storm or disease.

Cautionary Factors that May Affect Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

This report, including the Annual Report, and other written reports and oral statements made from time to time by the Company may contain so-called forward-looking statements, all of which are 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 anticipates, expects, plans, will, estimates, forecasts, projects and other words of similar meaning. One can also identify t 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:

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 drug 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.

Significant litigation related to *Vioxx*, and *Vytorin* and *Zetia*.

The arbitration proceeding involving the Company s right to distribute *Remicade* and *Simponi*.

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, including recently enacted laws in a majority of states in the United States requiring security breach notification.

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 above.

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. commercial operations are headquartered in Upper Gwynedd, Pennsylvania. The Company s U.S. pharmaceutical business is conducted through divisional headquarters located in Upper Gwynedd and Whitehouse Station, New Jersey. The Company s vaccines business is conducted through divisional headquarters located in West Point, Pennsylvania. Merck s Animal Health global headquarters is located in Boxmeer, the Netherlands. Principal U.S. research facilities are located in Rahway, Kenilworth, Summit and Union, New Jersey, West Point, Palo Alto, California, and Nebraska (Animal Health). Principal research facilities outside the U.S. are located in the Netherlands and Scotland. The

Company also has production facilities for human health products at 15 locations in the United States and Puerto Rico. 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 2010 were $1.7 billion compared with $1.5 billion for 2009. In the United States, these amounted to $990 million for 2010 and $982 million for 2009. Abroad, such expenditures amounted to $687 million for 2010 and $479 million for 2009.

The Company and its subsidiaries own their principal facilities and manufacturing plants under titles that 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 information called for by this Item is incorporated herein by reference to Note 12. Contingencies and Environmental Liabilities included in Part II, Item 8. Financial Statements and Supplementary Data.

Executive Officers of the Registrant (ages as of February 1, 2011)

KENNETH C. FRAZIER Age 56

January 2011 President and Chief Executive Officer, Merck & Co., Inc.

May 2010 President, Merck & Co., Inc. responsible for the Company s three largest worldwide divisions Global Human Health, Merck Manufacturing Division and Merck Research Laboratories

November 2009 Executive Vice President and President, Global Human Health, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s marketing and sales organizations worldwide, including the global pharmaceutical and vaccine franchises

August 2007 Executive Vice President and President, Global Human Health, Old Merck responsible for the Company s marketing and sales organizations worldwide, including the global pharmaceutical and vaccine franchises

November 2006 Executive Vice President and General Counsel, Old Merck 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, Old Merck responsible for legal and public affairs functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

ADELE D. AMBROSE Age 54

November 2009 Senior Vice President and Chief Communications Officer, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Global Communications organization

December 2007 Vice President and Chief Communications Officer, Old Merck responsible for the Global Communications organization

April, 2005 On sabbatical

Prior to April 2005, Ms. Ambrose was Executive Vice President, Public Relations & Investor Communications at AT&T Wireless (wireless services provider) from September 2001 to April 2005.

RICHARD S. BOWLES III Age 59

November 2009 Executive Vice President and Chief Compliance Officer, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s compliance function, including Global Safety & Environment, Systems Assurance, Ethics and Privacy

Prior to November 2009, Dr. Bowles was Senior Vice President, Global Quality Operations, Schering-Plough Corporation since March 2001.

JOHN CANAN Age 54

November 2009 Senior Vice President Finance-Global Controller, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s global controller s organization including all accounting, controls, external reporting and financial standards and policies

January 2008 Senior Vice President and Controller, Old Merck responsible for the Corporate Controller s Group

September 2006 Vice President, Controller, Old Merck responsible for the Corporate Controller s Group

WILLIE A. DEESE Age 55

November 2009 Executive Vice President and President, Merck Manufacturing Division (MMD), Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s global manufacturing, procurement, and distribution and logistics functions

January 2008 Executive Vice President and President, MMD, Old Merck responsible for the Company s global manufacturing, procurement, and distribution and logistics functions

May 2005 President, MMD, Old Merck responsible for the Company s global manufacturing, procurement, and operational excellence functions

January 2004 Senior Vice President, Global Procurement, Old Merck

MIRIAN M. GRADDICK-WEIR Age 56

November 2009 Executive Vice President, Human Resources, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Global Human Resources organization

January 2008 Executive Vice President, Human Resources, Old Merck responsible for the Global Human Resources organization

September 2006 Senior Vice President, Human Resources, Old Merck

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

BRIDGETTE P. HELLER Age 49

March 2010 Executive Vice President and President, Merck Consumer Care, Merck & Co., Inc. responsible for the Merck Consumer Care organization

Prior to March 2010, Ms. Heller was President, Johnson & Johnson s Baby Global Business Unit (2007 2010) and Global President for Baby, Kids and Wound Care (2005 2007).

Prior to joining Johnson & Johnson, Ms. Heller was founder and managing partner at Heller Associates from 2004 to 2005.

PETER N. KELLOGG Age 54

November 2009 Executive Vice President and Chief Financial Officer, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s worldwide financial organization, investor relations, corporate development and licensing, and the Company s joint venture relationships

August 2007 Executive Vice President and Chief Financial Officer, Old Merck responsible for the Company s worldwide financial organization, investor relations, corporate development and licensing, and the Company s joint venture relationships

Prior to August 2007, Mr. Kellogg was Executive Vice President, Finance and Chief Financial Officer of Biogen Idec (biotechnology company) since November 2003, from the merger of Biogen, Inc. and IDEC Pharmaceuticals Corporation.

PETER S. KIM Age 52

November 2009 Executive Vice President and President, Merck Research Laboratories, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s research and development efforts worldwide

January 2008 Executive Vice President and President, Merck Research Laboratories, Old Merck responsible for the Company s research and development efforts worldwide

January 2003 President, Merck Research Laboratories, Old Merck responsible for the Company s research and development efforts worldwide

RAUL E. KOHAN Age 58

November 2009 Executive Vice President and President, Animal Health, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for the Company s Animal Health organization

October 2008 Senior Vice President and President, Intervet/Schering-Plough Animal Health, Schering-Plough Corporation

October 2007 Deputy Head, Animal Health and Senior Vice President, Corporate Excellence and Administrative Services, Schering-Plough Corporation

February 2007 Senior Vice President and President, Animal Health, Schering-Plough Corporation

Prior to February 2007, Mr. Kohan was Group Head of Global Specialty Operations and President, Animal Health, Schering-Plough Corporation since 2003.

BRUCE N. KUHLIK Age 54

November 2009 Executive Vice President and General Counsel, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for legal, communications, and public policy functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

January 2008 Executive Vice President and General Counsel, Old Merck responsible for legal, communications, and public policy functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

August 2007 Senior Vice President and General Counsel, Old Merck responsible for legal, communications, and public policy functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

May 2005 Vice President and Associate General Counsel, Old Merck primary responsibility for the Company s *Vioxx* litigation defense

Prior to May 2005, Mr. Kuhlik was Senior Vice President and General Counsel for the Pharmaceutical Research and Manufacturers of America since October, 2002.

MICHAEL ROSENBLATT, M.D. Age 63

December 2009 Executive Vice President and Chief Medical Officer, Merck & Co., Inc. the Company s primary voice to the global medical community on critical issues such as patient safety and will oversee the Company s Global Center for Scientific Affairs

Prior to December 2009, Dr. Rosenblatt was the Dean of Tufts University School of Medicine since 2003.

J. CHRIS SCALET Age 52

November 2009 Executive Vice President, Global Services, and Chief Information Officer (CIO), Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for Global Shared Services across the human resources, finance, site services and information services function; and the enterprise business process redesign initiative

January 2008 Executive Vice President, Global Services, and CIO, Old Merck responsible for Global Shared Services across the human resources, finance, site services and information services function; and the enterprise business process redesign initiative

January 2006 Senior Vice President, Global Services, and CIO, Old Merck 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, Old Merck responsible for all areas of information technology and services including application development, technical support, voice and data communications, and computer operations worldwide

ADAM H. SCHECHTER Age 46

May 2010 Executive Vice President and President, Global Human Health, Merck & Co., Inc. responsible for the Company s pharmaceutical and vaccine marketing and sales organizations worldwide

November 2009 President, Global Human Health, U.S. Market-Integration Leader, Merck & Co., Inc. (formerly Schering-Plough Corporation) commercial responsibility in the United States for the Company s portfolio of prescription medicines. Leader for the integration efforts for the Merck/Schering-Plough merger across all divisions and functions.

August 2007 President, Global Pharmaceuticals, Global Human Health global responsibilities for the Company s atherosclerosis/cardiovascular, diabetes/obesity, oncology, specialty/neuroscience, respiratory, bone, arthritis and analgesia franchises as well as commercial responsibility in the United States for the Company s portfolio of prescription medicines

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 responsible for the Neuro-Psychiatry, Osteoporosis, Migraine, Respiratory, and New Products franchises

MERVYN TURNER Age 64

December 2010 Chief Strategy Officer and Senior Vice President, Merck Research Laboratories, Merck & Co., Inc. responsible for leading the formulation and execution of the Company s long term strategic plan and additional responsibilities within Merck Research Laboratories

November 2009 Chief Strategy Officer and Senior Vice President, Emerging Markets Research & Development, Merck Research Laboratories, Merck & Co., Inc. (formerly Schering-Plough Corporation) responsible for leading the formulation and execution of the Company s long term strategic plan and additional responsibilities in Emerging

Markets Research & Development within Merck Research Laboratories

November 2008 Chief Strategy Officer and Senior Vice President, Worldwide Licensing and External Research, Merck Research Laboratories, Old Merck

October 2002 Senior Vice President, Worldwide Licensing and External Research, Old Merck

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 SGP prior to the Merger, and then MRK after the Merger. 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
2010	**$ 1.52**	**$ 0.38**	**$ 0.38**	**$ 0.38**	**$ 0.38**
2009[(1)]	$ 0.26	$ 0.065	$ 0.065	$ 0.065	$ 0.065

Common Stock Market Prices

2010	**4th Q**	**3rd Q**	**2nd Q**	**1st Q**
High	$ 37.68	$ 37.58	$ 37.97	$ 41.56
Low	$ 33.94	$ 33.65	$ 30.70	$ 35.76
2009				
High	$ 38.42	$ 28.68	$ 25.12	$ 24.42
Low	$ 27.97	$ 24.34	$ 21.67	$ 16.32

(1) *In 2009, Old Merck paid quarterly cash dividends per common share of $0.38 for an annual amount of $1.52.*

As of January 31, 2011, there were approximately 170,300 shareholders 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 Old Merck and Schering-Plough s equity plans as of the close of business on December 31, 2010. The table does not include information about tax qualified plans such as the MSD Employee Savings and Security Plan and the Schering-Plough Employees Savings Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders[1]	272,222,640[2]	$ 42.26	175,102,029
Equity compensation plans not approved by security holders[3]			
Total	272,222,640	$ 42.26	175,102,029

[1] *Includes options to purchase shares of Company Common Stock and other rights under the following shareholder-approved plans: the Merck Sharp & Dohme 2001, 2004, 2007 and 2010 Incentive Stock Plans, the Merck & Co., Inc. 2001, 2006 and 2010 Non-Employee Directors Stock Option Plans, and the Merck & Co., Inc. Schering-Plough 1997, 2002 and 2006 Stock Incentive Plans.*

[2] *Excludes approximately 11,714,532 shares of restricted stock units and 4,999,543 performance share units (assuming maximum payouts) under the Merck Sharp & Dohme 2004, 2007 and 2010 Incentive Stock Plans and 8,723,388 shares of restricted stock units and 129,216 performance share units (excluding accrued dividends) under the Merck & Co., Inc. Schering-Plough 2006 Stock Incentive Plan. Also excludes 404,824 shares of phantom stock deferred under the MSD Deferral Program.*

[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 Rosetta Inpharmatics, Inc. 1997 and 2000 Employee Stock Option Plans. A total of 18,554 shares of Merck Common Stock may be purchased under the Assumed Plans, at a weighted average exercise price of $52.51. No further grants may be made under any Assumed Plans.*

Performance Graph

The following graph assumes a $100 investment on December 31, 2005, and reinvestment of all dividends, in each of the Company s Common Shares, the S&P 500 Index, and a composite peer group of the major U.S.-based pharmaceutical companies, which are: Abbott Laboratories, Bristol-Myers Squibb Company, Johnson & Johnson, Eli Lilly and Company, and Pfizer Inc.

Comparison of Five-Year Cumulative Total Return*
Merck & Co., Inc., Composite Peer Group and S&P 500 Index

	End of Period Value	2010/2005 CAGR**
MERCK	$ 173	12%
PEER GRP.***	111	2
S&P 500	112	2

	2005	2006	2007	2008	2009	2010
MERCK	100.00	114.44	130.18	84.49	168.34	173.10
PEER GRP.	100.00	113.53	115.73	103.19	111.33	110.83
S&P 500	100.00	115.78	122.14	76.96	97.33	112.01

* *The Performance Graph reflects Schering-Plough s stock performance from December 31, 2005 through the close of the Merger and New Merck s stock performance from November 3, 2009 through December 31, 2010. Assumes the cash component of the merger consideration was reinvested in New Merck stock at the closing price on November 3, 2009.*

** *Compound Annual Growth Rate*

*** *On October 15, 2009, Wyeth and Pfizer Inc. completed their previously announced merger (the Pfizer/Wyeth Merger) where Wyeth became a wholly-owned subsidiary of Pfizer Inc. As discussed, on November 3, 2009, Old Merck and Schering-Plough completed the Merger (together with the Pfizer/Wyeth Merger, the Transactions) in which Old Merck (subsequently renamed Merck Sharp & Dohme Corp.) became a wholly-owned subsidiary of Schering-Plough (subsequently renamed Merck & Co., Inc.). As a result of the Transactions, Wyeth and Old Merck no longer exist as publicly traded entities and ceased all trading of their common stock as of the close of business on their respective merger dates. Wyeth and Old Merck have been permanently removed from the peer group index.*

Item 6. Selected Financial Data.

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)

	2010[1]	2009[2]	2008[3]	2007[4]	2006[5]
Results for Year:					
Sales	**$45,987**	$27,428	$23,850	$24,198	$22,636
Materials and production costs	**18,396**	9,019	5,583	6,141	6,001
Marketing and administrative expenses	**13,245**	8,543	7,377	7,557	8,165
Research and development expenses	**10,991**	5,845	4,805	4,883	4,783
Restructuring costs	**985**	1,634	1,033	327	142
Equity income from affiliates	**(587)**	(2,235)	(2,561)	(2,977)	(2,294)
Other (income) expense, net	**1,304**	(10,668)	(2,318)	4,775	(503)
Income before taxes	**1,653**	15,290	9,931	3,492	6,342
Taxes on income	**671**	2,268	1,999	95	1,788
Net income	**982**	13,022	7,932	3,397	4,554
Net income attributable to noncontrolling interests	**121**	123	124	122	120
Net income attributable to Merck & Co., Inc.	**861**	12,899	7,808	3,275	4,434
Basic earnings per common share attributable to Merck & Co., Inc. common shareholders	**$0.28**	$5.67	$3.65	$1.51	$2.03
Earnings per common share assuming dilution attributable to Merck & Co., Inc. common shareholders	**$0.28**	$5.65	$3.63	$1.49	$2.02
Cash dividends declared	**4,730**	3,598	3,250	3,311	3,319
Cash dividends paid per common share	**$1.52**	$1.52[6]	$1.52	$1.52	$1.52
Capital expenditures	**1,678**	1,461	1,298	1,011	980
Depreciation	**2,638**	1,654	1,445	1,752	2,098
Average common shares outstanding (millions)	**3,095**	2,268	2,136	2,170	2,178
Average common shares outstanding assuming dilution (millions)	**3,120**	2,273	2,143	2,190	2,184
Year-End Position:					
Working capital	**$13,423**	$12,791	$4,794	$2,787	$2,508
Property, plant and equipment, net	**17,082**	18,279	12,000	12,346	13,194
Total assets	**105,781**	112,314	47,196	48,351	44,570
Long-term debt	**15,482**	16,095	3,943	3,916	5,551
Total equity	**56,805**	61,485	21,167	20,591	19,966

Year-End Statistics:					
Number of stockholders of record	**171,000**	175,600	165,700	173,000	184,200
Number of employees	**94,000**	100,000	55,200	59,800	60,000

(1) *Amounts for 2010 include the amortization of purchase accounting adjustments, in-process research and development impairment charges of $2.4 billion reflected in research and development expenses, the impact of restructuring actions, a reserve related to* Vioxx*, the gain recognized on AstraZeneca s exercise of its option to acquire certain assets from the Company and the favorable impact of certain tax items. In addition, results reflect the unfavorable effects of the implementation of certain provisions of U.S. health care reform legislation which was enacted during 2010.*

(2) *Amounts for 2009 include the impact of the merger with Schering-Plough Corporation on November 3, 2009, including the recognition of a gain representing the fair value step-up of Merck s previously held interest in the Merck/Schering-Plough partnership as a result of obtaining a controlling interest and the amortization of purchase accounting adjustments recorded in the post-Merger period. Also included in 2009, is a gain on the sale of Merck s interest in Merial Limited, the favorable impact of certain tax items, the impact of restructuring actions and additional legal defense costs.*

(3) *Amounts for 2008 include a gain on distribution from AstraZeneca LP, a gain related to the sale of the remaining worldwide rights to* Aggrastat*, the favorable impact of certain tax items, the impact of restructuring actions, additional legal defense costs and an expense for a contribution to the Merck Company Foundation.*

(4) *Amounts for 2007 include the impact of the U.S.* Vioxx *Settlement Agreement charge, restructuring actions, a civil governmental investigations charge, an insurance arbitration settlement gain, in-process research and development expense resulting from an acquisition, additional* Vioxx *legal defense costs, gains on sales of assets and product divestitures, as well as a net gain on the settlements of certain patent disputes.*

(5) *Amounts for 2006 include the impact of restructuring actions, in-process research and development expenses resulting from acquisitions and additional* Vioxx *legal defense costs.*

(6) *Amount reflects dividends paid to common shareholders of Old Merck. In addition, approximately $144 million of dividends were paid subsequent to the merger with Schering-Plough, and $431 million were paid prior to the merger, relating to common stock and preferred stock dividends declared by Schering-Plough in 2009.*

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

Description of Merck s Business

The Company is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The Company s operations are principally managed on a products basis and are comprised of four operating segments, which are the Pharmaceutical, Animal Health, Consumer Care and Alliances segments, and one reportable segment, which is the Pharmaceutical segment. The Pharmaceutical segment includes human health pharmaceutical and vaccine products marketed either directly by the Company or through joint ventures. Human health pharmaceutical products consist of therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. The Company 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, pharmacy benefit managers and other institutions. Vaccine products consist of preventive pediatric, adolescent and adult vaccines, primarily administered at physician offices. The Company sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company also has animal health operations that discover, develop, manufacture and market animal health products, including vaccines, which the Company sells to veterinarians, distributors and animal producers. Additionally, the Company has consumer care operations that develop, manufacture and market over-the-counter, foot care and sun care products, which are sold through wholesale and retail drug, food chain and mass merchandiser outlets in the United States and Canada.

On November 3, 2009, Merck & Co., Inc. (Old Merck) and Schering-Plough Corporation (Schering-Plough) merged (the Merger). In the Merger, Schering-Plough acquired all of the shares of Old Merck, which became a wholly-owned subsidiary of Schering-Plough and was renamed Merck Sharp & Dohme Corp. Schering-Plough continued as the surviving public company and was renamed Merck & Co., Inc. (New Merck or the Company). However, for accounting purposes only, the Merger was treated as an acquisition with Old Merck considered the accounting acquirer. Accordingly, the accompanying financial statements reflect Old Merck s stand-alone operations as they existed prior to the completion of the Merger. The results of Schering-Plough s business have been included in New Merck s financial statements only for periods subsequent to the completion of the Merger. Therefore, New Merck s financial results for 2009 do not reflect a full year of legacy Schering-Plough operations. References in this report and in the accompanying financial statements to Merck for periods prior to the Merger refer to Old Merck and for periods after the completion of the Merger to New Merck.

Overview

During 2010, the Company made progress driving revenue growth for key products, expanding its global reach including within emerging markets, improving its cost structure, making strategic investments in its business and advancing its late-stage pipeline, while continuing the task of integrating the legacy companies post-Merger.

Sales increased to $46.0 billion in 2010 driven largely by incremental revenue resulting from the inclusion of a full year of results for legacy Schering-Plough products such as *Remicade,* a treatment for inflammatory diseases, *Nasonex*, an inhaled nasal corticosteroid for the treatment of nasal allergy symptoms, *Temodar,* a treatment for certain types of brain tumors, *PegIntron* for treating chronic hepatitis C and *Clarinex*, a non-sedating antihistamine, as well as by the inclusion of a full year of results for *Zetia* and *Vytorin*, cholesterol modifying medicines. Prior to the Merger, substantially all sales of *Zetia* and *Vytorin* were recognized by the Merck/Schering-Plough Partnership (the MSP Partnership) and the results of Old Merck s interest in the MSP Partnership were recorded in *Equity income from affiliates*. As a result of the Merger, the MSP Partnership is wholly-owned by the Company and therefore revenues from these products are now reflected in *Sales*. Additionally, the Company recognized a full year of sales in 2010

from legacy Schering-Plough animal health and consumer care products. Sales for 2009 only include revenue from legacy Schering-Plough and MSP Partnership products for the post-Merger period through December 31, 2009. Also contributing to the sales increase was growth in *Januvia* and *Janumet* for the treatment of type 2 diabetes, *Isentress*, an antiretroviral therapy for use in combination therapy for the treatment of HIV-1 infection in adult patients, and *Singulair*, a medicine indicated for the chronic treatment of asthma and the relief of symptoms of allergic rhinitis. These increases were partially offset by lower sales of *Cozaar*

and *Hyzaar* for the treatment of hypertension, which lost patent protection in the United States in April 2010 and in a number of major European markets in March 2010. Revenue was also negatively affected by lower sales of *Fosamax* and *Fosamax Plus D* for the treatment and, in the case of *Fosamax*, prevention of osteoporosis, which have lost market exclusivity in the United States and in several major European markets, and lower revenue from the Company s relationship with AstraZeneca LP (AZLP), as well as by lower sales of *Gardasil*, a vaccine to help prevent cervical, vulvar, vaginal and anal cancers, precancerous or dysplastic lesions, and genital warts caused by the human papillomavirus (HPV) types contained in the vaccine, and lower sales of *Zocor,* the Company s statin for modifying cholesterol. In addition, the implementation of certain provisions of U.S. health care reform legislation during 2010 resulted in increased Medicaid rebates and other impacts that reduced revenues by approximately $170 million. Additionally, many countries in the European Union (EU) have undertaken austerity measures aimed at reducing costs in health care and have implemented pricing actions that negatively impacted sales in 2010.

