FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. 0000950123-94-000911

FILER

MERCK & CO INC

CIK:**64978**| IRS No.: **221109110** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-03305** | Film No.: **94527906**
SIC: **2834** Pharmaceutical preparations

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from --------- to ---------

Commission File No. 1-3305

MERCK & CO., INC.
P. O. Box 100
One Merck Drive
Whitehouse Station, N.J. 08889-0100
(908) 423-1000

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

The number of shares of common stock outstanding as of the close of business on April 30, 1994:

Class	Number of Shares Outstanding
Common Stock	1,256,976,656

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 X No

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Part I - Financial Information

MERCK & CO., INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED MARCH 31, 1994 AND 1993

($ in millions except per share amounts)

<TABLE>
<CAPTION>

Three Months
Ended March 31

	1994	1993
<S>	<C>	<C>
Sales	$3,514.3	$2,379.6
Costs and Expenses		
Materials and production	1,455.6	536.7
Marketing and administrative	755.9	691.7
Research and development	266.3	260.9
Other (income) expense, net	24.2	(23.1)
	2,502.0	1,466.2
Income Before Taxes	1,012.3	913.4
Taxes on Income	337.1	299.6
Net Income	$ 675.2	$ 613.8
Per Share of Common Stock:		
Net Income	$.54	$.54
Dividends Declared	$.28	$.25
Average Number of Common Shares Outstanding (millions)	1,255.2	1,142.7

</TABLE>

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

MERCK & CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 1994 AND DECEMBER 31, 1993

($ in millions)

<TABLE>
<CAPTION>

	March 31 1994	December 31 1993
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and cash equivalents	$ 917.0	$ 829.4
Short-term investments	709.6	712.9
Accounts receivable	2,035.4	2,094.3
Inventories	1,577.7	1,641.7
Prepaid expenses and taxes	463.9	456.3
Total Current Assets	5,703.6	5,734.6

Investments	1,726.3	1,779.9
Property, Plant and Equipment, at cost, net of allowance for depreciation of $2,381.0 in 1994 and $2,278.2 in 1993	4,967.5	4,894.6
Goodwill and Other Intangibles, net of accumulated amortization of $140.5 in 1994 and $97.2 in 1993	6,619.0	6,645.5
Other Assets	970.2	872.9
	---------	---------
	$19,986.6	$19,927.5
	=========	=========
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,156.0	$ 2,378.3
Loans payable	1,436.9	1,736.0
Income taxes payable	1,490.2	1,430.4
Dividends payable	351.8	351.0
	---------	---------
Total Current Liabilities	5,434.9	5,895.7
	---------	---------
Long-Term Debt	1,093.3	1,120.8
	---------	---------
Deferred Income Taxes and Noncurrent Liabilities	1,827.6	1,744.9
	---------	---------
Minority Interests	1,216.0	1,144.4
	---------	---------
Stockholders' Equity		
Common stock		
Authorized - 2,700,000,000 shares		
Issued - 1,480,876,113 shares - 1994		
- 1,480,611,247 shares - 1993	4,579.6	4,576.5
Retained earnings	9,749.2	9,393.2
	---------	---------
	14,328.8	13,969.7
Less treasury stock, at cost		
224,728,888 shares - 1994	3,914.0	3,948.0
226,676,597 shares - 1993	---------	---------
Total Stockholders' Equity	10,414.8	10,021.7
	---------	---------
	$19,986.6	$19,927.5
	=========	=========

</TABLE>

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

MERCK & CO., INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 1994 AND 1993

($ in millions)

<TABLE>
<CAPTION>

	Three Months Ended March 31

	1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 675.2	$ 613.8
Adjustments to net income	177.4	76.7
Net changes in assets and liabilities	(170.4)	(3.4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	682.2	687.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(190.9)	(204.3)
Purchase of securities, subsidiaries and other investments	(4,891.3)	(2,094.9)
Proceeds from sale of securities and other investments	5,113.1	2,025.4
Other	(5.5)	4.8
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	25.4	(269.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	(300.7)	151.8
Proceeds from issuance of debt	.1	1.5
Payments on debt	(13.0)	(6.5)
Purchase of treasury stock	-	(180.6)
Dividends paid to stockholders	(350.9)	(286.3)
Other	14.8	19.8
NET CASH USED BY FINANCING ACTIVITIES	(649.7)	(300.3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	29.7	9.6
NET INCREASE IN CASH AND CASH EQUIVALENTS	87.6	127.4
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	829.4	575.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 917.0	$ 702.5

</TABLE>

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

Notes to Financial Statements

1. The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

   Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the full year 1994; in the Company's opinion, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature.