Sales of *Remicade* and a follow-on product, *Simponi*, were $2.8 billion in the aggregate in 2010. The Company is involved in an arbitration with Centocor Ortho Biotech, Inc. (Centocor), a subsidiary of Johnson & Johnson, in which Centocor is seeking to terminate the Company s rights to continue to market *Remicade* and *Simponi*. The arbitration hearing has concluded and the Company is awaiting the arbitration panel s decision. See Note 12 to the consolidated financial statements. An unfavorable outcome in the arbitration would have a material adverse effect on the Company s financial position, liquidity and results of operations.

Since the Merger, the Company has continued the advancement of drug candidates through its pipeline. During 2010, the U.S. Food and Drug Administration (FDA) approved *Dulera* Inhalation Aerosol, a new fixed-dose combination asthma treatment for patients 12 years of age and older. In addition, the intravenous formulation of *Brinavess*, for which Merck has exclusive marketing rights outside of the United States, Canada and Mexico, was granted marketing approval in the EU for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less.

Also during 2010, the FDA approved a new indication for *Gardasil* for the prevention of anal cancer caused by HPV types 16 and 18 and for the prevention of anal intraepithelial neoplasia grades 1, 2 and 3 (anal dysplasias and precancerous lesions) caused by HPV types 6, 11, 16 and 18, in males and females 9 through 26 years of age. Additionally, in September 2010, two supplemental New Drug Applications (sNDA) for *Saphris* for the treatment of schizophrenia in adults and acute treatment of bipolar I disorder in adults were approved in the United States to expand the product s indications. Also during 2010, the Company entered into a co-promotion agreement for the commercialization of *Daxas*, a treatment for symptomatic chronic obstructive pulmonary disease, which the Company launched in certain European markets.

The Company currently has three candidates under review with the FDA: boceprevir, an investigational oral hepatitis C protease inhibitor; MK-0431A XR, the Company s investigational extended-release formulation of *Janumet* and MK-431D, an investigational combination of *Januvia* and *Zocor* for the treatment of diabetes and dyslipidemia. In addition, SCH 900121, NOMAC/E2, an oral contraceptive that combines a selective progestin with 17-beta estradiol, is currently under review in the EU. Additionally, MK-3009, Cubicin daptomycin for injection, is currently under review in Japan where the Company has marketing rights. Also, the Company currently has 19 candidates in Phase III development and anticipates making a New Drug Application (NDA) with respect to certain of these candidates in 2011 including MK-8669, ridaforolimus, a novel mTOR inhibitor being evaluated for the treatment of metastatic soft tissue and bone sarcomas; MK-2452, *Saflutan* (tafluprost), for the reduction of elevated intraocular pressure in appropriate patients with primary open-angle glaucoma and ocular hypertension; MK-653C, ezetimibe combined with atorvastatin, which is an investigational medication for the treatment of dyslipidemia; and MK-0974, telcagepant, the Company s investigational medication for acute treatment of migraine. Another Phase III candidate is vorapaxar with respect to which the Company was recently informed by the chairman of one of the studies to discontinue study drug

and that investigators were to begin to close out the study in a timely and orderly fashion. The Company recorded a material impairment charge on the related intangible asset. See Research and Development below.

The Company continues to make progress in achieving cost savings across all areas, including from consolidation in both sales and marketing and research and development, the application of the Company s lean

manufacturing and sourcing strategies to the expanded operations, and the full integration of the MSP Partnership. These savings result from various actions, including the Merger Restructuring Program discussed below, previously announced ongoing cost reduction activities at both legacy companies, as well as from non-restructuring-related activities such as the Company s procurement savings initiative. During 2010, the Company realized more than $2.0 billion in net cost savings from all of these activities.

In February 2010, the Company commenced actions under a global restructuring program (the Merger Restructuring Program) in conjunction with the integration of the legacy Merck and legacy Schering-Plough businesses. This Merger Restructuring Program is intended to optimize the cost structure of the combined company. Additional actions under the program continued during 2010. As part of the restructuring actions taken thus far under the Merger Restructuring Program, the Company expects to reduce its total workforce measured at the time of the Merger by approximately 17% across the Company worldwide. In addition, the Company has eliminated over 2,500 positions which were vacant at the time of the Merger. These workforce reductions will primarily come from the elimination of duplicative positions in sales, administrative and headquarters organizations, as well as from the sale or closure of certain manufacturing and research and development sites and the consolidation of office facilities. The Company will continue to pursue productivity efficiencies and evaluate its manufacturing supply chain capabilities on an ongoing basis which may result in future restructuring actions. During this period, the Company also will continue to hire new employees in strategic growth areas of the business as necessary. In connection with the Merger Restructuring Program, separation costs under the Company s existing severance programs worldwide were recorded in the fourth quarter of 2009 to the extent such costs were probable and reasonably estimable. The Company commenced accruing costs related to enhanced termination benefits offered to employees under the Merger Restructuring Program in the first quarter of 2010 when the necessary criteria were met. The Company recorded total pretax restructuring costs of $1.8 billion in 2010 and $1.5 billion in 2009 related to this program. The restructuring actions taken thus far under the Merger Restructuring Program are expected to be substantially completed by the end of 2012, with the exception of certain manufacturing facilities actions, with the total cumulative pretax costs estimated to be approximately $3.8 billion to $4.6 billion. The Company estimates that approximately two-thirds of the cumulative pretax costs relate to cash outlays, primarily related to employee separation expense. Approximately one-third of the cumulative pretax costs are non-cash, relating primarily to the accelerated depreciation of facilities to be closed or divested. The Company expects the restructuring actions taken thus far under the Merger Restructuring Program to result in annual savings in 2012 of approximately $2.7 billion to $3.1 billion.

In March 2010, the United States enacted health care reform legislation. Important market reforms began during 2010 and will continue through full implementation in 2014. During 2010, Merck incurred costs as a result of the legislation, including increased Medicaid rebates and other impacts that reduced revenues. The Company also recorded a charge in 2010 associated with this legislation that changed tax law to require taxation of the prescription drug subsidy of the Company s retiree health benefit plans for which companies receive reimbursement under Medicare Part D. Additional provisions of the legislation will come into effect in 2011, including the assessment of an annual health care reform fee on all branded prescription drug manufacturers and importers and the requirement that drug manufacturers pay a 50% discount on Medicare Part D utilization incurred by beneficiaries when they are in the Medicare Part D coverage gap (i.e., the so-called donut hole). These new provisions will decrease revenues and increase costs.

Earnings per common share (EPS) assuming dilution for 2010 were $0.28, which reflect a net unfavorable impact resulting from the amortization of purchase accounting adjustments, in-process research and development (IPR&D) impairment charges, including a charge related to the vorapaxar clinical development program, restructuring and merger-related costs, as well as a legal reserve relating to *Vioxx* (the *Vioxx* Liability Reserve) discussed below, partially offset by the gain recognized on AstraZeneca s exercise of its option to acquire certain assets from the Company. Non-GAAP EPS in 2010 were $3.42 excluding these items (see Non-GAAP Income and Non-GAAP EPS below).

In December 2010, Merck announced that its Board of Directors had elected Kenneth C. Frazier, then Merck s president, as chief executive officer and president, as well as a member of the board, effective January 1, 2011. Mr. Frazier succeeds Richard T. Clark, who will continue to serve as chairman of the board.

Competition and the Health Care Environment

Competition
The markets in which the Company conducts its business and the pharmaceutical industry are highly competitive and highly regulated. The Company s competitors include other worldwide research-based pharmaceutical companies, smaller research companies with more limited therapeutic focus, and generic drug and consumer health care manufacturers. The Company s operations may be affected by technological advances of competitors, industry consolidation, patents granted to competitors, competitive combination products, new products of competitors, the generic availability of competitors branded products, new information from clinical trials of marketed products or post-marketing surveillance and generic competition as the Company s products mature. In addition, patent positions are increasingly being challenged by competitors, and the outcome can be highly uncertain. An adverse result in a patent dispute can preclude commercialization of products or negatively affect sales of existing products and could result in the recognition of an impairment charge with respect to certain products. Competitive pressures have intensified as pressures in the industry have grown. The effect on operations of competitive factors and patent disputes cannot be predicted.

Pharmaceutical competition involves a rigorous 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 positioned to compete in the search for technological innovations. Additional resources to meet market challenges 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 external alliances, such as joint ventures and licenses, and has been refining its sales and marketing efforts to further address changing industry conditions. However, the introduction of new products and processes by competitors may result in price reductions and product displacements, even for products protected by patents. For example, the number of compounds available to treat a particular disease typically increases over time and can result in slowed sales growth for the Company s products in that therapeutic category.

Global efforts toward health care cost containment continue to exert pressure on product pricing and market access. In 2010, this pressure was particularly intense in several European countries which implemented austerity measures aimed at reducing costs in areas such as health care. In the United States, federal and state governments for many years also have pursued methods to 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 and to provide discounts for outpatient medicines purchased by certain Public Health Service entities and disproportionate share hospitals (hospitals meeting certain criteria). Under the Federal Vaccines for Children entitlement program, the U.S. Centers for Disease Control and Prevention (CDC) funds and purchases recommended pediatric vaccines at a public sector price for the immunization of Medicaid-eligible, uninsured, Native American and certain underinsured children. Merck was awarded a CDC contract in 2010 for the supply of pediatric vaccines for the Vaccines for Children program.

Against this backdrop, the United States enacted major health care reform legislation in 2010. Various insurance market reforms began last year and will continue through full implementation in 2014. The new law is expected to expand access to health care to more than 32 million Americans by the end of the decade that did not previously have regular access to health care. With respect to the effect of the law on the pharmaceutical industry, the law increased the mandated Medicaid rebate from 15.1% to 23.1%, expanded the rebate to Medicaid managed care utilization, and increased the types of entities eligible for the federal 340B drug discount program. The law also requires pharmaceutical manufacturers to pay a 50% discount on Medicare Part D utilization by beneficiaries when they are in the Medicare Part D coverage gap (i.e., the so-called donut hole). Also, beginning in 2011, pharmaceutical manufacturers will be required to pay an annual health care reform fee. The total annual industry fee, which will be $2.5 billion in 2011, will be assessed on each company in proportion to its share of sales to certain government programs, such as Medicare and Medicaid.

Although not included in the health care reform law, Congress has also considered, and may consider again, proposals to increase the government s role in pharmaceutical pricing in the Medicare program. These proposals may include removing the current legal prohibition against the Secretary of the Health and Human Services intervening in price negotiations between Medicare drug benefit program plans and pharmaceutical

companies. They may also include mandating the payment of rebates for some or all of the pharmaceutical utilization in Medicare drug benefit plans. In addition, Congress may again consider proposals to allow, under certain conditions, the importation of medicines from other countries.

The full impact of U.S. health care reform, as well as continuing budget pressures on governments around the world, cannot be predicted at this time.

In addressing cost containment pressures, the Company makes a continuing effort to demonstrate that its medicines provide value to patients and to those who pay for health care. The Company works in markets with historically low rates of government spending on health care to encourage those governments to increase their investments and thereby improve their citizens access to appropriate health care, including medicines.

In the animal health business, there is intense competition which is affected by several factors including regulatory and legislative issues, scientific and technological advances, product innovation, the quality and price of the Company s products, effective promotional efforts and the frequent introduction of generic products by competitors.

The Company s consumer care operations face competition from other consumer health care businesses as well as retailers who carry their own private label brands. The Company s competitive position is affected by several factors, including regulatory and legislative issues, scientific and technological advances, the quality and price of the Company s products, promotional efforts and the growth of lower cost private label brands.

Operating conditions have become more challenging under the global pressures of competition, industry regulation and cost containment efforts. Although no one can predict the effect of these and other factors on the Company s business, the Company continually takes measures to evaluate, adapt and improve the organization and its business practices to better meet customer needs and believes that it is well positioned to respond to the evolving health care environment and market forces.

Government Regulation

The pharmaceutical industry is subject to regulation by regional, country, state and local agencies around the world. Governmental regulation and legislation tends to focus on standards and processes for determining drug safety and effectiveness, as well as conditions for sale or reimbursement, especially related to the pricing of products.

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 and practices have increased the amount of time and resources necessary to develop new products and bring them to market in the United States. U.S. health care reform legislation which passed in 2010 with a full implementation date of 2014, significantly expands access to health care, but also contains a number of provisions imposing new obligations on the pharmaceutical industry, including, for example, an increase in the mandated rebate under the Medicaid program and a new discount requirement in the Medicare Part D program.

The EU has adopted Directives and other legislation concerning the classification, labeling, advertising, wholesale distribution and approval for marketing of medicinal products for human use. These provide mandatory standards throughout the EU, which may be supplemented or implemented with additional regulations by the EU member states. 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.

In January 2008, the European Commission (EC) launched a sector inquiry in the pharmaceutical industry under the rules of EU competition law. A sector inquiry allows the EC to gather information about the general operation of market competition and is not an investigation into suspected anti-competitive behavior of specific firms. As part of

this inquiry, Old Merck s offices in Germany were inspected by the authorities beginning in January 2008. The preliminary report of the EC was issued in November 2008, and following the public consultation period, the final report was issued in July 2009. The final report confirmed that there has been a decline in the number of novel medicines reaching the market and instances of delayed market entry of generic medicines and discussed industry practices that may have contributed to these phenomena. Among other things, the final

report expressed concern over settlements of patent disputes between originator and generic companies and suggested that the EC should monitor any anti-competitive effects. While the EC has issued further inquiries with respect to the subject of the investigation, including to the Company, the EC has not alleged that the Company or any of its subsidiaries have engaged in any unlawful practices.

The Company believes that it will continue to be able to conduct its operations, including launching new drugs into the market, in this regulatory environment.

Access to Medicines
As a global health care company, Merck s primary role is to discover and develop innovative medicines and vaccines. The Company also recognizes that it has an important role to play in helping to improve access to its products around the world. The Company s efforts in this regard are wide-ranging. For example, the Company has been recognized for pricing many of its products through a differential pricing framework, taking into consideration such factors as a country s level of economic development and public health need.

Building on the Company s own efforts, Merck has undertaken collaborations with many stakeholders to improve access to medicines and enhance the quality of life for people around the world.

For example, in 2010, through a partnership of Merck, the Government of Bhutan, and the Australian Cervical Cancer Foundation, Bhutan became the first low-income country in the world to successfully implement a national HPV vaccination program. Under this program, Merck is providing *Gardasil* free of charge for the first year of the program and will provide *Gardasil* at the Company s access price for five more years.

Also in 2010, Merck worked with its partner, the Wellcome Trust, to further develop the Hillemann Laboratories which was established in September 2009. This initiative will focus on developing affordable vaccines to prevent diseases that commonly affect low-income countries.

Merck has also in the past provided funds to The Merck Company Foundation, an independent organization, which has partnered with a variety of organizations dedicated to improving global health. One of these partnerships is The African Comprehensive HIV/AIDS Partnership in Botswana, a collaboration with the government of Botswana and the Bill & Melinda Gates Foundation, that was renewed in 2010, and supports Botswana s response to HIV/AIDS through a comprehensive and sustainable approach to HIV prevention, care, treatment, and support.

Privacy and Data Protection
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 attention to privacy and data protection issues with the potential to affect directly the Company s business, including recently enacted laws and regulations in the United States and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information.

Operating Results

Sales
Worldwide sales totaled $46.0 billion for 2010 compared with $27.4 billion in 2009. Foreign exchange favorably affected global sales performance by 1%. The revenue increase over 2009 was driven largely by incremental sales resulting from the inclusion of a full year of results for legacy Schering-Plough products such as *Remicade, Nasonex*, *Temodar, PegIntron* and *Clarinex*, as well as by the inclusion of a full year of results for *Zetia* and *Vytorin*. Prior to the Merger, substantially all sales of *Zetia* and *Vytorin* were recognized by the MSP Partnership and the results of Old Merck s interest in the MSP Partnership were recorded in *Equity income from affiliates*. As a result of the Merger, the

MSP Partnership is wholly-owned by the Company and therefore revenues from these products are now reflected in *Sales*. Additionally, the Company recognized a full year of sales in 2010 from legacy Schering-Plough animal health and consumer care products. Sales for 2009 only include revenue from legacy Schering-Plough and MSP Partnership products for the post-Merger period through December 31, 2009. Also contributing to the sales increase was growth in *Januvia* and *Janumet, Isentress,* and *Singulair*. These increases

were partially offset by lower sales of *Cozaar* and *Hyzaar* which lost patent protection in the United States in April 2010 and in a number of major European markets in March 2010. Revenue was also negatively affected by lower sales of *Fosamax* and *Fosamax Plus D*, which have lost market exclusivity in the United States and in several major European markets, and lower revenue from the Company s relationship with AZLP, as well as by lower sales of *Gardasil* and *Zocor*. In addition, the implementation of certain provisions of U.S. health care reform legislation during 2010 resulted in increased Medicaid rebates and other impacts that reduced revenues by approximately $170 million.

Domestic sales were $20.2 billion in 2010 compared with $14.4 billion in 2009. Foreign sales were $25.8 billion in 2010 compared with $13.0 billion in 2009. The increases were driven primarily by incremental sales resulting from the inclusion of a full year of legacy Schering-Plough and MSP Partnership products in 2010. The domestic sales increase was also driven by higher sales of *Januvia, Janumet, Singulair* and *Isentress*. These increases were partially offset by lower sales of *Cozaar, Hyzaar, Fosamax* and *Fosamax Plus D, Gardasil* and *RotaTeq*, as well as by lower revenue from the Company s relationship with AZLP. Foreign sales growth reflects the strong performance of *Januvia, Janumet, Isentress* and *Singulair,* partially offset by lower sales of *Cozaar, Hyzaar, Fosamax* and *Fosamax Plus D*. Foreign sales represented 56% of total sales in 2010.

While many of the Company s brands experienced positive growth trends in the EU during 2010, the environment in the EU and across Europe is now more challenging. Many countries have announced austerity measures aimed at reducing costs in areas such as health care. The implementation of pricing actions varies by country and many have announced measures to reduce prices of generic and patented drugs. While the Company is taking steps to mitigate the immediate impact in the EU, the austerity measures negatively affected the Company s revenue performance in 2010 and the Company anticipates they will continue to negatively affect revenue performance in 2011.

Worldwide sales totaled $27.4 billion for 2009, an increase of 15% compared with 2008. Foreign exchange unfavorably affected global sales performance by 2%. The revenue increase over 2008 largely reflects incremental sales resulting from the inclusion of legacy Schering-Plough and MSP Partnership products for the post-Merger period in 2009. Also contributing to the sales increase was growth in *Januvia* and *Janumet, Isentress, Singulair, Varivax* and *Pneumovax*. These increases were partially offset by lower sales of *Fosamax* and *Fosamax Plus D*, *Gardasil*, *Cosopt* and *Trusopt* (which lost U.S. market exclusivity in October 2008), and lower revenue from the Company s relationship with AZLP. Other products that experienced declines include *RotaTeq, Zocor* and *Primaxin*.

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

Years Ended December 31	**2010**	2009	2008
Pharmaceutical:			
Bone, Respiratory, Immunology and Dermatology			
Singulair	**$ 4,987**	$ 4,660	$ 4,337
Remicade	**2,714**	431	
Nasonex	**1,220**	165	
Fosamax	**926**	1,100	1,553
Clarinex	**659**	101	
Arcoxia	**398**	358	377
Proventil	**210**	26	
Asmanex	**208**	37	
Cardiovascular			
Zetia	**2,297**	403	6
Vytorin	**2,014**	441	84
Integrilin	**266**	46	
Diabetes and Obesity			
Januvia	**2,385**	1,922	1,397
Janumet	**954**	658	351
Diversified Brands			
Cozaar/Hyzaar	**2,104**	3,561	3,558
Zocor	**468**	558	660
Propecia	**447**	440	429
Claritin Rx	**420**	71	
Vasotec/Vaseretic	**255**	311	357
Remeron	**223**	38	
Proscar	**216**	291	324
Infectious Disease			
Isentress	**1,090**	752	361
PegIntron	**737**	149	
Cancidas	**611**	617	596
Primaxin	**610**	689	760
Invanz	**362**	293	265
Avelox	**316**	66	
Rebetol	**221**	36	
Crixivan/Stocrin	**206**	206	275
Neurosciences and Ophthalmology			
Maxalt	**550**	575	529
Cosopt/Trusopt	**484**	503	781
Subutex/Suboxone	**111**	36	
Oncology			
Temodar	**1,065**	188	
Emend	**378**	317	264
Caelyx	**284**	47	
Intron A	**209**	38	

Vaccines[2]			
ProQuad/M-M-R II/Varivax	**1,378**	1,369	1,268
Gardasil	**988**	1,118	1,403
RotaTeq	**519**	522	665
Pneumovax	**376**	346	249
Zostavax	**243**	277	312
Women s Health and Endocrine			
NuvaRing	**559**	88	
Follistim AQ	**528**	96	
Implanon	**236**	37	
Cerazette	**209**	35	
Other pharmaceutical[3]	**4,170**	1,218	920
Total Pharmaceutical segment sales	**39,811**	25,236	22,081
Other segment sales[4]	**5,578**	2,114	1,694
Total segment sales	**45,389**	27,350	23,775
Other[5]	**598**	78	75
	$ 45,987	$ 27,428	$ 23,850

(1) *Sales of legacy Schering-Plough products reflect results for 2010 and the post-Merger period in 2009. In addition, prior to the Merger, substantially all sales of* Zetia *and* Vytorin *were recognized by the MSP Partnership and the results of Old Merck s interest in the MSP Partnership were recorded in Equity income from affiliates. As a result of the Merger, the MSP Partnership is wholly-owned by the Company; accordingly, all sales of MSP Partnership products after the Merger are reflected in the table above. Sales of* Zetia *and* Vytorin *in 2008 reflect Old Merck s sales of these products in Latin America which was not part of the MSP Partnership.*

(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. These amounts do, however, reflect supply sales to Sanofi Pasteur MSD.*

(3) *Other pharmaceutical primarily reflects sales of other human pharmaceutical products, including products within the franchises not listed separately.*

(4) *Reflects other non-reportable segments including Animal Health and Consumer Care, and revenue from the Company s relationship with AZLP primarily relating to sales of Nexium, as well as Prilosec. Revenue from AZLP was $1.3 billion, $1.4 billion and $1.6 billion in 2010, 2009 and 2008, respectively.*

(5) *Other revenues are primarily comprised of miscellaneous corporate revenues, third-party manufacturing sales, sales related to divested products or businesses and other supply sales not included in segment results.*

Pharmaceutical Segment Sales

Bone, Respiratory, Immunology and Dermatology
Worldwide sales of *Singulair,* a once-a-day oral medicine indicated for the chronic treatment of asthma and for the relief of symptoms of allergic rhinitis, grew 7% reaching $5.0 billion in 2010 reflecting price increases and positive performance in Japan. Global sales of *Singulair* rose 7% to $4.7 billion in 2009 primarily driven by favorable pricing and strong performance in Japan and Asia Pacific. *Singulair* continues to be the number one prescribed product in the U.S. respiratory market. U.S. sales of *Singulair* were $3.2 billion in 2010. The patent that provides U.S. market exclusivity for *Singulair* expires in August 2012. The Company expects that within the two years following patent expiration, it will lose substantially all U.S. sales of *Singulair*, with most of those declines coming in the first full year following patent expiration. In addition, the patent for *Singulair* will expire in a number of major European markets in August 2012 and the Company expects sales of *Singulair* in those markets will decline significantly thereafter (although the six month Pediatric Market Exclusivity may extend this date in some markets to February 2013).

Sales of *Remicade,* a treatment for inflammatory diseases, were $2.7 billion in 2010 and $431 million for the post-Merger period in 2009. *Remicade* is marketed by the Company outside of the United States (except in Japan and certain other Asian markets). Products that compete with *Remicade* have been launched over the past several years. In October 2009, the EC approved *Simponi*, a once-monthly subcutaneous treatment for certain inflammatory diseases. In January 2011, *Simponi* was approved in the EU for use in combination with methotrexate in adults with severe, active and progressive rheumatoid arthritis not previously treated with methotrexate and for the reduction in the rate of progression of joint damage as measured by X-ray in rheumatoid arthritis patients. The Company has launched *Simponi* in 18 countries and launches in other international markets are planned. Sales of *Simponi* were $97 million in 2010. See Note 12 to the consolidated financial statements for a discussion of arbitration proceedings involving the Company s rights to market *Remicade* and *Simponi*.

Global sales of *Nasonex*, an inhaled nasal corticosteroid for the treatment of nasal allergy symptoms, were $1.2 billion in 2010 and were $165 million for the post-Merger period in 2009.

Worldwide sales of *Fosamax* and *Fosamax Plus D* (marketed as *Fosavance* throughout the EU and as *Fosamac* in Japan) for the treatment and, in the case of *Fosamax*, prevention of osteoporosis, decreased 16% in 2010 to $926 million and declined 29% in 2009 to $1.1 billion. These medicines have lost market exclusivity in the United States and have also lost market exclusivity in several major European markets. Accordingly, the Company is experiencing significant sales declines within the *Fosamax* product franchise and the Company expects the declines to continue.

Global sales of *Clarinex* (marketed as *Aerius* in many countries outside the United States), a non-sedating antihistamine, were $659 million in 2010 and were $101 million for the post-Merger period in 2009.

Other products included in the Bone, Respiratory, Immunology and Dermatology franchise include among others, *Arcoxia,* for the treatment of arthritis and pain; *Proventil* inhalation aerosol for the relief of bronchospasm; and *Asmanex*, an inhaled corticosteroid for asthma.

In June 2010, the FDA approved *Dulera* Inhalation Aerosol, a new fixed-dose combination asthma treatment for patients 12 years of age and older. *Dulera* combines an inhaled corticosteroid with a long-acting beta$_2$-agonist.

Cardiovascular
Sales of *Zetia*, a cholesterol absorption inhibitor also marketed as *Ezetrol* outside the United States, and *Vytorin,* a combination product containing the active ingredients of both *Zetia* and *Zocor* marketed outside the United States as

Inegy, were $2.3 billion and $2.0 billion, respectively, in 2010 and were $403 million and $441 million, respectively, for the post-Merger period in 2009. Prior to the Merger, substantially all sales of these products were recognized by the MSP Partnership and the results of Old Merck s interest in the MSP Partnership were recorded in *Equity income from affiliates*. As a result of the Merger, the MSP Partnership is wholly-owned by the Company and therefore revenues from these products are now reflected in *Sales*. Total sales of *Zetia* and *Vytorin*

in 2009, including the sales recognized through the MSP Partnership, were $2.2 billion and $2.1 billion, respectively.

In November 2010, the Oxford University Clinical Trial Service Unit presented the results of the SHARP (Study of Heart and Renal Protection) study at the American Society of Nephrology meeting in which *Vytorin* 10/20 mg reduced the incidence of first major vascular events defined as non-fatal heart attacks or cardiac death, stroke or any revascularization procedure by a highly statistically significant 16.1% compared to placebo. This was the pre-specified primary endpoint of the study. The SHARP study involved more than 9,000 patients who, on average, had advanced or end-stage chronic kidney disease. Merck plans to seek regulatory approvals for the use of *Vytorin* in patients with chronic kidney disease based on the results from the SHARP study in 2011.

IMPROVE-IT, a large cardiovascular outcomes study evaluating *Zetia/Vytorin* in patients with acute coronary syndrome, is fully enrolled with approximately 18,000 patients. During 2010, a blinded interim efficacy analysis was conducted by the Data and Safety Monitoring Board (DSMB) for the trial when approximately 50% of the primary events had been accrued. The DSMB recommended continuing the trial with no changes in the study protocol. Another blinded interim efficacy analysis is planned by the DSMB when approximately 75% of the primary events have been accrued. The IMPROVE-IT trial is scheduled for completion in 2013.

Global sales of *Integrilin* Injection, a treatment for patients with acute coronary syndrome, which is sold by the Company in the United States and Canada, were $266 million in 2010 and were $46 million for the post-Merger period in 2009.

In September 2010, the intravenous formulation of *Brinavess* (vernakalant) was granted marketing approval in the EU, Iceland and Norway for the rapid conversion of recent onset atrial fibrillation to sinus rhythm in adults: for non-surgery patients with atrial fibrillation of seven days or less and for post-cardiac surgery patients with atrial fibrillation of three days or less. *Brinavess* acts preferentially in the atria and is the first product in a new class of pharmacologic agents for cardioversion of atrial fibrillation to launch in the EU. In April 2009, Cardiome Pharma Corp. and Merck announced a collaboration and license agreement for the development and commercialization of vernakalant. The agreement provides Merck exclusive rights outside of the United States, Canada and Mexico to vernakalant intravenous formulation.

Diabetes and Obesity
Global sales of *Januvia*, Merck s dipeptidyl peptidase-4 (DPP-4) inhibitor for the treatment of type 2 diabetes, were $2.4 billion in 2010, $1.9 billion in 2009 and $1.4 billion in 2008, reflecting continued growth both in the United States and internationally due in part to the launch of new indications. In addition, growth in 2010 reflects apparent safety concerns that limited sales of a competing product. DPP-4 inhibitors represent a 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, which helps to regulate glucose by affecting the beta cells and alpha cells in the pancreas.

Worldwide sales of *Janumet*, Merck s oral antihyperglycemic agent that combines sitagliptin (*Januvia)* with metformin in a single tablet to target all three key defects of type 2 diabetes, were $954 million in 2010, $658 million in 2009 and $351 million in 2008 reflecting growth both in the United States and internationally due to ongoing launches in certain markets.

MK-0431A XR, the Company s investigational extended-release formulation of *Janumet*, was accepted for standard review by the FDA in 2010. The Company is also moving forward as planned with regulatory filings in countries outside the United States. The extended-release formulation of *Janumet* is an investigational treatment for type 2 diabetes that combines sitagliptin with metformin extended release, a commonly-prescribed medication for type 2 diabetes, into a single tablet. This formulation is designed to provide a new treatment option for health care providers and patients who need two or more oral agents to help control their blood sugar with the convenience of once daily

dosing.

Diversified Brands

Merck s diversified brands are human health pharmaceutical products that are approaching the expiration of their marketing exclusivity or are no longer protected by patents in developed markets, but continue to be a core part of the Company s offering in other markets around the world.

Global sales of *Cozaar* and its companion agent *Hyzaar* (a combination of *Cozaar* and hydrochlorothiazide) for the treatment of hypertension fell 41% in 2010 to $2.1 billion. The patents that provided U.S. market exclusivity for *Cozaar* and *Hyzaar* expired in April 2010. In addition, *Cozaar* and *Hyzaar* lost patent protection in a number of major European markets in March 2010. Accordingly, the Company is experiencing a significant decline in *Cozaar/Hyzaar* worldwide sales and the Company expects such decline to continue. Global sales of *Cozaar* and *Hyzaar* were $3.6 billion in 2009 which were comparable to sales in 2008 reflecting the unfavorable effect of foreign exchange, offset by strong performance of both products in the United States and of *Hyzaar* in Japan (marketed as *Preminent*).

Other products contained in the Diversified Brands franchise include among others, *Zocor*, a statin for modifying cholesterol; *Propecia*, a product for the treatment of male pattern hair loss; prescription *Claritin* for the treatment of seasonal outdoor allergies and year-round indoor allergies; *Vasotec/Vaseretic* for hypertension and/or heart failure; *Remeron*, an antidepressant; and *Proscar,* a urology product for the treatment of symptomatic benign prostate enlargement. *Remeron* lost market exclusivity in the United States in January 2010 and in certain markets in the EU in September 2010.

Infectious Disease

Worldwide sales of *Isentress,* an HIV integrase inhibitor for use in combination with other antiretroviral agents for the treatment of HIV-1 infection in treatment-naïve and treatment-experienced adults, were $1.1 billion in 2010, $752 million in 2009 and $361 million in 2008. Sales growth in both periods reflects positive performance in the United States, as well as internationally, resulting from continued uptake since launch. *Isentress* works by inhibiting the insertion of HIV DNA into human DNA by the integrase enzyme. Inhibiting integrase from performing this essential function helps to limit the ability of the virus to replicate and infect new cells.

In November 2010, the Company reported initial results from the Phase III study investigating the efficacy and safety of a treatment regimen including *Isentress* tablets once daily in treatment-naïve adult patients infected with HIV-1. In the study, although the treatment regimen that included *Isentress* once daily enabled more than 80% of patients to achieve viral suppression, *Isentress* once daily did not demonstrate non-inferiority to the treatment regimen that included *Isentress* twice daily. Based on the initial results and following the recommendation of an independent Data Monitoring Committee, Merck terminated the study.

Worldwide sales of *PegIntron* for treating chronic hepatitis C were $737 million in 2010 and were $149 million for the post-Merger period in 2009. In September 2010, the Company initiated a voluntary recall of *PegIntron* single dose RediPen injection in the United States after consultation with the FDA, as well as other recalls globally, resulting in a reduction to revenue in 2010 of approximately $20 million representing estimated sales returns. In addition, the Company recognized a charge of approximately $40 million in *Materials and production* primarily for inventory discard costs. The recall was conducted as a precautionary measure due to a third-party manufacturing issue that could have affected a small number of RediPens. The recall was specific to *PegIntron* RediPen and did not affect *PegIntron* vial products.

Sales of *Primaxin*, an anti-bacterial product, decreased 11% in 2010 to $610 million and declined 9% in 2009 to $689 million. These results reflect competitive pressures and in 2009 also reflect supply constraints. Patents on *Primaxin* have expired worldwide and multiple generics have been approved in Europe. Accordingly, the Company is experiencing a decline in sales of this product and the Company expects the decline to continue.

Other products contained in the Infectious Diseases franchise include among others, *Cancidas*, an anti-fungal product; *Invanz* for the treatment of certain infections; *Avelox,* a fluoroquinolone antibiotic for the treatment of certain respiratory and skin infections; *Rebetol* for use in combination with *PegIntron* for treating chronic hepatitis C; and *Crixivan* and *Stocrin*, antiretroviral therapies for the treatment of HIV infection. The compound patent that provides U.S. market exclusivity for *Crixivan* expires in 2012.

Neurosciences and Ophthalmology
Global sales of *Maxalt*, Merck s tablet for the acute treatment of migraine, declined 4% in 2010 to $550 million reflecting the generic availability of a competing product. Sales of *Maxalt* grew 9% in 2009 to $575 million. The compound patent that provides market exclusivity for *Maxalt* in the United States expires in

June 2012 (although the six month Pediatric Market Exclusivity may extend this date to December 2012). In addition, the patent for *Maxalt* will expire in a number of major European markets in 2013. The Company anticipates that sales in the United States and in these European markets will decline significantly after these patent expiries.

Worldwide sales of ophthalmic products *Cosopt* and *Trusopt* declined 4% in 2010 to $484 million and fell 36% to $503 million in 2009. The patent that provided U.S. market exclusivity for *Cosopt* and *Trusopt* expired in October 2008. *Trusopt* has also lost market exclusivity in a number of major European markets. The patent for *Cosopt* will expire in a number of major European markets in March 2013 and the Company expects sales in those markets to decline significantly thereafter.

In August 2009, the FDA approved *Saphris* (asenapine) for the acute treatment of schizophrenia in adults and for the acute treatment of manic or mixed episodes associated with bipolar I disorder with or without psychotic features in adults. In September 2010, two sNDAs for *Saphris* were approved in the United States to expand the product s indications to the treatment of schizophrenia in adults, as monotherapy for the acute treatment of manic or mixed episodes associated with bipolar I disorder in adults, and as adjunctive therapy with either lithium or valproate for the acute treatment of manic or mixed episodes associated with bipolar I disorder in adults. In September 2010, asenapine, to be sold under the brand name *Sycrest*, received marketing approval in the EU for the treatment of moderate to severe manic episodes associated with bipolar I disorder in adults; the marketing approval did not include an indication for schizophrenia. The marketing approval applies to all EU member states. In October 2010, Merck and H. Lundbeck A/S (Lundbeck) announced a worldwide commercialization agreement for *Sycrest* sublingual tablets (5 mg, 10 mg). Under the terms of the agreement, Lundbeck paid a fee and will make product supply payments in exchange for exclusive commercial rights to *Sycrest* in all markets outside the United States, China and Japan. Merck will retain exclusive commercial rights to asenapine in the United States, China and Japan. Concurrently, Merck is continuing to pursue regulatory approval for asenapine in other parts of the world.

Merck continues to focus on building the brand awareness of *Saphris* in the United States. Merck launched a black cherry flavor of the sublingual tablet to provide an additional taste option. Merck continues to monitor and assess *Saphris/Sycrest* and the related intangible asset. If increasing the brand awareness, the additional flavor option, or Lundbeck s launch of the product in the EU is not successful, the Company may take a non-cash impairment charge with respect to *Saphris/Sycrest*, and such charge could be material.

Bridion, for the reversal of certain muscle relaxants during surgery, is currently approved in more than 60 countries and has launched in more than 40 countries outside of the United States. *Bridion* is in Phase III development in the United States. Sales of *Bridion* were $103 million in 2010.

The Neurosciences and Ophthalmology franchise also includes the products *Subutex/Suboxone* for the treatment of opiate addiction. In March 2010, Merck sold the rights to *Subutex/Suboxone* in nearly all markets back to Reckitt Benckiser Group PLC (Reckitt). The rights to the products in most major markets reverted to Reckitt on July 1, 2010; the remainder will revert to Reckitt during 2011. Sales for *Subutex/Suboxone* were $111 million in 2010.

Oncology
Sales of *Temodar* (marketed as *Temodal* outside the United States), a treatment for certain types of brain tumors, were $1.1 billion during 2010 and were $188 million for the post-Merger period in 2009. In November 2010, Merck announced that a federal appellate court ruled in its favor in a *Temodar* patent infringement suit against Barr Laboratories (Barr), an affiliate of Teva Pharmaceuticals (Teva). The appellate court rejected Barr s arguments and reversed a lower court ruling that the U.S. patent was unenforceable. Teva had been seeking FDA approval to sell a generic version of *Temodar*. In connection with Teva s prior agreement not to launch during the appeal, Merck agreed that it will not object to Teva s launch of a generic version of *Temodar* in August 2013. The U.S. patent and exclusivity periods otherwise will expire on February 2014. *Temodar* lost patent exclusivity in the EU in 2009 and

generic products are being marketed.

Global sales of *Emend*, a treatment for chemotherapy-induced nausea and vomiting, grew 19% in 2010 to $378 million driven by increases in the United States and due to the launch in Japan. *Emend* sales increased 20% to $317 million in 2009.

Other products in the Oncology franchise include among others, *Caelyx* for the treatment of ovarian cancer, metastatic breast cancer and Kaposi s sarcoma; and *Intron A* for treating melanoma. Marketing rights for *Caelyx* reverted to Johnson & Johnson on December 31, 2010. Sales of *Caelyx* were $284 million in 2010.

Vaccines
The following discussion of vaccines does not include 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* (see Selected Joint Venture and Affiliate Information below). Supply sales to SPMSD, however, are included.

Worldwide sales of *Gardasil* recorded by Merck declined 12% to $988 million in 2010 and decreased 20% to $1.1 billion in 2009. *Gardasil,* the world s top-selling HPV vaccine, is indicated for girls and women 9 through 26 years of age for the prevention of cervical, vulvar and vaginal cancers caused by HPV types 16 and 18, precancerous or dysplastic lesions caused by HPV types 6, 11, 16 and 18, and genital warts caused by HPV types 6 and 11. *Gardasil* is also approved in the United States for use in boys and men ages 9 through 26 years of age for the prevention of genital warts caused by HPV types 6 and 11. In December 2010, the FDA approved a new indication for *Gardasil* for the prevention of anal cancer caused by HPV types 16 and 18 and for the prevention of anal intraepithelial neoplasia grades 1, 2 and 3 (anal dysplasias and precancerous lesions) caused by HPV types 6, 11, 16 and 18, in males and females 9 through 26 years of age. Sales performance in 2010 and 2009 was driven largely by declines in the United States, as well as in Australia during 2010, which continue to be affected by the saturation of the 13 to 18 year-old female cohort. Sales in 2009 include $51 million of revenue as a result of government purchases for the CDC s Strategic National Stockpile. The Company is a party to certain third party license agreements with respect to *Gardasil* (including a cross-license and settlement agreement with GlaxoSmithKline). As a result of these agreements, the Company pays royalties on worldwide *Gardasil* sales of 21% to 27% which vary by country and are included in *Materials and production* costs.

In January 2009, the FDA issued a second complete response letter regarding the sBLA for the use of *Gardasil* in women ages 27 through 45. The FDA completed its review of the response that Old Merck provided in July 2008 to the FDA s first complete response letter issued in June 2008 and recommended that Old Merck submit additional data when the 48 month study has been completed. Merck provided a response to the FDA in the fourth quarter of 2009. Discussions continue with the FDA to determine how adult women study data may be included in the prescribing information for *Gardasil*. The complete response letter does not affect current indications for *Gardasil* in females ages 9 through 26.

Global sales of *RotaTeq,* a vaccine to help protect against rotavirus gastroenteritis in infants and children, recorded by Merck declined 1% in 2010 to $519 million. Sales during 2010 benefited modestly from a temporary competitor supply issue. Sales declined 21% in 2009 to $522 million reflecting competitive pressures.

In recent years the Company has experienced difficulties in producing its varicella zoster virus (VZV)-containing vaccines. These difficulties have resulted in supply constraints for *ProQuad*, *Varivax* and *Zostavax*. The Company is manufacturing bulk varicella and is producing doses of *Varivax* and *Zostavax*.

A limited quantity of *ProQuad*, a pediatric combination vaccine to help protect against measles, mumps, rubella and varicella, one of the VZV-containing vaccines, became available in the United States for ordering in the second quarter of 2010. Actual market demand will dictate how long supply will last. Sales as recorded by Merck for *ProQuad* were $134 million in 2010 and $9 million in 2008. *ProQuad* was not available for ordering in 2009 due to supply constraints.

Merck s sales of *Varivax,* a vaccine to help prevent chickenpox (varicella), were $929 million in 2010, $1.0 billion in 2009 and $925 million in 2008. Sales for 2010 and 2009 reflect $48 million and $64 million, respectively, of revenue as a result of government purchases for the CDC s Strategic National Stockpile. Merck s sales of *M-M-R* II, a vaccine to help protect against measles, mumps and rubella, were $315 million in 2010, $331 million in 2009 and $334 million in 2008. Sales of *Varivax* and *M-M-R* II were affected by the unavailability of *ProQuad* as noted above.

Sales of *Zostavax,* a vaccine to help prevent shingles (herpes zoster), recorded by Merck were $243 million in 2010, $277 million in 2009 and $312 million in 2008. Sales in all of these years were affected by supply issues. Customers experienced backorders for *Zostavax* during 2010. Merck began filling backorders in December 2010. The Company expects to continue to release doses in 2011, but product backorders are expected to continue through at least the first quarter of 2011 and the Company anticipates sales in future quarters will be affected by availability of supply. Due to these supply constraints, no new international launches or immunization programs are currently planned for 2011.

During 2010, Merck filed a Supplemental Biologics License Application with the FDA for the use of *Zostavax* to prevent shingles in people 50 to 59 years of age.

Sales of *Pneumovax*, a vaccine to help prevent pneumococcal disease, were $376 million for 2010, $346 million for 2009 and $249 million for 2008. The increase in 2009 as compared with 2008 was due to favorable pricing in the United States and higher demand associated with the flu pandemic.

In 2009, Old Merck entered into an exclusive agreement with CSL Biotherapies (CSL), a subsidiary of CSL Limited, to market and distribute *Afluria*, CSL s seasonal influenza (flu) vaccine, in the United States, for the 2010/2011-2015/2016 flu seasons. Under the terms of the agreement, the Company will assume responsibility for all aspects of commercialization of *Afluria* in the United States. CSL will supply *Afluria* to Merck and will retain responsibility for marketing the vaccine outside the United States. *Afluria* is indicated for the active immunization of persons age 6 months and older against influenza disease caused by influenza virus subtypes A and type B present in the vaccine. Sales of *Afluria* were $50 million in 2010.

In January 2010, *PedvaxHIB* became fully available in the United States for routine vaccination as well as for booster dose catch-up vaccination. The timing of availability outside the United States is dependent upon local regulatory requirements. *Comvax* became available in the third quarter of 2010.

The pediatric/adolescent formulation of *Vaqta,* a vaccine against hepatitis A, is available. Merck s adult formulation will not be available in the United States until after 2011. Outside of the United States, the supply of *Vaqta* is limited and availability will vary by region. The pediatric/adolescent formulation of *Recombivax HB*, a vaccine against hepatitis B, is available and the dialysis formulation became available in the third quarter of 2010. The Company currently anticipates availability of the adult formulation of *Recombivax HB* in the first half of 2012.

In April 2010, Merck and MassBiologics (MBL) of the University of Massachusetts Medical School entered into an agreement that provides Merck with exclusive rights to market and distribute MBL s tetanus and diphtheria toxoids adsorbed (Td) vaccine in the United States, with the exception of Massachusetts, where MBL will continue distributing the vaccine. Merck began distributing the Td vaccine in June 2010.

Women s Health and Endocrine

Worldwide sales of *NuvaRing*, a contraceptive product, were $559 million during 2010 and $88 million for the post-Merger period in 2009. Global sales of *Follistim AQ* (marketed in most countries outside the United States as *Puregon*), a fertility treatment, were $528 million during 2010 and were $96 million for the post-Merger period in 2009. *Puregon* lost market exclusivity in the EU in August 2009.

Other products contained in the Women s Health and Endocrine franchise include among others, *Implanon*, a single-rod subdermal contraceptive implant; *Cerazette*, a progestin only oral contraceptive; and *Elonva*, a fertility treatment.

The Company is currently experiencing difficulty manufacturing certain women s health products. The Company is working to resolve these issues.

Other

In January 2010, the Company, AZLP and Teva (which acquired IVAX Pharmaceuticals, Inc. (IVAX)) entered into a settlement agreement to resolve patent litigation with respect to esomeprazole (Nexium) which provides that Teva/IVAX will not bring its generic esomeprazole product to market in the United States until May 27, 2014. During 2008, Old Merck and AZLP entered into a similar agreement with Ranbaxy Laboratories Ltd.

(Ranbaxy) which provides that Ranbaxy will not bring its generic esomeprazole product to market in the United States until May 27, 2014. The Company faces other challenges with respect to outstanding patent infringement matters for esomeprazole (see Note 12 to the consolidated financial statements).

AstraZeneca has an option to buy Old Merck s interest in Nexium and Prilosec, exercisable in 2012, and the Company believes that it is likely that AstraZeneca will exercise that option (see Selected Joint Venture and Affiliate Information below).

Animal Health
Animal Health includes pharmaceutical and vaccine products for the prevention, treatment and control of disease in all major farm and companion animal species. Animal Health sales are affected by intense competition and the frequent introduction of generic products. Global sales of Animal Health products totaled $2.9 billion during 2010 reflecting continued strong performance among cattle, poultry, companion animal and swine products. Global sales of Animal Health products totaled $494 million for the post-Merger period in 2009. During the first quarter of 2010, sanofi-aventis exercised its option to require the Company to seek to combine its Animal Health business with Merial Limited to form an animal health joint venture. The formation of the animal health joint venture is expected to be dilutive to the Company s earnings for the first 12 months after the transaction closes. (See Selected Joint Venture and Affiliate Information below.)

Consumer Care
Consumer Care products include over-the-counter, foot care and sun care products such as *Dr. Scholl s* foot care products; *Claritin* non-drowsy antihistamines; *MiraLAX*, a treatment for occasional constipation; and *Coppertone* sun care products. Global sales of Consumer Care products were $1.3 billion during 2010 reflecting strong performance of a number of key brands including *Dr. Scholl s* and *Coppertone*. Consumer Care product sales were $149 million for the post-Merger period in 2009. Consumer Care product sales are affected by competition, frequent competitive product introductions and consumer spending patterns.

In April 2010, *Zegerid OTC*, an over-the-counter option for treating frequent heartburn without prescription, became available in drug stores, grocery stores, mass merchandisers and club stores nationwide. The FDA approved *Zegerid* in December 2009 for over-the-counter use.

Costs Expenses and Other

($ in millions)	**2010**	**Change**	2009	Change	2008
Materials and production	**$ 18,396**	*	$ 9,019	62%	$ 5,583
Marketing and administrative	**13,245**	**55%**	8,543	16%	7,377
Research and development[(1)]	**10,991**	**88%**	5,845	22%	4,805
Restructuring costs	**985**	**-40%**	1,634	58%	1,033
Equity income from affiliates	**(587)**	**-74%**	(2,235)	-13%	(2,561)
Other (income) expense, net	**1,304**	*	(10,668)	*	(2,318)
	$ 44,334	*	$ 12,138	-13%	$ 13,919

** 100% or greater.*

(1) *Includes $2.4 billion of IPR&D impairment charges in 2010 and restructuring costs in all years.*

Materials and Production

Materials and production costs were $18.4 billion in 2010, $9.0 billion in 2009 and $5.6 billion in 2008. Materials and production costs in 2010 and in the post-Merger period of 2009 include expenses related to the sale of legacy Schering-Plough and MSP Partnership products. Additionally, these costs were unfavorably affected by $4.6 billion and $0.8 billion in 2010 and 2009, respectively, of expense for the amortization of intangible assets and $2.0 billion and $1.5 billion in 2010 and 2009, respectively, of amortization of purchase accounting adjustments to Schering-Plough s inventories recognized in the Merger. Also included in materials and production costs in 2010, 2009 and 2008 were $429 million, $115 million and $123 million, respectively, of costs associated with

restructuring activities, including accelerated depreciation and asset write-offs related to the planned sale or closure of manufacturing facilities. Separation costs associated with manufacturing-related headcount reductions have been incurred and are reflected in *Restructuring costs* as discussed below. (See Note 4 to the consolidated financial statements.)

Gross margin was 60.0% in 2010 compared with 67.1% in 2009 and 76.6% in 2008. The amortization of intangible assets and purchase accounting adjustments to inventories recorded in 2010 and 2009 as a result of the Merger and the restructuring charges reflected in all periods as noted above had an unfavorable impact of 15.2 percentage points in 2010, 8.8 percentage points in 2009 and 0.5 percentage points in 2008.

Marketing and Administrative
Marketing and administrative expenses were $13.2 billion in 2010, $8.5 billion in 2009 and $7.4 billion in 2008. The increases were driven largely by the inclusion of expenses related to Schering-Plough activities during 2010 and in the post-Merger period of 2009. Additionally, $379 million of merger-related costs were recognized in 2010 consisting largely of integration costs, as well as costs incurred in conjunction with the potential formation of the animal health joint venture with sanofi-aventis, compared with $371 million of merger-related costs recognized in 2009 consisting largely of transaction costs directly related to the Merger (including advisory and legal fees) and integration costs. In addition, expenses for 2010 included $144 million of restructuring costs, primarily related to accelerated depreciation for facilities to be closed or divested. These increases were partially offset by initiatives to reduce the cost base. Separation costs associated with sales force reductions have been incurred and are reflected in *Restructuring costs* as discussed below. In addition, marketing and administrative expenses benefited from foreign exchange during 2009. Marketing and administrative expenses in 2010, 2009 and 2008 included $106 million, $75 million and $62 million, respectively, of additional reserves solely for future *Vioxx* legal defense costs. (See Note 12 to the consolidated financial statements for more information on *Vioxx* litigation related matters).

Research and Development
Research and development expenses were $11.0 billion in 2010, $5.8 billion in 2009 and $4.8 billion in 2008. The increases were due in part to the incremental expenditures associated with the inclusion of Schering-Plough s operations in 2010 and for the post-Merger period of 2009. In addition, during 2010, the Company recorded $2.4 billion of IPR&D impairment charges. Of this amount, $1.7 billion related to the write-down of the intangible asset for vorapaxar resulting from developments in the clinical program for this compound (see Research and Development below). The remaining $763 million of IPR&D impairment charges were attributable to compounds that were abandoned and determined to have either no alternative use or were returned to the respective licensor, as well as from expected delays in the launch timing or changes in the cash flow assumptions for certain compounds. The Company may recognize additional non-cash impairment charges in the future for the cancellation or delay of other legacy Schering-Plough pipeline programs that were measured at fair value and capitalized in connection with the Merger and such charges could be material. Additionally, research and development expenses in 2010, 2009 and 2008 reflect $428 million, $232 million and $128 million, respectively, of costs associated with restructuring activities, including accelerated depreciation and asset abandonment costs. (See Note 4 to the consolidated financial statements.) Also, research and development expenses in 2010 include a $50 million payment related to the restructuring of Merck s agreement with ARIAD Pharmaceuticals, Inc. (ARIAD) (see Research and Development below), while expenses in 2009 reflect upfront payments associated with external licensing activity. Research and development expenses in 2009 as compared with 2008 also reflect an increase in development spending in support of the continued advancement of the research pipeline, including investments in late-stage clinical trials. For segment reporting, research and development costs are unallocated.

Share-Based Compensation
Total pretax share-based compensation expense was $509 million in 2010, $415 million in 2009 and $348 million in 2008. At December 31, 2010, there was $416 million of total pretax 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 1.8 years. For segment reporting, share-based compensation costs are unallocated expenses.

Restructuring Costs

Restructuring costs were $985 million, $1.6 billion and $1.0 billion for 2010, 2009 and 2008, respectively. Of the restructuring costs recorded in 2010, $915 million related to the Merger Restructuring Program, $77 million related to the 2008 Restructuring Program and the remaining difference related to the legacy Schering-Plough Productivity Transformation Program, which included a gain on the sale of a manufacturing facility. Of the restructuring costs recorded in 2009, $1.4 billion related to the Merger Restructuring Program, $178 million related to the 2008 Restructuring Program and $39 million related to the legacy Schering-Plough Productivity Transformation Program. Of the restructuring costs recorded in 2008, $736 million related to the 2008 Restructuring Program and the remainder was associated with the 2005 Restructuring Program. In 2010, 2009 and 2008, separation costs of $768 million, $1.4 billion and $957 million, respectively, were incurred associated with actual headcount reductions, as well as estimated expenses under existing severance programs for headcount reductions that were probable and could be reasonably estimated. Merck eliminated 12,465 positions in 2010 (of which 11,410 related to the Merger Restructuring Program, 890 related to the 2008 Restructuring Program and the remainder to the legacy Schering-Plough Productivity Transformation Program), 3,525 positions in 2009 (most of which related to the 2008 Restructuring Program) and 5,800 positions in 2008 (of which approximately 1,750 related to the 2008 Restructuring Program and 4,050 related to the 2005 Restructuring Program). These position eliminations are comprised of actual headcount reductions, and the elimination of contractors and vacant positions. Also included in restructuring costs are curtailment, settlement and termination charges on pension and other postretirement benefit plans, as well as contract termination and shutdown costs. For segment reporting, restructuring costs are unallocated expenses. Additional costs associated with the Company s restructuring activities are included in *Materials and production*, *Marketing and administrative* and *Research and development*.

Equity Income from Affiliates

Equity income from affiliates, which reflects the performance of the Company s joint ventures and other equity method affiliates, declined to $587 million in 2010. Equity income from affiliates no longer includes equity income from the MSP Partnership, which became wholly-owned by the Company as a result of the Merger and therefore its results have been included in the consolidated results of the Company beginning from the date of the Merger, or from Merial Limited (Merial) due the sale of Old Merck s interest in September 2009. In addition, lower partnership returns from AZLP, as well as lower equity income from SPMSD as a result of restructuring charges recorded by the joint venture, also contributed to the decline. In 2009, equity income from affiliates declined to $2.2 billion primarily driven by lower equity income from the MSP Partnership and Merial resulting from the 2009 Merger-related events discussed above, partially offset by higher partnership returns from AZLP. (See Selected Joint Venture and Affiliate Information below.)

Other (Income) Expense, Net

The change in other (income) expense, net for 2010 as compared with 2009 primarily reflects a $7.5 billion gain in 2009 resulting from recognizing Merck s previously held equity interest in the MSP Partnership at fair value as a result of obtaining control of the MSP Partnership in the Merger (see Note 3 to the consolidated financial statements), a $3.2 billion gain in 2009 on the sale of Old Merck s interest in Merial (see Note 10 to the consolidated financial statements), a $950 million charge for the *Vioxx* Liability Reserve recorded in 2010 (see Note 12 to the consolidated financial statements), lower recognized net gains in 2010 on the Company s investment portfolio and charges recorded in 2010 related to the settlement of certain pending Average Wholesale Prices litigation (see Note 12 to the consolidated financial statements). Lower interest income and higher interest expense in 2010 as a result of the Merger also contributed to the year-over-year change. In addition, as discussed below, during 2010 the Company recognized exchange losses of $200 million due to two Venezuelan currency devaluations during the year. These items were partially offset by $443 million of income recognized in 2010 upon AstraZeneca s asset option exercise (see Note 10 to the consolidated financial statements) and $102 million of income recognized in 2010 on the settlement of certain disputed royalties.

Effective January 1, 2010, the Company was required to remeasure its local currency operations in Venezuela to U.S. dollars as the Venezuelan economy was determined to be hyperinflationary. Effective January 11, 2010, the Venezuelan government devalued its currency from at BsF 2.15 per U.S. dollar to a two-tiered official exchange rate at (1) the essentials rate at BsF 2.60 per U.S. dollar and (2) the non-essentials rate at BsF 4.30 per

U.S. dollar. Throughout 2010, the Company settled transactions at the essentials rate and therefore remeasured monetary assets and liabilities utilizing the essentials rate. In December 2010, the Venezuelan government announced it would eliminate the essentials rate and effective January 1, 2011, all transactions would be settled at the official rate of at BsF 4.30 per U.S. dollar. As a result of this announcement, the Company remeasured its December 31, 2010 monetary assets and liabilities at the new official rate.

Included in other (income) expense, net in 2009 was the $7.5 billion gain related to Merck s previously held interest in the MSP Partnership and the $3.2 billion gain recognized on the sale of Old Merck s interest in Merial. Also included in other (income) expense, net in 2009 was $231 million of investment portfolio recognized net gains, and an $80 million charge related to the settlement of the *Vioxx* third-party payor litigation in the United States. Included in other (income) expense, net in 2008 was an aggregate gain on distribution from AZLP of $2.2 billion, a gain of $249 million related to the sale of the remaining worldwide rights to *Aggrastat*, a $300 million expense for a contribution to the Merck Company Foundation, $117 million of investment portfolio recognized net losses and a $58 million charge related to the resolution of an investigation into whether Old Merck violated state consumer protection laws with respect to the sales and marketing of *Vioxx*. Merck experienced a decline in interest income in 2009 as compared with 2008 primarily as a result of lower interest rates and a change in the investment portfolio mix toward cash and shorter-dated securities in anticipation of the Merger. Merck recognized higher interest expense in 2009 largely due to $173 million of commitment fees and incremental interest expense related to the financing of the Merger.

Segment Profits

($ in millions)	**2010**	2009	2008
Pharmaceutical segment profits	**$ 24,003**	$ 15,715	$ 14,110
Other non-reportable segment profits	**2,423**	1,735	1,691
Other	**(24,773)**	(2,160)	(5,870)
Income before income taxes	**$ 1,653**	$ 15,290	$ 9,931

Segment profits are comprised of segment revenues less certain elements of materials and production costs and operating expenses, including components of equity income or loss from affiliates and depreciation and amortization expenses. For internal management reporting presented to the chief operating decision maker, Merck does not allocate production costs, other than standard costs, research and development expenses or general and administrative expenses, nor 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 the *Vioxx* Liability Reserve and the gain on AstraZeneca s asset option exercise recognized in 2010, the gains related to the MSP Partnership and the disposition of Merial in 2009, and the gain on distribution from AZLP in 2008, as well as the amortization of purchase accounting adjustments, IPR&D impairment charges, restructuring costs, 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 or expense. These unallocated items are reflected in Other in the above table. Also included in Other are miscellaneous corporate profits, operating profits related to third-party manufacturing sales, divested products or businesses, as well as other supply sales and adjustments to eliminate the effect of double counting certain items of income and expense.

Pharmaceutical segment profits rose 53% in 2010 and increased 11% in 2009. These increases were largely driven by the inclusion of legacy Schering-Plough results.

Taxes on Income

The effective income tax rate was 40.6% in 2010, 14.8% in 2009 and 20.1% in 2008. The 2010 effective tax rate reflects the unfavorable impacts of purchase accounting charges, IPR&D impairment charges, restructuring charges, the *Vioxx* Liability Reserve for which no tax impact was recorded, a $147 million charge associated with a change in tax law that requires taxation of the prescription drug subsidy of the Company s retiree health benefit plans which was enacted in the first quarter of 2010 as part of U.S. health care reform legislation, and the impact of AstraZeneca s asset option exercise. These unfavorable impacts were partially offset by a $391 million tax benefit

from changes in a foreign entity s tax rate, which resulted in a reduction in deferred tax liabilities on product intangibles recorded in conjunction with the Merger, the favorable impact of the enactment of the tax extenders legislation, including the R&D tax credit, and the favorable impact of foreign earnings and dividends from the Company s foreign subsidiaries. The 2009 effective tax rate reflects the favorable impacts of increased income in lower tax jurisdictions, which includes the favorable impact of the MSP Partnership gain, and higher expenses in certain jurisdictions including the amortization of purchase accounting adjustments and restructuring costs. The effective income tax rate in 2009 also benefited from 2009 tax settlements, including the previously announced settlement with the Canada Revenue Agency (CRA). These favorable impacts were partially offset by the unfavorable effect of the gain on the sale of Old Merck s interest in Merial which was taxable in the United States at a combined federal and state tax rate of approximately 38.0%. The 2008 effective tax rate reflects favorable impacts relating to tax settlements that resulted in a reduction of the liability for unrecognized tax benefits of approximately $200 million, the realization of foreign tax credits and the favorable tax impact of foreign exchange rate changes during the fourth quarter, particularly the strengthening of the Japanese yen against the U.S. dollar, partially offset by an unfavorable impact resulting from the AZLP gain being fully taxable in the United States at a combined federal and state tax rate of approximately 36.3%. In the first quarter of 2008, Old Merck decided to distribute certain prior years foreign earnings to the United States which resulted in a utilization of foreign tax credits. These foreign tax credits arose as a result of tax payments made outside of the United States in prior years that became realizable in the first quarter based on a change in Old Merck s decision to distribute these foreign earnings.

Net Income and Earnings per Common Share

Net income attributable to Merck & Co., Inc. was $861 million in 2010, $12.9 billion in 2009 and $7.8 billion in 2008. Earnings per common share assuming dilution available to common shareholders (EPS) were $0.28 in 2010, $5.65 in 2009 and $3.63 in 2008. The declines in net income and EPS in 2010 as compared with 2009 were primarily due to the gains recognized in 2009 associated with the MSP Partnership as a result of the Merger and the disposition of Merial, as well as incremental costs in 2010 as a result of the Merger, including the recognition of a full year of amortization of intangible assets and inventory step-up. In addition, IPR&D impairment charges, the *Vioxx* Liability Reserve, lower equity income from affiliates and the impact of U.S. health care reform legislation also contributed to the declines in net income and EPS in 2010. The increases in net income and earnings per share in 2009 as compared with 2008 were largely driven by the MSP Partnership and Merial gains, partially offset by incremental charges associated with the Merger, including the amortization of intangible assets and inventory step-up and the recognition of merger-related costs. EPS in 2009 was also affected by the dilutive impact of shares issued in the Merger.

Non-GAAP Income and Non-GAAP EPS

Non-GAAP income and non-GAAP EPS are alternative views of the Company s performance used by management that Merck is providing because management believes this information enhances investors understanding of the Company s results. Non-GAAP income and non-GAAP EPS exclude certain items because of the nature of these items and the impact that they have on the analysis of underlying business performance and trends. The excluded items consist of certain purchase accounting items related to the Merger, restructuring activities, merger-related costs, and certain other items. These excluded items are significant components in understanding and assessing financial performance. Therefore, the information on non- GAAP income and non-GAAP EPS should be considered in addition to, but not in lieu of, net income and EPS prepared in accordance with generally accepted accounting principles in the United States (GAAP). Additionally, since non-GAAP income and non-GAAP EPS are not measures determined in accordance with GAAP, they have no standardized meaning prescribed by GAAP and, therefore, may not be comparable to the calculation of similar measures of other companies.

Non-GAAP income and non-GAAP EPS are important internal measures for the Company. Senior management receives a monthly analysis of operating results that includes non-GAAP income and non-GAAP EPS and the performance of the Company is measured on this basis along with other performance metrics. Senior management s annual compensation is derived in part using non-GAAP income and non-GAAP EPS.

A reconciliation between GAAP financial measures and non-GAAP financial measures is as follows:

($ in millions)	**2010**	2009	2008
Pretax income as reported under GAAP	**$ 1,653**	$ 15,290	$ 9,931
Increase (decrease) for excluded items:			
Purchase accounting adjustments	**9,007**	2,286	
Restructuring costs	**1,986**	1,981	1,284
Merger-related costs	**396**	544	
Other items:			
Vioxx Liability Reserve	**950**		
Gain on AstraZeneca asset option exercise	**(443)**		
Gain related to the MSP Partnership		(7,530)	
Gain on Merial divestiture		(3,163)	
Gain on distribution from AZLP			(2,223)
	13,549	9,408	8,992
Taxes on income as reported under GAAP	**671**	2,268	1,999
Estimated tax benefit (expense) on excluded items	**1,798**	(390)	(472)
Tax benefit from foreign entity tax rate changes	**391**		
Tax charge related to U.S. health care reform legislation	**(147)**		
Non-GAAP taxes on income	**2,713**	1,878	1,527
Non-GAAP net income	**$ 10,836**	$ 7,530	$ 7,465

	2010	2009	2008
EPS assuming dilution as reported under GAAP	**$ 0.28**	$ 5.65	$ 3.63
EPS difference[(1)]	**3.14**	(2.40)	(0.21)
Non-GAAP EPS assuming dilution	**$ 3.42**	$ 3.25	$ 3.42

(1) *Represents the difference between calculated GAAP EPS and calculated non-GAAP EPS, which may be different than the amount calculated by dividing the impact of the excluded items by the weighted average shares.*

Purchase Accounting Adjustments
Non-GAAP income and non-GAAP EPS exclude the ongoing impact of certain amounts recorded in connection with the Merger. These amounts include the amortization of intangible assets and inventory step-up, as well as IPR&D

impairment charges (see Research and Development below).

Restructuring Costs

Non-GAAP income and non-GAAP EPS exclude costs related to restructuring actions, including restructuring activities related to the Merger (see Note 4 to the consolidated financial statements). These amounts include employee separation costs and accelerated depreciation associated with facilities to be closed or divested. Accelerated depreciation costs represent the difference between the depreciation expense to be recognized over the revised useful life of the site, based upon the anticipated date the site will be closed or divested, and depreciation expense as determined utilizing the useful life prior to the restructuring actions. The Company has undertaken restructurings of different types during the covered periods and therefore these charges should not be considered non-recurring; however, management excludes these amounts from non-GAAP income and non-GAAP EPS because it believes it is helpful for understanding the performance of the continuing business.

Merger-Related Costs

Non-GAAP income and non-GAAP EPS exclude transaction costs associated directly with the Merger, as well as integration costs. These costs are excluded because management believes that these costs are unique to the

Merger transaction and are not representative of ongoing normal business activities. Integration costs associated with the Merger will occur over several years; however, the impacts within each year will vary as the integration progresses. These costs include costs associated with the potential formation of an animal health joint venture with sanofi-aventis.

Certain Other Items
Non-GAAP income and non-GAAP EPS exclude certain other items. These items represent substantive, unusual items that are evaluated on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual nature and generally represent items that, either as a result of their nature or magnitude, management would not anticipate that they would occur as part of the Company s normal business on a regular basis. Certain other items include the *Vioxx* Liability Reserve, the gain recognized upon AstraZeneca s asset option exercise, the gain on recognizing Merck s previously held equity interest in the MSP Partnership at fair value as a result of obtaining a controlling interest in the Merger, the gain on the divestiture of Old Merck s interest in Merial and the gain on a distribution from AZLP.

Research and Development

A chart reflecting the Company s current research pipeline as of February 16, 2011 is set forth in Item 1. Business Research and Development above.

Research and Development Update
In connection with the Merger, during 2009, the Company began assessing its pipeline to identify the most promising, high-potential compounds for development. The full prioritization process was completed during 2010.

The Company currently has a number of candidates under regulatory review in the United States and internationally.

Boceprevir is an investigational oral hepatitis C virus protease inhibitor currently under development. Full data results for two pivotal late-stage studies for boceprevir were presented in November 2010 at the annual meeting of the American Association for the Study of Liver Disease which showed that boceprevir demonstrated significantly higher sustained virologic response rates in adult patients who previously failed treatment and in adult patients who were new to treatment for chronic hepatitis C virus genotype 1 compared to control, the primary objective of the studies. Based on these data, regulatory applications for boceprevir were submitted in 2010 and have been accepted for expedited review in both the United States and the EU.

MK-0431A XR, the Company s investigational extended-release formulation of *Janumet*, was accepted for standard review by the FDA in 2010. The Company is also moving forward as planned with regulatory filings in countries outside the United States. The extended-release formulation of *Janumet* is an investigational treatment for type 2 diabetes that combines sitagliptin, which is the active component of *Januvia*, with metformin extended release, a commonly-prescribed medication for type 2 diabetes, into a single tablet. This formulation is designed to provide a new treatment option for health care providers and patients who need two or more oral agents to help control their blood sugar with the convenience of once daily dosing.

SCH 900121, NOMAC/E2, is an oral contraceptive that combines a selective progestin with 17-beta estradiol, an estrogen that is identical to the one naturally present in a women s body. The drug is currently under review in the EU. It is also in Phase III development for the U.S. market.

MK-3009, Cubicin daptomycin for injection, is currently under review in Japan. As previously disclosed, in 2007, Cubist Pharmaceuticals, Inc. (Cubist) entered into a license agreement with Old Merck for the development and commercialization of Cubicin, for the treatment of staph infection, in Japan where the Company has the commercial

rights to the drug candidate. Merck will develop and commercialize Cubicin through its wholly-owned subsidiary in Japan. Cubist commercializes Cubicin in the United States.

MK-0431D is a combination of *Januvia* and *Zocor* for the treatment of diabetes and dyslipidemia which was accepted for standard review by the FDA in 2011.

In addition to the candidates under regulatory review, the Company has 19 drug candidates in Phase III development.

Vorapaxar is a thrombin receptor antagonist or antiplatelet protease activated receptor-1 inhibitor being studied for the prevention and treatment of thrombosis. Merck was studying vorapaxar in two major clinical endpoint trials to evaluate the investigational medicine for the prevention of cardiac events: TRACER, a study in patients with acute coronary syndrome which has ended, and TRA-2P (also known as TIMI 50), a study in patients with prior heart attack, stroke and peripheral artery disease which is continuing in large part. Both studies were designed as event-driven trials in which patients were planned to be followed for a minimum of one year, and both had completed enrollment. In January 2011, Merck announced that the combined DSMB for the two studies had reviewed the available safety and efficacy data, and made recommendations for study changes to the chairpersons of the steering committees for the two studies. The study chairpersons agreed to implement these changes, and as a result: in the TRACER study, patients were to discontinue study drug and investigators were to begin to close out the study in a timely and orderly fashion. In the TRA-2P study, study drug was continued in patients who had experienced a previous heart attack or peripheral arterial disease (approximately 75% of the patients enrolled in the study), and was immediately discontinued in patients who experienced a stroke prior to entry into the study or during the course of the study. Merck subsequently announced that the chairman of the TRA-2P study reported to investigators that the DSMB had communicated that based on all of the data (safety and efficacy) available to them from both trials, they recommended that subjects with a history of stroke not receive vorapaxar. The DSMB had observed an increase in intracranial hemorrhage in patients with a history of stroke that is not outweighed by their considerations of potential benefit.

Merck plans to update its projections for regulatory filings for vorapaxar once the Company has received the efficacy and safety data from TRACER and can determine an updated completion date for TRA-2P. TRACER has accumulated the pre-defined number of primary and major secondary endpoints, although not all patients will continue to receive study drug through the pre-specified one-year follow up. Merck continues to expect that the efficacy and safety data from TRACER will become available later in 2011 and will be submitted for presentation at appropriate medical meetings.

As a result of these developments, the Company concluded there was a 2010 impairment triggering event related to the vorapaxar intangible asset. Although there is a great deal of information related to these developments that remains unknown to the Company, utilizing market participant assumptions and considering several different scenarios, the Company concluded that its best estimate of the current fair value of the intangible asset related to vorapaxar was $350 million, which resulted in the recognition of an impairment charge of $1.7 billion during 2010. The Company will continue to monitor the remaining asset value for further impairment.

MK-8669, ridaforolimus, is a novel mTOR (mammalian target of rapamycin) inhibitor being evaluated for the treatment of cancer. Merck is currently developing ridaforolimus in multiple cancer indications under an exclusive license and collaboration agreement with ARIAD. In January 2011, ARIAD announced top-line data showing that ridaforolimus met the primary endpoint of improved progression-free survival compared to placebo in the Phase III SUCCEED trial conducted in patients with metastatic soft tissue or bone sarcomas who previously had a favorable response to chemotherapy. Complete findings from the SUCCEED trial will be submitted for presentation at an upcoming medical meeting in 2011. This trial remains active, and study participants continue to be followed to gather additional data on secondary endpoints, including overall survival and the safety profile of ridaforolimus. Merck currently plans to file an NDA with the FDA for oral ridaforolimus in 2011, subject to final collection and analysis of all available data from the trial.

MK-2452, *Saflutan* (tafluprost), is a preservative free, synthetic analogue of the prostaglandin F2 for the reduction of elevated intraocular pressure in appropriate patients with primary open-angle glaucoma and ocular hypertension. In April 2009, Old Merck and Santen Pharmaceutical Co., Ltd. announced a worldwide licensing agreement for

tafluprost. The Company continues to anticipate filing an NDA with the FDA for *Saflutan* in 2011.

As previously disclosed, Old Merck submitted for filing an NDA with the FDA for MK-0653C, ezetimibe combined with atorvastatin, which is an investigational medication for the treatment of dyslipidemia, and the FDA refused to file the application in 2009. The FDA has identified additional manufacturing and stability data that are needed; the Company anticipates filing an NDA in 2011.

As previously disclosed, in 2009, Old Merck announced it was delaying the filing of the U.S. application for MK-0974, telcagepant, the Company s investigational calcitonin gene-related peptide (CGRP)-receptor antagonist for the acute treatment of migraine. The decision was based on findings from a Phase IIa exploratory study in which a small number of patients taking telcagepant twice daily for three months for the prevention of migraine were found to have marked elevations in liver transaminases. The daily dosing regimen in the prevention study was different than the dosing regimen used in Phase III studies in which telcagepant was intermittently administered in one or two doses to treat individual migraine attacks as they occurred. Following meetings with regulatory agencies at the end of 2009, Merck is conducting an additional safety study as part of the overall Phase III program for telcagepant. The Company continues to anticipate filing an NDA with the FDA in 2011.

SCH 900616, *Bridion* (sugammadex), is a medication designed to rapidly reverse the effects of certain muscle relaxants used as part of general anesthesia to ensure patients remain immobile during surgical procedures. *Bridion* has received regulatory approval in the EU, Australia, New Zealand, Japan, and a number of other markets. Prior to the Merger, Schering-Plough received a complete response letter from the FDA for *Bridion.* Following further communication from the FDA, the Company is assessing the agency s feedback in order to determine a new timetable for response.

SCH 697243 is an investigational allergy immunotherapy sublingual tablet (AIT) for grass pollen allergy for which the Company has North American rights. In March 2010, data from a Phase III study in children and adolescents (ages 5-17 years) with grass pollen allergic rhinoconjunctivitis were presented at the American Academy of Allergy, Asthma & Immunology Annual Meeting. Allergic rhinoconjunctivitis, or runny nose and itchy, watery eyes due to allergies, is a common condition in children and adolescents. AIT is a dissolvable oral tablet that is designed to prevent allergy symptoms by inducing a protective immune response against allergies, thereby treating the underlying cause of the disease. Merck is investigating AIT for the treatment of grass pollen allergic rhinoconjunctivitis in both children and adults. The anticipated U.S. filing date for SCH 697243 is under assessment.

SCH 039641, an AIT for ragweed allergy, is also in Phase III development for the North American market. The anticipated filing date for SCH 039641 is under assessment.

SCH 418131, *Zenhale*, is a fixed dose combination of two previously approved drugs for the treatment of asthma: mometasone furoate and formoterol fumarate dehydrate. In November 2010, the Company advised the European Medicines Agency (EMA) that it was withdrawing the application for marketing authorization for *Zenhale*, which has been approved for use in asthma patients 12 years of age and older in the United States as *Dulera* Inhalation Aerosol. The Company decided to withdraw the application for *Zenhale* to address questions outstanding between the Company and the Committee for Medicinal Products for Human Use of the EMA. The Company expects to resubmit the application in the future.

MK-0431C, a candidate currently in Phase III clinical development, combines *Januvia* with pioglitazone, another type 2 diabetes therapy. The Company expects it will file an NDA for MK-0431C with the FDA in 2012.

MK-0822, odanacatib, is an oral, once-weekly investigational treatment for osteoporosis in post-menopausal women. Osteoporosis is a disease which reduces bone density and strength and results in an increased risk of bone fractures. Odanacatib is a cathepsin K inhibitor that selectively inhibits the cathepsin K enzyme. Cathepsin K is known to play a central role in the function of osteoclasts, which are cells that break down existing bone tissue, particularly the protein components of bone. Inhibition of cathepsin K is a novel approach to the treatment of osteoporosis. Four-year data on odanacatib were presented in October 2010 at the American Society for Bone and Mineral Research annual meeting. Clinical and preclinical studies continue to provide data on the potential of odanacatib to increase bone density, cortical thickness and bone strength when treating osteoporosis. The Company continues to anticipate filing an NDA with the FDA in 2012.

V503 is a nine-valent HPV vaccine in development to expand protection against cancer-causing HPV types. The Phase III clinical program is underway and Merck anticipates filing a Biologics License Application (BLA) with the FDA in 2012.

MK-0524A is a drug candidate that combines extended-release niacin and a novel flushing inhibitor, laropiprant. MK-0524A has demonstrated the ability to lower LDL-cholesterol (LDL-C or bad cholesterol),

raise HDL-cholesterol (HDL-C or good cholesterol) and lower triglycerides with significantly less flushing than traditional extended release niacin alone. High LDL-C, low HDL-C and elevated triglycerides are risk factors associated with heart attacks and strokes. In April 2008, Old Merck received a non-approvable action letter from the FDA in response to its NDA for MK-0524A. At a meeting to discuss the letter, the FDA stated that additional efficacy and safety data were required and suggested that Old Merck wait for the results of the Treatment of HDL to Reduce the Incidence of Vascular Events (HPS2-THRIVE) cardiovascular outcomes study, which is expected to be completed in 2012. The Company anticipates filing an NDA with the FDA for MK-0524A in 2012. MK-0524A has been approved in more than 55 countries outside the United States for the treatment of dyslipidemia, particularly in patients with combined mixed dyslipidemia (characterized by elevated levels of LDL-C and triglycerides and low HDL-C) and in patients with primary hypercholesterolemia (heterozygous familial and non-familial) and is marketed as *Tredaptive* (or as *Cordaptive* in certain countries). *Tredaptive* should be used in patients in combination with statins, when the cholesterol lowering effects of statin monotherapy is inadequate. *Tredaptive* can be used as monotherapy only in patients in whom statins are considered inappropriate or not tolerated.

MK-0524B is a drug candidate that combines the novel approach to raising HDL-C and lowering triglycerides from extended-release niacin combined with laropiprant with the proven benefits of simvastatin in one combination product. Merck will not seek approval for MK-0524B in the United States until it files its complete response relating to MK-0524A.

MK-4305 is an investigational dual orexin receptor antagonist, a potential new approach to the treatment of chronic insomnia, currently in Phase III development. In June 2010, clinical results from a Phase IIb study were presented at the Annual Meeting of the Associated Professional Sleep Societies which showed MK-4305 was significantly more effective than placebo in improving overall sleep efficiency at night one and at the end of week four in patients with primary insomnia. MK-4305 was generally well-tolerated in the study. Orexins are neuropeptides (chemical messengers) that are released by specialized neurons in the hypothalamus region of the brain and are believed to be an important regulator of the brain s sleep-wake process. Phase III trials studying the efficacy and safety of MK-4305 in elderly and non-elderly insomnia patients are ongoing. Merck anticipates filing regulatory applications for MK-4305 in 2012.

SCH 900962, *Elonva*, corifollitropin alpha injection, which has been approved in the EU for controlled ovarian stimulation in combination with a GnRH antagonist for the development of multiple follicles in women participating in an assisted reproductive technology program, is currently in Phase III development in the United States. The Company continues to anticipate filing an NDA with the FDA in 2012.

SCH 420814, preladenant, is a selective adenosine 2a receptor antagonist in Phase III development for treatment of Parkinson s disease. The Company continues to anticipate filing an NDA with the FDA beyond 2012.

V212 is an inactivated varicella-zoster virus vaccine in Phase III development for prevention of herpes zoster. The Company anticipates filing an NDA with the FDA beyond 2012.

MK-0859, anacetrapib, is an investigational inhibitor of the cholesteryl ester transfer protein (CETP) that is being investigated in lipid management to raise HDL-C and reduce LDL-C. In November 2010, researchers presented results from the Phase III DEFINE (Determining the EFficacy and Tolerability of CETP INhibition with AnacEtrapib) study with anacetrapib at the American Heart Association Scientific Sessions. In the trial of 1,623 patients with coronary heart disease (CHD) or CHD risk equivalents, anacetrapib showed no significant differences from placebo in the primary safety measures studied. There were no significant differences in mean changes in blood pressure between the anacetrapib and placebo treatment groups, nor were there any significant differences in serum electrolytes or aldosterone levels. During the 76-week treatment phase, the pre-specified adjudicated cardiovascular endpoint (defined as cardiovascular death, myocardial infarction, unstable angina or stroke) occurred in 16 anacetrapib-treated

patients (2.0%) compared with 21 placebo-treated patients (2.6%). At 24 weeks, anacetrapib decreased LDL-C by 40% and increased HDL-C by 138% in patients already treated with a statin and at guideline-recommended LDL-C goal. Based on these results, the Company intends to move forward and study anacetrapib in a large cardiovascular clinical outcomes trial. The Company anticipates filing an NDA with the FDA beyond 2015.

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 model is designed to increase productivity and improve the probability of success by prioritizing the Company s research and development resources on disease areas of unmet medical needs, scientific opportunity and commercial opportunity. Merck is managing its research and development portfolio across diverse approaches to discovery and development by balancing investments appropriately on novel, innovative targets with the potential to have a major impact on human health, on developing best-in-class approaches, and on delivering maximum value of its new medicines and vaccines through new indications and new formulations. Another important component of the Company s science-based diversification is based on expanding the Company s portfolio of modalities to include not only small molecules and vaccines, but also biologics (peptides, small proteins, antibodies) and RNAi. Further, Merck has moved to diversify its portfolio through its Merck BioVentures division, which has the potential to harness the market opportunity presented by biological medicine patent expiries by delivering high quality follow-on biologic products to enhance access for patients worldwide. The Company will continue to pursue appropriate external licensing opportunities.

The integration efforts for research and development continue to focus on integrating the research operations of the legacy companies, including providing an effective transition for employees, realizing projected merger synergies in the form of cost savings and revenue growth opportunities, and maintaining momentum in the Company s late-stage pipeline. Overall, the Company s global operating model will align franchise and function as well as align resources with disease area priorities and balance capacity across discovery phases and allow the Company to act upon those programs with the highest probability of success. Additionally, across all disease area priorities, the Company s strategy is designed to expand access to worldwide external science and incorporate external research as a key component of the Company s early discovery pipeline in order to translate basic research productivity into late-stage clinical success.

The Company s clinical pipeline includes candidates in multiple disease areas, including atherosclerosis, cancer, cardiovascular diseases, diabetes, infectious diseases, inflammatory/autoimmune diseases, insomnia, migraine, neurodegenerative diseases, ophthalmics, osteoporosis, psychiatric diseases, respiratory diseases and women s health. The Company supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as new technologies.

In-Process Research and Development
In connection with the Merger, the Company recorded the fair value of human and animal health research projects that were underway at Schering-Plough and the MSP Partnership. The fair value of projects allocated to the Pharmaceutical and Animal Health operating segments was $5.3 billion and $1.3 billion, respectively.

The fair values of identifiable intangible assets related to IPR&D were determined by using an income approach, through which fair value is estimated based on each asset s probability adjusted future net cash flows, which reflect the different stages of development of each product and the associated probability of successful completion. The net cash flows are then discounted to present value using discount rates which ranged from 12% to 15%. Actual cash flows are likely to be different than those assumed.

Some of the more significant projects include boceprevir, *Bridion* and vorapaxar, as well as an ezetimibe/atorvastatin combination product. These projects are discussed in further detail above. As noted above, the Company filed an NDA with the FDA in 2010 for boceprevir and anticipates filing an NDA for the ezetimibe/atorvastatin combination product with the FDA in 2011.

The Company determined that the developments in the clinical research program for vorapaxar discussed above constituted a triggering event that required the Company to evaluate the vorapaxar intangible asset for impairment.

Although there is a great deal of information related to these developments that remains unknown to the Company, utilizing market participant assumptions, and considering several different scenarios, the Company concluded that its best estimate of the current fair value of the intangible asset related to vorapaxar was $350 million, which resulted in the recognition of an impairment charge of $1.7 billion during 2010. The Company will continue to monitor the remaining asset value for impairment. The Company anticipates the results from the TRACER

clinical trial will be available later in 2011. Also during 2010, the Company recorded an additional $763 million of IPR&D impairment charges attributable to compounds that were abandoned and determined to have either no alternative use or were returned to the respective licensor, as well as from expected delays in the launch timing or changes in the cash flow assumptions for certain compounds.

The Company has also recognized intangible assets for the fair value of research projects underway in connection with the SmartCells, Inc. (SmartCells) acquisition during 2010 and the Insmed, Inc. acquisition in 2009 (see Note 4 to the consolidated financial statements).

All of the IPR&D projects that remain in development are subject to the inherent risks and uncertainties in drug development and it is possible that the Company will not be able to successfully develop and complete the IPR&D programs and profitably commercialize the underlying product candidates. The time periods to receive approvals from the FDA and other regulatory agencies are subject to uncertainty. Significant delays in the approval process, or the Company s failure to obtain approval at all, would delay or prevent the Company from realizing revenues from these products. Additionally, if certain of the IPR&D programs fail or are abandoned during development, then the Company will not realize the future cash flows it has estimated and recorded as IPR&D as of the merger or acquisition date, and the Company may also not recover the research and development expenditures made since the Merger to further develop such program. If such circumstances were to occur, the Company s future operating results could be adversely affected and the Company may recognize impairment charges and such charges could be material.

Additional research and development will be required before any of the programs reach technological feasibility. The costs to complete the research projects will depend on whether the projects are brought to their final stages of development and are ultimately submitted to the FDA or other regulatory agencies for approval. As of December 31, 2010, the estimated costs to complete projects acquired in connection with the Merger in Phase III development for human health and the analogous stage of development for animal health were approximately $1.9 billion.

Acquisitions, Research Collaborations and License Agreements
Merck continues to remain focused on augmenting its internal efforts by capitalizing on growth opportunities that will drive both near- and long-term growth. During 2010, the Company completed transactions across a broad range of therapeutic categories, including early-stage technology transactions. Merck is actively monitoring the landscape for growth opportunities that meet the Company s strategic criteria. Highlights from these activities include:

In December 2010, the Company acquired all of the outstanding stock of SmartCells, a private company developing a glucose responsive insulin formulation for the treatment of diabetes mellitus. The total purchase consideration, which the Company determined had a fair value at the acquisition date of $138 million, included an upfront cash payment, contingent consideration consisting of future clinical development and regulatory milestones, as well as contingent consideration on future sales of products resulting from the acquisition. The transaction was accounted for under the acquisition method of accounting; accordingly, the assets and liabilities were recorded at their respective fair values on the acquisition date. The determination of fair value requires management to make significant estimates and assumptions. In connection with the acquisition, substantially all of the preliminary purchase price was allocated to IPR&D; the remaining net assets acquired were not significant. The fair value of the contingent consideration was determined by utilizing a probability weighted estimated cash flow stream adjusted for the expected timing of each payment. Subsequent to the acquisition date, on a quarterly basis, the contingent consideration liability will be remeasured at current fair value with changes recorded in earnings. The results of operations of SmartCells have been included in the Company s results of operations from the date of acquisition and were not significant. Certain estimated values are not yet finalized and may be subject to change. The Company expects to finalize these amounts as soon as possible, but no later than one year from the acquisition date.

In February 2010, the Company completed the acquisition of Avecia Biologics Limited (Avecia) for a total purchase price of approximately $190 million. Avecia is a contract manufacturing organization with specific expertise in microbial-derived biologics. Under the terms of the agreement, the Company acquired Avecia and all of its assets, including all of Avecia s process development and scale-up, manufacturing, quality and business support

operations located in Billingham, United Kingdom. The transaction was accounted for as a business combination; accordingly, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The determination of fair value requires management to make significant estimates and assumptions. In connection with the acquisition, substantially all of the purchase price was allocated to Avecia s property, plant and equipment and goodwill. The remaining net assets acquired were not material. This transaction closed on February 1, 2010, and accordingly, the results of operations of the acquired business have been included in the Company s results of operations beginning after the acquisition date. Pro forma financial information has not been included because Avecia s historical financial results are not significant when compared with the Company s financial results.

In May 2010, Merck announced that it had restructured its co-development and co-commercialization agreement with ARIAD for ridaforolimus (MK-8669), an investigational orally available mTOR inhibitor currently being evaluated for the treatment of multiple cancer types, to an exclusive license agreement. Under the restructured agreement, Merck has acquired full control of the development and worldwide commercialization of ridaforolimus. ARIAD received a $50 million upfront fee, which the Company recorded as research and development expense in 2010, and is eligible to receive milestone payments associated with regulatory filings and approvals of ridaforolimus in multiple cancer indications and achievement of significant sales thresholds. In lieu of the profit split on U.S. sales provided for in the previous agreement, ARIAD will now receive royalties on global net sales of ridaforolimus, and all sales will be recorded by Merck. Merck has assumed responsibility for all activities and has acquired decision rights on matters relating to the development, manufacturing and commercialization of ridaforolimus. The Investigational New Drug Application has been transferred to Merck, and Merck will file the marketing application worldwide for any oncology indications and lead all interactions with regulatory agencies. The agreement is terminable by Merck upon nine months notice, or immediately upon a good faith determination of a serious safety issue. The agreement is terminable by either party as a result of insolvency by the other party or an uncured material breach by the other party or by ARIAD for a failure by Merck to perform certain product development responsibilities.

Selected Joint Venture and Affiliate Information

To expand its research base and realize synergies from combining capabilities, opportunities and assets, in previous years Old Merck formed a number of joint ventures.

AstraZeneca LP
In 1982, Old Merck entered into an agreement with Astra AB (Astra) to develop and market Astra s products under a royalty-bearing license. In 1993, Old Merck 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 Old 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, Old Merck and Astra completed the restructuring of the ownership and operations of the joint venture whereby Old Merck 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 KBI products and such revenue was $1.3 billion, $1.4 billion and $1.6 billion in 2010, 2009 and 2008, respectively, primarily relating to sales of Nexium, as well as 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 $546 million, $674 million and $598 million in 2010, 2009 and 2008, respectively.

The AstraZeneca merger constituted a Trigger Event under the KBI restructuring agreements, which resulted in the partial redemption in 2008 of Old Merck s interest in certain AZLP product rights. Upon this redemption, Old Merck received $4.3 billion from AZLP. This amount was based primarily on a multiple of Old 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). Old Merck recorded a $1.5 billion pretax gain on the partial redemption in 2008. The partial redemption of Old Merck s interest in the product rights did not result in a change in Old Merck s 1% limited partnership interest.

As a result of the AstraZeneca merger, in exchange for Old 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 million (the Advance Payment). The Advance Payment was deferred as it remained subject to a true-up calculation (the True-Up Amount) that was directly dependent on the fair market value in March 2008 of the Astra product rights retained by Old Merck. The calculated True-Up Amount of $243 million was returned to AZLP in 2008 and Old Merck recognized a pretax gain of $724 million related to the residual Advance Payment balance.

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 (as discussed below) and the True-Up Amount was guaranteed to be a minimum of $4.7 billion. Distribution of the Limited Partner Share of Agreed Value less payment of the True-Up Amount resulted in cash receipts to Old Merck of $4.0 billion and an aggregate pretax gain of $2.2 billion which was included in *Other (income) expense, net* in 2008. Also, in March 2008, the $1.38 billion outstanding loan from Astra plus interest through the redemption date was settled. As a result of these transactions, Old Merck received net proceeds from AZLP of $2.6 billion in 2008.

In conjunction with the 1998 restructuring discussed above, Astra purchased an option (the Asset Option) for a payment of $443 million, which was recorded as deferred income, to buy Old Merck s interest in the KBI products, excluding the gastrointestinal medicines Nexium and Prilosec (the Non-PPI Products). In April 2010, AstraZeneca exercised the Asset Option. Merck received $647 million from AstraZeneca representing the net present value as of March 31, 2008 of projected future pretax revenue to be received by Old Merck from the Non-PPI Products (the Appraised Value), which was recorded as a reduction to the Company s investment in AZLP. The Company recognized the $443 million of deferred income in 2010 as a component of *Other (income) expense, net*. In addition, in 1998, Old Merck granted Astra an option (the Shares Option) to buy Old Merck s common stock interest in KBI and, therefore, Old Merck s interest in Nexium and Prilosec, exercisable in 2012. The exercise price for the Shares Option will be based on the net present value of estimated future net sales of Nexium and Prilosec as determined at the time of exercise, subject to certain true-up mechanisms. The Company believes that it is likely that AstraZeneca will exercise the Shares Option.

Merck/Schering-Plough Partnership

In 2000, Old Merck and Schering-Plough (collectively, the Partners) entered into an agreement to create an equally-owned partnership to develop and market in the United States new prescription medicines for cholesterol management. 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 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). The cholesterol agreements provided for the sharing of operating income generated by the MSP Partnership based upon percentages that varied by product, sales level and country. Operating income included

expenses that the Partners contractually agreed to share. Expenses incurred in support of the MSP Partnership but not shared between the Partners were not included in *Equity income from affiliates*; however, these costs were reflected in the overall results of the Partners.

Sales of joint venture products were as follows[(1)]:

($ in millions)	2009 Pre-Merger	2009 Post-Merger	2009 Total	2008
Vytorin	**$ 1,689**	**$ 371**	**$ 2,060**	$ 2,360
Zetia	**1,698**	**370**	**2,068**	2,201
	$ 3,387	**$ 741**	**$ 4,128**	$ 4,561

[(1)] *Amounts exclude sales of these products by the Partners outside of the MSP Partnership.*

The results from Old Merck s interest in the MSP Partnership prior to the Merger are reflected in *Equity income from affiliates* and were $1.2 billion in 2009 and $1.5 billion in 2008. As a result of the Merger, the MSP Partnership is wholly-owned by the Company. Activity resulting from the sale of MSP Partnership products after the Merger has been consolidated with Merck s results. For a discussion of the performance of these products in 2010, see Sales above.

Merial Limited
In 1997, Old Merck and Rhône-Poulenc S.A. (now sanofi-aventis) combined their animal health businesses to form Merial Limited (Merial), a fully integrated animal health company, which was a stand-alone joint venture, 50% 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.

On September 17, 2009, Old Merck sold its 50% interest in Merial to sanofi-aventis for $4.0 billion in cash. The sale resulted in the recognition of a $3.2 billion pretax gain in 2009 reflected in *Other income (expense), net*.

In connection with the sale of Merial, Old Merck, sanofi-aventis and Schering-Plough signed a call option agreement, which provided sanofi-aventis with an option to require the Company to combine its Intervet/Schering-Plough Animal Health business with Merial to form an animal health joint venture that would be owned equally by the Company and sanofi-aventis. In March 2010, sanofi-aventis exercised its option. As part of the call option agreement, the value of Merial has been fixed at $8.0 billion. The minimum total value to be received by the Company for contributing Intervet/Schering-Plough to the combined entity would be $9.25 billion (subject to customary transaction adjustments), consisting of a floor valuation of Intervet/Schering-Plough which is fixed at a minimum of $8.5 billion (which was subject to potential upward revision based on a valuation exercise by the two parties) and an additional payment by sanofi-aventis of $750 million. Upon completion of the valuation exercise, the parties agreed that a future payment of $250 million would be made by sanofi-aventis to the Company in addition to the $750 million payment referred to above. All payments, including adjustments for debt and certain other liabilities, will be made upon closing of the transaction. The formation of this new animal health joint venture with sanofi-aventis is subject to execution of final agreements, regulatory review in the United States, Europe and other countries and other customary closing conditions. On March 30, 2010, the parties signed the contribution agreement which obligates them, subject to regulatory approval, to form the joint venture. The Company expects the transaction to close in the third quarter of 2011. The Company s agreement with sanofi-aventis provides that if the transaction has not been consummated by March 30, 2011 either party may terminate the proposed joint venture without paying a break-up fee or other penalty.

Sales of joint venture products were as follows:

($ in millions)	**2009**[1]	2008
Fipronil products	**$ 784**	$ 1,053
Biological products	**525**	790
Avermectin products	**341**	512
Other products	**200**	288
	$ 1,850	$ 2,643

(1) *Amounts for 2009 include sales until the September 17, 2009 divestiture date.*

Sanofi Pasteur MSD
In 1994, Old 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.

Sales of joint venture products were as follows:

($ in millions)	**2010**	2009	2008
Gardasil	**$ 350**	$ 549	$ 865
Influenza vaccines	**220**	249	230
Other viral vaccines	**93**	112	105
RotaTeq	**42**	42	28
Hepatitis vaccines	**25**	44	73
Other vaccines	**487**	593	584
	$ 1,217	$ 1,589	$ 1,885

Johnson & Johnson°Merck Consumer Pharmaceuticals Company
In 1989, Old 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 subsequently expanded into Canada. Significant joint venture products are *Pepcid AC*, an over-the-counter form of the Company s ulcer medication *Pepcid*, as well as *Pepcid Complete*, an over-the-counter product which combines the Company s ulcer medication with antacids.

Sales of joint venture products were as follows:

($ in millions)	**2010**	2009	2008
Gastrointestinal products	**$ 128**	$ 202	$ 211
Other products	**1**	1	1
	$ 129	$ 203	$ 212

Capital Expenditures

Capital expenditures were $1.7 billion in 2010, $1.5 billion in 2009 and $1.3 billion in 2008. Expenditures in the United States were $990 million in 2010, $982 million in 2009 and $947 million in 2008. Capital expenditures for 2011 are estimated to be $1.9 billion.

Depreciation expense was $2.6 billion in 2010, $1.7 billion in 2009 and $1.4 billion in 2008 of which $1.7 billion, $1.0 billion and $1.0 billion, respectively, applied to locations in the United States. Total depreciation expense in

2010, 2009 and 2008 included accelerated depreciation of $849 million, $348 million and $217 million, respectively, associated with restructuring activities (see Note 4 to the consolidated financial statements).

Analysis of Liquidity and Capital Resources

Merck s strong financial profile enables it 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.

Selected Data

($ in millions)	**2010**	2009	2008
Working capital	**$ 13,423**	$ 12,791	$ 4,794
Total debt to total liabilities and equity	**16.9%**	15.6%	13.2%
Cash provided by operations to total debt	**0.6:1**	0.2:1	1.1:1

Cash provided by operating activities was $10.8 billion in 2010, $3.4 billion in 2009 and $6.6 billion in 2008. The increase in cash provided by operating activities in 2010 as compared with 2009 primarily reflects the inclusion of a full year of legacy Schering-Plough operations, as well as $4.1 billion of payments in 2009 into the *Vioxx* settlement funds and a $660 million payment in 2009 made in connection with the previously disclosed settlement with the Canada Revenue Agency (CRA). Cash provided by operating activities in 2008 reflects $2.1 billion received in connection with a partial redemption of Old Merck s partnership interest in AZLP, representing a distribution of Old Merck s accumulated earnings on its investment in AZLP since inception. Cash provided by operating activities in 2008 was also affected by a $675 million payment made in connection with the previously disclosed resolution of investigations of civil claims by federal and state authorities relating to certain past marketing and selling activities and $750 million of payments into the *Vioxx* settlement funds. Cash provided by operating activities continues to be the Company s primary source of funds to finance operating needs, capital expenditures, treasury stock purchases and dividends paid to shareholders. The global economic downturn and the sovereign debt issues, among other factors, have caused foreign receivables to deteriorate in 2010 in certain European countries. While the Company continues to receive payment on these receivables, these conditions may continue to result in an increase in the average length of time it takes to collect on the accounts receivable outstanding which can impact cash provided by operating activities.

Cash used in investing activities was $3.5 billion in 2010 compared with cash provided by investing activities of $3.2 billion in 2009. The change reflects lower proceeds from the sales of securities and other investments and higher purchases of securities and other investments in 2010, as well as a decrease in restricted assets, and proceeds from the disposition of Old Merck s interest in Merial in 2009, partially offset by the use of cash in 2009 to fund the Merger and the proceeds received in 2010 related to AstraZeneca s asset option exercise. Cash provided by investing activities was $3.2 billion in 2009 compared with cash used in investing activities of $1.8 billion in 2008. The change was primarily driven by the release of restricted cash primarily due to the release of pledged collateral for certain *Vioxx*-related matters, lower purchases of securities and other investments and proceeds from the 2009 disposition of Old Merck s interest in Merial. These increases in cash used in investing activities were partially offset by the use of cash in 2009 to fund the Merger, as well as by a 2008 distribution from AZLP representing a return of Old Merck s investment in AZLP.

Cash used in financing activities was $5.4 billion in 2010 compared with $1.6 billion in 2009 reflecting lower proceeds from the issuance of debt, purchases of treasury stock in 2010, increased dividends paid to stockholders and higher payments on debt, partially offset by an increase in short-term borrowings. Cash used in financing activities was $1.6 billion in 2009 compared with $5.5 billion in 2008 reflecting higher proceeds from the issuance of debt, no purchases of treasury stock and lower payments on debt, partially offset by a net decrease in short-term borrowings. Dividends paid to stockholders were $4.7 billion in 2010, $3.2 billion in 2009 and $3.3 billion in 2008.

At December 31, 2010, the total of worldwide cash and investments was $14.4 billion, including $12.2 billion of cash, cash equivalents and short-term investments, and $2.2 billion of long-term investments. A large portion of the cash and investments are held in foreign jurisdictions. Working capital levels are more than adequate to meet the operating requirements of the Company.

As previously disclosed, in October 2006, the CRA issued Old Merck a notice of reassessment containing adjustments related to certain intercompany pricing matters. In February 2009, Old Merck and the CRA negotiated a settlement agreement in regard to these matters. In accordance with the settlement, Old Merck paid an additional tax of approximately $300 million (U.S. dollars) and interest of approximately $360 million (U.S. dollars) with no additional amounts or penalties due on this assessment. The settlement was accounted for in the first quarter of 2009. Old Merck had previously established reserves for these matters. A significant portion of the taxes paid is expected to be creditable for U.S. tax purposes. The resolution of these matters did not have a material effect on Old Merck s financial position or liquidity, other than with respect to the associated collateral as discussed below.

In addition, as previously disclosed, the CRA has proposed additional adjustments for 1999 and 2000 relating to other intercompany pricing matters. The adjustments would increase Canadian tax due by approximately $317 million (U.S. dollars) plus approximately $340 million (U.S. dollars) of interest through December 31, 2010. The Company disagrees with the positions taken by the CRA and believes they are without merit. The Company

continues to contest the assessments through the CRA appeals process. The CRA is expected to prepare similar adjustments for later years. Management believes that resolution of these matters will not have a material effect on the Company s financial position or liquidity.

In connection with the appeals process discussed above related to 1999 and 2000, Old Merck pledged cash and investments as collateral to two financial institutions, one of which provided a guarantee to the CRA and the other to the Quebec Ministry of Revenue representing a portion of the tax and interest assessed. The guarantee to the Quebec Ministry of Revenue expired in the first quarter of 2009. The collateral associated with the guarantee to the CRA totaled approximately $290 million at December 31, 2009 and was included in *Deferred income taxes and other current assets* and *Other assets* in the Consolidated Balance Sheet. During 2010, this guarantee was replaced with a guarantee that is not collateralized. Accordingly, the collateral associated with the original guarantee was released and reclassified to cash and investments.

The IRS has finalized its examination of Schering-Plough s 2003-2006 tax years. In this audit cycle, the Company reached an agreement with the IRS on an adjustment to income related to intercompany pricing matters. This income adjustment mostly reduced NOLs and other tax credit carryforwards. Additionally, the Company is seeking resolution of one issue raised during this examination through the IRS administrative appeals process. The Company s reserves for uncertain tax positions were adequate to cover all adjustments related to this examination period. The IRS began its examination of the 2007-2009 tax years for the Company in 2010. The IRS s examination of Old Merck s 2002-2005 federal income tax returns is ongoing and is expected to conclude within the next 12 months.

The Company s contractual obligations as of December 31, 2010 are as follows:

Payments Due by Period

($ in millions)	Total	2011	2012	2013	2014	2015	Thereafter
Purchase obligations	$ 3,862	$ 2,583	$ 800		$ 404		$ 75
Loans payable and current portion of long-term debt	2,400	2,400					
Long-term debt	14,832			1,811		4,101	8,920
Interest related to debt obligations	9,347	761		1,454		1,120	6,012
Unrecognized tax benefits[(1)]	903	903					
Operating leases	879	247		329		178	125
	$ 32,223	$ 6,894	$ 4,394		$ 5,803		$ 15,132

(1) *As of December 31, 2010, the Company s Consolidated Balance Sheet reflects liabilities for unrecognized tax benefits, interest and penalties of $6.2 billion, including $903 million reflected as a current liability. Due to the high degree of uncertainty regarding the timing of future cash outflows of liabilities for unrecognized tax benefits beyond one year, a reasonable estimate of the period of cash settlement for years beyond 2011 can not be made.*

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. Amounts reflected for research and development obligations do not include contingent milestone payments. Loans payable and current

portion of long-term debt also reflects $496 million of long-dated notes that are subject to repayment at the option of the holders on an annual basis. Required funding obligations for 2011 relating to the Company s pension and other postretirement benefit plans are not expected to be material. However, the Company currently anticipates contributing approximately $800 million and $60 million, respectively, to its pension plans and other postretirement benefit plans during 2011. The table above does not reflect the $950 million *Vioxx* Liability Reserve recorded in connection with the anticipated resolution of the DOJ s investigation related to *Vioxx*. The Company s discussions with the government are ongoing and until they are concluded there can be no certainty about a definitive resolution or the timing of any potential payment.

In December 2010, Merck closed an underwritten public offering of $2.0 billion senior unsecured notes consisting of $850 million aggregate principal amount of 2.25% notes due 2016 and $1.15 billion aggregate

principal amount of 3.875% notes due 2021. Interest on the notes is payable semi-annually. The notes of each series are redeemable in whole or in part at any time, at the Company s option at varying redemption prices. Proceeds from the notes were used for general corporate purposes, including the reduction of short-term debt.

In December 2009, the Company filed a securities registration statement with the Securities and Exchange Commission (SEC) under the automatic shelf registration process available to well-known seasoned issuers which is effective for three years.

During 2010, the Company executed a new $2.0 billion, 364-day credit facility and terminated both Old Merck s $1.0 billion incremental facility due to expire in November 2010 and its $1.5 billion revolving credit facility scheduled to mature in April 2013. The Company s $2.0 billion credit facility maturing in August 2012 remains outstanding. Both outstanding facilities provide backup liquidity for the Company s commercial paper borrowing facility and are to be used for general corporate purposes. The Company has not drawn funding from either facility.

In connection with the Merger, effective as of November 3, 2009, New Merck executed a full and unconditional guarantee of the then existing debt of Old Merck and Old Merck executed a full and unconditional guarantee of the then existing debt of New Merck (excluding commercial paper), including for payments of principal and interest. These guarantees do not extend to debt issued subsequent to the Merger.

The Company s long-term credit ratings assigned by Moody s Investors Service and Standard & Poor s are Aa3 with a stable outlook and AA with a stable outlook, respectively. 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. The Company places its cash and investments in instruments that meet high credit quality standards, as specified in its investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issuer. Despite this strong financial profile, certain contingent events, if realized, which are discussed in Note 12 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 November 2010 and February 2011, the Board of Directors declared a quarterly dividend of $0.38 per share on the Company s common stock for the first and second quarters of 2011, respectively.

In November 2009, the Board of Directors approved purchases over time of up to $3.0 billion of Merck s common stock for its treasury. The Company purchased $1.6 billion of its common stock under this program during 2010. No purchases of treasury stock were made in 2009. Old Merck purchased $2.7 billion of treasury stock in 2008 under a previous program approved by Old Merck s Board of Directors in July 2002.

Financial Instruments Market Risk Disclosures

The Company manages the impact of foreign exchange rate movements and interest rate movements on its earnings, cash flows and fair values of assets and liabilities through operational means and through the use of various financial instruments, including derivative instruments.

A significant portion of the Company s revenues and earnings in foreign affiliates is exposed to changes in foreign exchange rates. The objectives and accounting related to the Company s foreign currency risk management program, as well as its interest rate risk management activities are discussed below.

Foreign Currency Risk Management

A significant portion of the Company s revenues are denominated in foreign currencies. 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 forecasted foreign currency denominated third-party and intercompany distributor entity 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 third-party and intercompany distributor entity sales hedged as it gets closer to the expected date of the forecasted foreign currency denominated sales, 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. The Company 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 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 Company also utilizes forward contracts in its revenue hedging program. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, the increase in the fair value of the forward contracts offsets the decrease in the expected future U.S. dollar cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the decrease in the fair value of the forward contracts offsets 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 Merck s hedges would have declined by an estimated $256 million and $245 million, respectively, from a uniform 10% weakening of the U.S. dollar at December 31, 2010 and 2009. 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 would 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 mitigate the exposure of foreign currency denominated net monetary assets of foreign subsidiaries where the U.S. dollar is the functional currency from the effects of volatility in foreign exchange that might occur prior to their conversion to U.S. dollars. In these instances, 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 from the monetary assets. Merck routinely enters into contracts to 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 to partially offset the effects of exchange on exposures 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.

When applicable, 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. These derivative contracts are designated as fair value hedges. 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, 2010, *Income before taxes* would have declined by approximately $127 million in 2010. Because the Company was 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. At December 31, 2009, the

Company was in a net long position relative to its major foreign currencies after consideration of forward contracts, therefore a uniform 10% strengthening of the U.S. dollar would have reduced *Income before taxes* by $11 million. 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.

Effective January 1, 2010, the Company was required to remeasure its local currency operations in Venezuela to U.S. dollars as the Venezuelan economy was determined to be hyperinflationary. Effective January 11, 2010, the Venezuelan government devalued its currency from at BsF 2.15 per U.S. dollar to a two-tiered official exchange rate at (1) the essentials rate at BsF 2.60 per U.S. dollar and (2) the non-essentials rate at BsF 4.30 per U.S. dollar. Throughout 2010, the Company settled transactions at the essentials rate and therefore remeasured monetary assets and liabilities utilizing the essentials rate. In December 2010, the Venezuelan government announced it would eliminate the essentials rate and effective January 1, 2011, all transactions would be settled at the official rate of at BsF 4.30 per U.S. dollar. As a result of this announcement, the Company remeasured its December 31, 2010 monetary assets and liabilities at the new official rate.

Foreign exchange risk is also managed through the use of foreign currency debt. The Company s senior unsecured euro-denominated notes have been designated as, and are effective as, economic hedges of the net investment in a foreign operation. Accordingly, foreign currency transaction gains or losses on the euro-denominated debt instruments are included in foreign currency translation adjustment within other comprehensive income (*OCI*).

In 2010, the Company began using forward exchange contracts to hedge its net investment in foreign operations against adverse movements in exchange rates. The forward contracts are designated as hedges of the net investment in a foreign operation. The Company hedges a portion of the net investments in certain of its foreign operations and measures ineffectiveness based upon changes in spot foreign exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within *OCI* and remains in *OCI* until either the sale or complete or substantially complete liquidation of the subsidiary. The cash flows from these contracts are reported as investing 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, 2010, the Company was a party to 13 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 are two swaps maturing in 2011 with notional amounts of $125 million each that effectively convert the Company s $250 million, 5.125% fixed-rate notes due 2011 to floating rate instruments and five swaps maturing in 2015 with notional amounts of $150 million each that effectively convert $750 million of the Company s $1.0 billion, 4.0% fixed-rate notes due 2015 to floating rate instruments. In addition, there are six swaps maturing in 2016, two of which have notional amounts of $175 million each, and four of which have notional amounts of $125 million each, that effectively convert the Company s $850 million, 2.25% fixed-rate notes due 2016 to floating rate instruments.

In February 2011, the Company entered into nine additional pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges for fixed-rate notes in which the notional amounts match the amount of the hedged fixed-rate notes. There are four swaps maturing in 2015, two of which have notional amounts of $250 million each, and one of which has a notional amount of $500 million, that effectively convert the Company s $1.0 billion, 4.75% fixed-rate notes due 2015 to floating rate instruments, and one swap which has a notional amount of $250 million, that

effectively converts the remainder of the Company s $1.0 billion, 4.0% fixed-rate notes due in 2015 to floating rate instruments. There are two swaps maturing in 2017, with notional amounts of $600 million and $400 million that effectively convert the $1.0 billion, 6.0% fixed-rate notes due in 2017 to floating rate instruments. There are three swaps maturing in 2019, two of which have notional amounts of $500 million each,

and one of which has a notional amount of $250 million, that effectively convert the Company s $1.25 billion, 5.0% fixed-rate notes due in 2019 to floating rate instruments.

The interest rate swap contracts are designated hedges of the fair value changes in the notes attributable to changes in the benchmark London Interbank Offered Rate (LIBOR) swap rate. The fair value changes in the notes attributable to changes in the benchmark interest rate are recorded in interest expense and offset by the fair value changes in the swap contracts. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

The Company s investment portfolio includes cash equivalents and short-term investments, the market values of which are not significantly affected by changes in interest rates. The market value of the Company s medium- to long-term fixed-rate investments is modestly affected 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 Merck 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, 2010 and 2009 would have positively affected the net aggregate market value of these instruments by $1.0 billion and $990 million, respectively. A one percentage point decrease at December 31, 2010 and 2009 would have negatively affected the net aggregate market value by $1.2 billion in each year. The fair value of Merck s debt was determined using pricing models reflecting one percentage point shifts in the appropriate yield curves. The fair values of Merck s investments were determined using a combination of pricing and duration models.

Critical Accounting Policies and Other Matters

The Company s consolidated financial statements include certain amounts that are based on management s best estimates and judgments. Estimates are used when accounting for amounts recorded in connection with mergers and acquisitions, including fair value determinations of assets and liabilities primarily IPR&D and other intangible assets. Additionally, estimates are used in determining such items as current fair values of goodwill, in-process research and development and other intangibles, as well as provisions for sales discounts and returns, depreciable and amortizable lives, recoverability of inventories, including those 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, restructuring costs, impairments of long-lived assets (including intangible assets and goodwill) and investments, 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.

Mergers and Acquisitions
In a business combination, the acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded at the date of the merger or acquisition at their respective fair values with limited exceptions. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accordingly, the Company may be required to value assets at fair value measures that do not reflect the Company s intended use of those assets. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired business are reflected in the

Company s consolidated financial statements after the date of the merger or acquisition. If the Company determines the assets acquired do not meet the definition of a business under the acquisition method of accounting, the transaction will be accounted for as an acquisition of assets rather than a business combination, and therefore, no goodwill will be recorded. The fair value of intangible assets, including acquired IPR&D, is based

on significant judgments made by management, and accordingly, for significant items, the Company typically obtains assistance from third party valuation specialists. Amounts allocated to acquired IPR&D are capitalized and accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, Merck will make a separate determination as to the then useful life of the asset and begin amortization. The valuations and useful life assumptions are based on information available near the merger or 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 affect the Company s results of operations.

The fair values of identifiable intangible assets related to currently marketed products and product rights are primarily determined by using an income approach, through which fair value is estimated based on each asset s discounted projected net cash flows. The Company s estimates of market participant net cash flows consider historical and projected pricing, margins and expense levels; the performance of competing products where applicable; relevant industry and therapeutic area growth drivers and factors; current and expected trends in technology and product life cycles; the time and investment that will be required to develop products and technologies; the ability to obtain marketing and regulatory approvals; the ability to manufacture and commercialize the products; the extent and timing of potential new product introductions by the Company s competitors; and the life of each asset s underlying patent, if any. The net cash flows are then probability-adjusted where appropriate to consider the uncertainties associated with the underlying assumptions, as well as the risk profile of the net cash flows utilized in the valuation. The probability-adjusted future net cash flows of each product are then discounted to present value utilizing an appropriate discount rate.

The fair values of identifiable intangible assets related to IPR&D are determined using an income approach, through which fair value is estimated based on each asset s probability adjusted future net cash flows, which reflect the different stages of development of each product and the associated probability of successful completion. The net cash flows are then discounted to present value using an appropriate discount rate.

Revenue Recognition

Revenues from sales of products are recognized at the time of delivery when title and risk of loss passes to the customer. 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 wholesaler, 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 wholesaler. 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 and Medicare Part D) 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 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, health maintenance organizations, pharmacy benefit

managers 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 2010, 2009 or 2008.

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

($ in millions)	**2010**	2009
Balance January 1	**$ 1,373**	$ 616
Current provision	**4,702**	2,542
Schering-Plough accrual assumed in the Merger		584
Adjustments to prior years	**(9)**	(22)
Payments	**(4,759)**	(2,347)
Balance December 31	**$ 1,307**	$ 1,373

Accruals for chargebacks are reflected as a direct reduction to accounts receivable and accruals for rebates as current liabilities. The accrued balances relative to these provisions included in *Accounts receivable* and *Accrued and other current liabilities* were $117 million and $1.2 billion, respectively, at December 31, 2010 and $115 million and $1.3 billion, respectively, at December 31, 2009.

The Company maintains a returns policy that allows its U.S. pharmaceutical customers to return product within a specified period prior to and subsequent to the expiration date (generally, three to 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, among others. The product returns provision for U.S. pharmaceutical sales was approximately 1.0% of net sales in 2010 and 2009 and was not significant in 2008.

Through its distribution programs with U.S. wholesalers, the Company encourages wholesalers to align purchases with underlying demand and maintain inventories below specified levels. The terms of the programs 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 programs 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 estimated 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 affected 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. Inventories produced in preparation for product launches capitalized at December 31, 2010 were $197 million and at December 31, 2009 were $87 million.

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 12 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, 2009, the Company had an aggregate reserve of approximately $110 million (the *Vioxx* Legal Defense Costs Reserve) solely for future legal defense costs 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) (see Note 12 to the consolidated financial statements). During 2010, Merck spent approximately $140 million in the aggregate in legal defense costs worldwide, including approximately $31 million in the fourth quarter of 2010, related to the *Vioxx* Litigation. In addition, during 2010, Merck recorded charges of $106 million of charges, including $46 million in the fourth quarter, solely for its future legal defense costs for the *Vioxx* Litigation. Consequently, as of December 31, 2010, the aggregate amount of the *Vioxx* Legal Defense Costs Reserve was approximately $76 million, which is solely for future legal defense costs for the *Vioxx* Litigation. Some of the significant factors considered in the review of the *Vioxx* Legal Defense Costs Reserve 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, including the Settlement Agreement and the expectation that certain lawsuits will continue to be pending; 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* Litigation. The amount of the *Vioxx* Legal Defense Costs Reserve as of December 31, 2010 represents the Company s best estimate of the minimum amount of defense costs to be incurred in connection with the remaining aspects of the *Vioxx* Litigation; however, events such as additional trials in the *Vioxx* Litigation and other events that could arise in the course of the *Vioxx* Litigation could affect the ultimate amount of defense costs to be incurred by the Company. The Company will continue to monitor its legal defense costs and review the adequacy of the associated reserves and may determine to increase the *Vioxx* Legal Defense Costs Reserve at any time in the future if, based upon the factors set forth, it believes it would be appropriate to do so.

There are three U.S. *Vioxx* Product Liability Lawsuits currently scheduled for trial in 2011. The Company cannot predict the timing of any other trials related to the *Vioxx* Litigation. 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 not included in the Settlement Program. Other than the *Vioxx* Liability Reserve established with respect to the Department of Justice (DOJ) investigation noted below, the Company has not established any reserves for any potential liability relating to the *Vioxx* Lawsuits or the *Vioxx* Investigations. Unfavorable outcomes in the *Vioxx* Litigation could have a material adverse effect on the Company s financial position, liquidity and results of operations.

In addition to the *Vioxx* Legal Defense Costs Reserve, in 2010, the Company established a $950 million *Vioxx* Liability Reserve in connection with the anticipated resolution of the DOJ s investigation related to *Vioxx*. The Company s discussions with the government are ongoing. Until they are concluded, there can be no certainty about a definitive resolution.

The Company and its subsidiaries are parties 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 site investigations, feasibility studies and related cost assessments of remedial techniques are completed, and as the extent to which other potentially responsible parties 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. In the past, Old Merck performed a worldwide survey 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. As definitive information became available during the course of investigations and/or remedial efforts at each site, estimates were refined and accruals were established or adjusted accordingly. These estimates and related accruals continue to be refined annually. A similar process is being followed for legacy Schering-Plough sites.

The Company believes that there are no compliance issues associated with applicable environmental laws and regulations that would have a material adverse effect on the Company. Expenditures for remediation and environmental liabilities were $16 million in 2010, and are estimated at $81 million for the years 2011 through 2015. In management s opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled $185 million and $162 million at December 31, 2010 and 2009, respectively. These liabilities are undiscounted, do not consider potential recoveries from 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 $150 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 expenses all share-based payment awards to employees, including grants of stock options, over the requisite service period based on the grant date fair value 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 $696 million in 2010, $511 million in 2009 and $377 million in 2008. The higher costs in 2010 and 2009 as compared with 2008 are primarily due to incremental costs associated with the Merger. 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 on measurement dates and modified to reflect the prevailing market rate 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, 2010, the discount rates for the Company s U.S. pension and other postretirement benefit plans ranged from 4.00% to 5.60% compared with a range of 4.60% to 6.00% at December 31, 2009.

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. 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 target 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 2011, the Company s expected rate of return will range from 5.25% to 8.75% compared to a range of 8.00% to 8.75% in 2010 for its U.S. pension and other postretirement benefit plans.

The Company has established investment guidelines for its U.S. pension and other postretirement plans to create an asset allocation that is expected to deliver a rate of return sufficient to meet the long-term obligation of

each plan, given an acceptable level of risk. 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 obligations. 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. For non-U.S. pension plans, the targeted investment portfolio varies based on the duration of pension liabilities and local government rules and regulations. Although a significant percentage of plan assets are invested in U.S. equities, concentration risk is mitigated through the use of strategies that are diversified within management guidelines.

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 $79 million favorable (unfavorable) impact on its 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 $33 million favorable (unfavorable) impact on its net pension and postretirement benefit cost. Required funding obligations for 2011 relating to the Company s pension and other postretirement benefit plans are not expected to be material. The preceding hypothetical changes in the discount rate and expected rate of return assumptions would not impact the Company s funding requirements.

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 for pension plans 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, 2010 is expected to increase net pension and other postretirement benefit cost by approximately $3 million annually from 2011 through 2015.

Restructuring Costs

Restructuring costs have been recorded in connection with restructuring programs designed to reduce the cost structure, increase efficiency and enhance competitiveness. As a result, the Company has made estimates and judgments regarding its future plans, including future termination benefits and other exit costs to be incurred when the restructuring actions take place. When accruing these costs, the Company will recognize the amount within a range of costs that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, the Company recognizes the minimum amount within the range. In connection with these actions, management also assesses the recoverability of long-lived assets employed in the business. In certain instances, asset lives have been shortened based on changes in the expected useful lives of the affected assets. Severance and other related costs are reflected within *Restructuring costs*. Asset-related charges are reflected within *Materials and production* costs, *Marketing and administrative* expenses and *Research and development* expenses depending upon the nature of the asset.

Impairments of Long-Lived Assets

The Company assesses changes in economic, regulatory and legal conditions and makes assumptions regarding estimated future cash flows in evaluating the value of the Company s property, plant and equipment, goodwill and other intangible assets.

The Company periodically evaluates whether current facts or circumstances indicate that the carrying values of its long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an

estimate of the undiscounted future cash flows of these assets, or appropriate asset groupings, is compared to the carrying value to determine whether an impairment exists. If the asset is determined to be impaired, the loss is measured based on the difference between the asset s fair value and its carrying value. If quoted market prices are not available, the Company will estimate fair value using a discounted value of estimated future cash flows approach.

The Company tests its goodwill for impairment at least annually, or more frequently if impairment indicators exist, using a fair value based test. Goodwill represents the excess of the consideration transferred over the fair value of net assets of businesses purchased and is assigned to reporting units. Other acquired intangibles (excluding IPR&D) are recorded at fair value and amortized on a straight-line basis over their estimated useful lives. When events or circumstances warrant a review, the Company will assess recoverability from future operations using pretax undiscounted cash flows derived from the lowest appropriate asset groupings. Impairments are recognized in operating results to the extent that the carrying value of the intangible asset exceeds its fair value, which is determined based on the net present value of estimated cash flows.

The Company tests its indefinite-lived intangibles, including IPR&D, for impairment at least annually, or more frequently if impairment indicators exist, through a one-step test that compares the fair value of the indefinite lived intangible asset with the asset s carrying value. For impairment testing purposes, the Company may combine separately recorded indefinite-lived intangible assets into one unit of account based on the relevant facts and circumstances. Generally, the Company will combine indefinite-lived intangible assets for testing purposes if they operate as a single asset and are essentially inseparable. If the fair value is less than the carrying amount, an impairment loss is recognized within the Company s operating results.

Impairments of Investments
The Company reviews its investments for impairments based on the determination of whether the decline in market value of the investment below the carrying value is other-than-temporary. The Company considers available evidence in evaluating potential impairments of its investments, including the duration and extent to which fair value is less than cost, and for equity securities, the Company s ability and intent to hold the investments. For a debt security, an other-than-temporary impairment has occurred if the Company does not expect to recover the entire amortized cost basis of the debt security. If the Company does not intend to sell the impaired debt security, and it is not more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings is limited to the portion attributed to credit loss. The remaining portion of the other-than-temporary impairment related to other factors is recognized in *OCI*.

Taxes on Income
The Company s effective tax rate is based on pretax 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 tax provision and in evaluating its tax positions. The recognition and measurement of a tax position is based on management s best judgment given the facts, circumstances and information available at the reporting date. The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period. (See Note 17 to the consolidated financial statements.)

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally

represent items that can be used as a tax deduction or credit in the tax return in future years for which the Company has already recorded the tax benefit in the financial statements. The Company establishes valuation allowances for its deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which payment has been deferred or expense for which the Company has already taken a deduction

on the tax return, but has not yet recognized as expense in the financial statements. At December 31, 2010, foreign earnings of $40.4 billion have been retained indefinitely by subsidiary companies for reinvestment, therefore no provision has been made for income taxes that would be payable upon the distribution of such earnings.

Recently Issued Accounting Standards

In October 2009, the FASB issued new guidance for revenue recognition with multiple deliverables, which is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The Company is currently assessing the impact of adoption on its financial position and results of operations.

In January 2010, the FASB amended the existing disclosure guidance on fair value measurements, which is effective January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective January 1, 2011. Among other things, the updated guidance requires additional disclosure for significant transfers in and out of Level 1 and Level 2 measurements and requires certain Level 3 disclosures on a gross basis. Additionally, the updates amend existing guidance to require a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements. Since the amended guidance requires only additional disclosures, the adoption of the provisions effective January 1, 2011 will not affect the Company s financial position or results of operations.

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 anticipates, 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 1A. Risk Factors of this annual report on Form 10-K the Company discusses in more detail various important risk 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, 2010 and 2009, and the related consolidated statements of income, of equity and of cash flows for each of the three years in the period ended December 31, 2010, the notes to consolidated financial statements, and the report dated February 25, 2011 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)

	2010	2009	2008
Sales	**$ 45,987**	$ 27,428	$ 23,850
Costs, Expenses and Other			
Materials and production	**18,396**	9,019	5,583
Marketing and administrative	**13,245**	8,543	7,377
Research and development	**10,991**	5,845	4,805
Restructuring costs	**985**	1,634	1,033
Equity income from affiliates	**(587)**	(2,235)	(2,561)
Other (income) expense, net	**1,304**	(10,668)	(2,318)
	44,334	12,138	13,919
Income Before Taxes	**1,653**	15,290	9,931
Taxes on Income	**671**	2,268	1,999
Net Income	**982**	13,022	7,932
Less: Net Income Attributable to Noncontrolling Interests	**121**	123	124
Net Income Attributable to Merck & Co., Inc.	**$ 861**	$ 12,899	$ 7,808
Basic Earnings per Common Share Attributable to Merck & Co., Inc. Common Shareholders	**$ 0.28**	$ 5.67	$ 3.65
Earnings per Common Share Assuming Dilution Attributable to Merck & Co., Inc. Common Shareholders	**$ 0.28**	$ 5.65	$ 3.63

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

Consolidated Balance Sheet
Merck & Co., Inc. and Subsidiaries
December 31
($ in millions except per share amounts)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	**$ 10,900**	$ 9,311
Short-term investments	**1,301**	293
Accounts receivable (net of allowance for doubtful accounts of $104 in 2010 and $113 in 2009)	**7,344**	6,603
Inventories (excludes inventories of $1,194 in 2010 and $1,157 in 2009 classified in Other assets see Note 8)	**5,868**	8,048
Deferred income taxes and other current assets	**3,651**	4,177
Total current assets	**29,064**	28,432
Investments	**2,175**	432
Property, Plant and Equipment (at cost)		
Land	**658**	667
Buildings	**11,945**	12,231
Machinery, equipment and office furnishings	**15,894**	16,158
Construction in progress	**2,066**	1,818
	30,563	30,874
Less allowance for depreciation	**13,481**	12,595
	17,082	18,279
Goodwill	**12,378**	12,038
Other Intangibles, Net	**39,456**	47,757
Other Assets	**5,626**	5,376

	$ 105,781	$ 112,314
Liabilities and Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	**2,400**	1,379
Trade accounts payable	**2,308**	2,244
Accrued and other current liabilities	**8,514**	9,455
Income taxes payable	**1,243**	1,167
Dividends payable	**1,176**	1,189
6% Mandatory convertible preferred stock, $1 par value Authorized 11,500,000 shares; issued and outstanding 855,422 shares 2009		207
Total current liabilities	**15,641**	15,641
Long-Term Debt	**15,482**	16,095
Deferred Income Taxes and Noncurrent Liabilities	**17,853**	19,093
Merck & Co., Inc. Stockholders Equity		
Common stock, $0.50 par value Authorized 6,500,000,000 shares Issued 3,576,948,356 shares 2010; 3,562,528,536 2009	**1,788**	1,781
Other paid-in capital	**40,701**	39,683
Retained earnings	**37,536**	41,405
Accumulated other comprehensive loss	**(3,216)**	(2,767)
	76,809	80,102
Less treasury stock, at cost: 494,841,533 shares 2010; 454,305,985 shares 2009	**22,433**	21,044
Total Merck & Co., Inc. stockholders equity	**54,376**	59,058
Noncontrolling interests	**2,429**	2,427
Total equity	**56,805**	61,485
	$ 105,781	$ 112,314

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

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

	Common Stock	Other Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interests	Total
Balance January 1, 2008	$ 30	$ 8,014	$ 39,141	$ (826)	$ (28,175)	$ 2,407	$ 20,591
Net income attributable to Merck & Co., Inc.			7,808				7,808
Total other comprehensive loss, net of tax				(1,728)			(1,728)
Comprehensive income, net of tax							6,080
Cash dividends declared on common stock ($1.52 per share)			(3,250)				(3,250)
Treasury stock shares purchased					(2,725)		(2,725)
Net income attributable to noncontrolling interests						124	124
Distributions attributable to noncontrolling interests						(122)	(122)
Share-based compensation plans and other		305			164		469
Balance December 31, 2008	30	8,319	43,699	(2,554)	(30,736)	2,409	21,167
Net income attributable to Merck & Co., Inc.			12,899				12,899
Total other comprehensive loss, net of tax				(213)			(213)
Comprehensive income, net of tax							12,686

Schering-Plough merger	1,752	30,861			(1,964)	14	30,663
Cancellations of treasury stock	(5)		(11,595)		11,600		
Preferred stock conversions		5					5
Cash dividends declared on common stock ($1.52 per share)			(3,598)				(3,598)
Net income attributable to noncontrolling interests						123	123
Distributions attributable to noncontrolling interests						(119)	(119)
Share-based compensation plans and other	4	498			56		558
Balance December 31, 2009	1,781	39,683	41,405	(2,767)	(21,044)	2,427	61,485
Net income attributable to Merck & Co., Inc.			**861**				**861**
Total other comprehensive loss, net of tax				**(449)**			**(449)**
Comprehensive income, net of tax							**412**
Cash dividends declared on common stock ($1.52 per share)			**(4,730)**				**(4,730)**
Mandatory conversion of 6% convertible preferred stock	**2**	**132**					**134**
Treasury stock shares purchased					**(1,593)**		**(1,593)**
Net income attributable to noncontrolling interests						**121**	**121**
Distributions attributable to noncontrolling interests						**(119)**	**(119)**
Share-based compensation plans and other	**5**	**886**			**204**		**1,095**
Balance December 31, 2010	**$ 1,788**	**$ 40,701**	**$ 37,536**	**$ (3,216)**	**$ (22,433)**	**$ 2,429**	**$ 56,805**

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)

	2010	2009	2008
Cash Flows from Operating Activities			
Net income	**$ 982**	$ 13,022	$ 7,932
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**7,381**	2,576	1,631
In-process research and development impairment charges	**2,441**		
Gains on distributions from AstraZeneca LP	**(443)**		(2,223)
Gain related to Merck/Schering-Plough partnership		(7,530)	
Gain on disposition of interest in Merial Limited		(3,163)	
Equity income from affiliates	**(587)**	(2,235)	(2,561)
Dividends and distributions from equity affiliates	**324**	1,724	4,290
Deferred income taxes	**(1,092)**	1,821	530
Share-based compensation	**509**	415	348
Other	**377**	(535)	608
Net changes in assets and liabilities:			
Accounts receivable	**(1,089)**	165	(889)
Inventories	**1,990**	1,211	(452)
Trade accounts payable	**124**	(45)	
Accrued and other current liabilities	**35**	(4,003)	(1,711)
Income taxes payable	**128**	(365)	(465)
Noncurrent liabilities	**(98)**	231	(108)
Other	**(160)**	103	(358)
Net Cash Provided by Operating Activities	**10,822**	3,392	6,572
Cash Flows from Investing Activities			
Capital expenditures	**(1,678)**	(1,461)	(1,298)
Purchases of securities and other investments	**(7,197)**	(3,071)	(11,967)
Proceeds from sales of securities and other investments	**4,561**	10,942	11,066
Proceeds from sale of interest in Merial Limited		4,000	
Schering-Plough merger, net of cash acquired		(12,843)	
Acquisitions of businesses, net of cash acquired	**(256)**	(130)	
Distributions from AstraZeneca LP	**647**		1,899
Decrease (increase) in restricted assets	**276**	5,548	(1,630)
Other	**150**	171	96

Net Cash (Used in) Provided by Investing Activities	**(3,497)**	3,156	(1,834)
Cash Flows from Financing Activities			
Net change in short-term borrowings	**90**	(2,422)	1,860
Proceeds from issuance of debt	**1,999**	4,228	
Payments on debt	**(1,341)**	(25)	(1,392)
Purchases of treasury stock	**(1,593)**		(2,725)
Dividends paid to stockholders	**(4,734)**	(3,215)	(3,279)
Other dividends paid	**(119)**	(264)	(122)
Proceeds from exercise of stock options	**363**	186	102
Other	**(106)**	(126)	33
Net Cash Used in Financing Activities	**(5,441)**	(1,638)	(5,523)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(295)**	33	(183)
Net Increase (Decrease) in Cash and Cash Equivalents	**1,589**	4,943	(968)
Cash and Cash Equivalents at Beginning of Year	**9,311**	4,368	5,336
Cash and Cash Equivalents at End of Year	**$ 10,900**	$ 9,311	$ 4,368
Supplemental Cash Flow Information (See Note 3)			

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

The Company is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The Company s operations are principally managed on a products basis and are comprised of four operating segments, which are the Pharmaceutical, Animal Health, Consumer Care and Alliances segments, and one reportable segment, which is the Pharmaceutical segment. The Pharmaceutical segment includes human health pharmaceutical and vaccine products marketed either directly by the Company or through joint ventures. Human health pharmaceutical products consist of therapeutic and preventive agents, sold by prescription, for the treatment of human disorders. The Company 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, pharmacy benefit managers and other institutions. Vaccine products consist of preventive pediatric, adolescent and adult vaccines, primarily administered at physician offices. The Company sells these human health vaccines primarily to physicians, wholesalers, physician distributors and government entities. The Company also has animal health operations that discover, develop, manufacture and market animal health products, including vaccines, which the Company sells to veterinarians, distributors and animal producers. Additionally, the Company has consumer care operations that develop, manufacture and market over-the-counter, foot care and sun care products, which are sold through wholesale and retail drug, food chain and mass merchandiser outlets in the United States and Canada.

On November 3, 2009, Merck & Co., Inc. (Old Merck) and Schering-Plough Corporation (Schering-Plough) merged (the Merger). In the Merger, Schering-Plough acquired all of the shares of Old Merck, which became a wholly-owned subsidiary of Schering-Plough and was renamed Merck Sharp & Dohme Corp. Schering-Plough continued as the surviving public company and was renamed Merck & Co., Inc. (New Merck or the Company). However, for accounting purposes only, the Merger was treated as an acquisition with Old Merck considered the accounting acquirer. Accordingly, the accompanying financial statements reflect Old Merck s stand-alone operations as they existed prior to the completion of the Merger. The results of Schering-Plough s business have been included in New Merck s financial statements only for periods subsequent to the completion of the Merger. Therefore, New Merck s financial results for 2009 do not reflect a full year of legacy Schering-Plough operations. References in these financial statements to Merck for periods prior to the Merger refer to Old Merck and for periods after the completion of the Merger to New Merck.

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. Intercompany balances and transactions are eliminated. 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 shareholders interests are shown as *Noncontrolling interests* in equity. 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.

Mergers and Acquisitions In a business combination, the acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded at the date of the merger or acquisition at their respective fair values with

limited exceptions. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly

transaction between market participants on the measurement date. Accordingly, the Company may be required to value assets at fair value measures that do not reflect the Company s intended use of those assets. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired business are reflected in the Company s consolidated financial statements after the date of the merger or acquisition. If the Company determines the assets acquired do not meet the definition of a business under the acquisition method of accounting, the transaction will be accounted for as an acquisition of assets rather than a business combination, and therefore, no goodwill will be recorded.

Foreign Currency Translation The net assets of international subsidiaries where the local currencies have been determined to be the functional currencies are translated into U.S. dollars using current exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded in the foreign currency translation account, which is included in *Accumulated other comprehensive income (loss)* (*AOCI*) and reflected as a separate component of equity. For those subsidiaries that operate in highly inflationary economies and for those subsidiaries where the U.S. dollar has been determined to be the functional currency, non-monetary foreign currency assets and liabilities are translated using historical rates, while monetary assets and liabilities are translated at current rates, with the U.S. dollar effects of rate changes included in *Other (income) expense, net*. As a result of the Merger, the functional currency of the operations at each of the Company s international subsidiaries is being reevaluated and has resulted or may result in a change in functional currency.

Cash Equivalents Cash equivalents are comprised of certain highly liquid investments with original maturities of less than three months.

Inventories Inventories are valued at the lower of cost or market. The cost of a substantial majority of domestic pharmaceutical and vaccine inventories is determined using the last-in, first-out (LIFO) method for both financial reporting and tax purposes. The cost of all other inventories is determined using the first-in, first-out (FIFO) method. 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 in marketable debt and equity securities classified as available-for-sale are reported at fair value. Fair value of the Company s investments is determined using quoted market prices in active markets for identical assets or liabilities or quoted prices for similar assets or liabilities or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Changes in fair value that are considered temporary are reported net of tax in *AOCI*. For declines in the fair value of equity securities that are considered other-than-temporary, impairment losses are charged to *Other (income) expense, net*. The Company considers available evidence in evaluating potential impairments of its investments, including the duration and extent to which fair value is less than cost, and for equity securities, the Company s ability and intent to hold the investment. For debt securities, an other-than-temporary impairment has occurred if the Company does not expect to recover the entire amortized cost basis of the debt security. If the Company does not intend to sell the impaired debt security, and it is not more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings, recorded in *Other (income) expense, net*, is limited to the portion attributed to credit loss. The remaining portion of the other-than-temporary impairment related to other factors is recognized in *AOCI*. Realized gains and losses for both debt and equity securities are included in *Other (income) expense, net.*

Revenue Recognition Revenues from sales of products are recognized at the time of delivery when title and risk of loss passes to the customer. 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 wholesaler, 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 current liabilities. The accrued balances relative to these provisions included in *Accounts receivable*

and *Accrued and other current liabilities* were $117 million and $1.2 billion, respectively, at December 31, 2010 and $115 million and $1.3 billion, respectively, at December 31, 2009.

The Company recognizes revenue from the sales of vaccines to the Federal government for placement into vaccine stockpiles 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*.

Depreciation Depreciation is provided over the estimated useful lives of the assets, principally using the straight-line method. For tax purposes, accelerated tax 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.

Software Capitalization The Company capitalizes certain costs incurred in connection with obtaining or developing internal-use software including external direct costs of material and services, and payroll costs for employees directly involved with the software development. Capitalized software costs are included in *Property, plant and equipment* and amortized beginning when the software project is substantially complete and the asset is ready for its intended use. Capitalized software costs associated with the Company s multi-year implementation of an enterprise-wide resource planning system are being amortized over 6 to 10 years. At December 31, 2010 and 2009, there was approximately $457 million and $428 million, respectively, of remaining unamortized capitalized software costs associated with this initiative. All other capitalized software costs are being amortized over periods ranging from 3 to 5 years. Costs incurred during the preliminary project stage and post-implementation stage, as well as maintenance and training costs, are expensed as incurred.

Goodwill Goodwill represents the excess of the consideration transferred over the fair value of net assets of businesses purchased. Goodwill is assigned to reporting units and evaluated for impairment on at least an annual basis, or more frequently if impairment indicators are present, using a fair value based test. Based upon the Company s most recent annual impairment test completed as of October 1, 2010, the fair value of each reporting unit was in excess of its carrying value.

Acquired Intangibles Acquired intangibles include products and product rights, tradenames and patents, which are recorded at fair value, assigned an estimated useful life, and are amortized primarily on a straight-line basis over their estimated useful lives ranging from 3 to 40 years (see Note 9). When events or circumstances warrant a review, the Company will assess recoverability from future operations of acquired intangibles using pretax undiscounted cash flows derived from the lowest appropriate asset groupings. Impairments are recognized in operating results to the extent that carrying value of the intangible asset exceeds its fair value, which is determined based on the net present value of estimated future cash flows.

In-Process Research and Development In-process research and development (IPR&D) represents the fair value assigned to incomplete research projects that the Company acquires through business combinations which, at the time of acquisition, have not reached technological feasibility. For transactions that closed prior to 2009, the fair value of such projects was expensed upon acquisition. For transactions that closed during 2009 and thereafter, the fair value of the research projects were recorded as intangible assets on the Consolidated Balance Sheet rather than expensed. The amounts capitalized are being accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, Merck will make a determination as to the useful life of the intangible asset, generally determined by the period in which substantially all of the cash flows are expected to be generated, and begin amortization. The Company tests its indefinite-lived intangibles, including IPR&D, for impairment at least annually, or more frequently if impairment indicators exist, through a one-step test that compares the fair value of the indefinite-lived intangible asset with the asset s carrying

value.

Research and Development Research and development is expensed as incurred. Upfront and milestone payments due to third parties in connection with research and development collaborations prior to regulatory approval are expensed as incurred. Payments due to third parties upon or subsequent to regulatory approval are capitalized and amortized over the shorter of the remaining license or product patent life. Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made.

Research and development expenses include $2.4 billion of IPR&D impairment charges in 2010 and restructuring costs in all periods.

Share-Based Compensation The Company expenses all share-based payments to employees over the requisite service period based on the grant-date fair value of the awards.

Restructuring Costs The Company records liabilities for costs associated with exit or disposal activities in the period in which the liability is incurred. In accordance with existing benefit arrangements, employee termination costs are accrued when the restructuring actions are probable and estimable. When accruing these costs, the Company will recognize the amount within a range of costs that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, the Company recognizes the minimum amount within the range. Costs for one-time termination benefits in which the employee is required to render service until termination in order to receive the benefits are recognized ratably over the future service period.

Contingencies and Legal Defense Costs The Company records accruals for contingencies and legal defense costs expected to be incurred in connection with a loss contingency when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Taxes on Income Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. The Company recognizes interest and penalties associated with uncertain tax positions as a component of *Taxes on income* in the Consolidated Statement of Income.

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 when accounting for amounts recorded in connection with mergers and acquisitions, including fair value determinations of assets and liabilities primarily IPR&D and other intangible assets. Additionally, estimates are used in determining such items as current fair values of goodwill, IPR&D and other intangibles, as well as provisions for sales discounts and returns, depreciable and amortizable lives, recoverability of inventories, including those 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, restructuring costs, impairments of long-lived assets (including intangible assets and goodwill) and investments, 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 Adopted Accounting Standards During 2010, several new accounting standards issued by the FASB were adopted.

On January 1, 2010, the Company adopted new guidance on the accounting and disclosure requirements for transfers of financial assets, which eliminated the concept of a qualifying special-purpose entity, changed the requirements for

derecognizing financial assets and required enhanced disclosures to provide financial statement users with greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. The effect of adoption on the Company s financial position and results of operations was not material.

On January 1, 2010, the Company adopted new accounting and disclosure guidance for the consolidation of variable interest entities, which required enhanced disclosures intended to provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. The effect of adoption on the Company s financial position and results of operations was not material.

Recently Issued Accounting Standards The FASB has issued several new accounting pronouncements, which are not yet effective for the Company.

In October 2009, the FASB issued new guidance for revenue recognition with multiple deliverables, which is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The Company is currently assessing the impact of adoption on its financial position and results of operations.

In January 2010, the FASB amended the existing disclosure guidance on fair value measurements, which is effective January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective January 1, 2011. Among other things, the updated guidance requires additional disclosure for the amounts of significant transfers in and out of Level 1 and Level 2 measurements and requires certain Level 3 disclosures on a gross basis. Additionally, the updates amend existing guidance to require a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements. Since the amended guidance requires only additional disclosures, the adoption of the provisions effective January 1, 2010 did not, and for the provisions effective in 2011 will not, impact the Company s financial position or results of operations.

3. Merger

On November 3, 2009, Old Merck and Schering-Plough completed the Merger. In the Merger, Schering-Plough acquired all of the shares of Old Merck, which became a wholly-owned subsidiary of Schering-Plough and was renamed Merck Sharp & Dohme Corp. Schering-Plough continued as the surviving public company and was renamed Merck & Co., Inc. However, for accounting purposes only, the Merger was treated as an acquisition with Old Merck considered the accounting acquirer. Under the terms of the Merger agreement, each issued and outstanding share of Schering-Plough common stock was converted into the right to receive a combination of $10.50 in cash and 0.5767 of a share of the common stock of New Merck. Each issued and outstanding share of Old Merck common stock was automatically converted into a share of the common stock of New Merck. Based on the closing price of Old Merck stock on November 3, 2009, the consideration received by Schering-Plough shareholders was valued at $28.19 per share, or $49.6 billion in the aggregate. The cash portion of the consideration was funded with a combination of existing cash, including from the sale of Old Merck s interest in Merial Limited, the sale or redemption of investments and the issuance of debt. Upon completion of the Merger, each issued and outstanding share of Schering-Plough 6% Mandatory Convertible Preferred Stock (Schering-Plough 6% preferred stock) not converted in accordance with the terms of the preferred stock remained outstanding as one share of Merck 6% Mandatory Convertible Preferred Stock (6% preferred stock) having the rights set forth in the New Merck certificate of incorporation which rights were substantially similar to the rights of the Schering-Plough 6% preferred stock. In August 2010, the outstanding 6% preferred stock automatically converted by its terms into the right to receive cash and shares of Merck common stock (see Note 13).

The Merger expanded the Company s pipeline of product candidates, broadened the Company s commercial portfolio, expanded its global presence and increased its manufacturing capabilities. Additionally,

the Company expects to realize substantial cost savings and synergies, including opportunities for consolidation in both sales and marketing and research and development.

Calculation of Consideration Transferred (in millions except per share/unit amounts)