Notes to Financial Statements (continued)

2. Inventories consisted of:

	($ in millions) March 31 1994	December 31 1993
Finished goods	$ 920.3	$1,024.4
Raw materials and work in process	605.7	570.6
Supplies	69.7	65.8
Total (approximates current cost)	1,595.7	1,660.8
Reduction to LIFO cost	18.0	19.1
	$1,577.7	$1,641.7

3. Effective January 1, 1994, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires certain investments to be recorded at fair value or amortized cost. In accordance with this Statement, the Company has classified its investments as available-for-sale and held-to-maturity. Available-for-sale investments are carried at fair value with unrealized gains and losses recorded, net of tax, in Stockholders' Equity and held-to-maturity investments are carried at amortized cost. At January 1, 1994, the net unrealized gain associated with available-for-sale investments of $37.5 million, net of tax, has been included in Retained earnings. Prior to 1994, the Company's investments were carried at the lower of cost or market.

At March 31, 1994, available-for-sale investments include debt and equity securities carried at their fair values of $1,120.8 million ($477.8 million of which mature within the year) and $587.7 million, respectively. Held-to-maturity investments are carried at amortized cost of $727.4 million ($155.0 million of which mature within the year) and have a fair value of $725.5 million. The net unrealized gain included in Retained earnings at March 31, 1994 amounted to $32.5 million, net of tax.

4. Sales consisted of:

	($ in millions) Three Months Ended March 31 1994*	1993
Human and Animal Health Products and Services:		
Cardiovasculars	$1,233.7	$1,109.2
Anti-ulcerants	378.7	292.4
Antibiotics	185.8	206.0
Vaccines/biologicals	103.6	126.5
Ophthalmologicals	97.3	102.0
Anti-inflammatories/analgesics	56.3	86.0
Other human health	102.2	101.5
Other Medco sales	1,008.5	-
Animal health/crop protection	248.9	204.2
	3,415.0	2,227.8
Specialty Chemical Products	99.3	151.8
	$3,514.3	$2,379.6

* Sales by therapeutic class include Medco sales of Merck products. Medco sales of non-Merck products and Medco services are included in Other Medco sales.

Notes to Financial Statements (continued)

5. Other (income) expense, net, consisted of:

	($ in millions) Three Months Ended March 31 1994	1993
Interest income	$ (35.2)	$ (34.7)
Interest expense	30.9	19.6
Exchange losses	17.2	14.0
Minority interests	12.5	6.3
Amortization of goodwill & other intangibles	43.3	3.0
Other income, net	(44.5)	(31.3)
	$ 24.2	$ (23.1)

Minority interests include third parties' share of exchange gains and losses arising from translation of the financial statements into U.S. dollars.

Interest paid for the three-month period ended March 31, 1994 and 1993 was $17.5 million and $15.6 million, respectively.

6. Income taxes paid for the three-month period ended March 31, 1994 and 1993 were $228.5 million and $140.2 million, respectively.

7. Legal proceedings to which the Company is a party are discussed in Item 3, Legal Proceedings, in the Annual Report on Form 10-K. There were no material developments in the three-month period ended March 31, 1994.

MANAGEMENT'S ANALYSIS OF INTERIM FINANCIAL INFORMATION

Net income for the first quarter was $675.2 million, an increase of 10% over the first quarter of 1993. Earnings per share for the first quarter were $.54, level with the first quarter of 1993. The dilution in the earnings per share growth in 1994 is principally due to the additional shares issued in November 1993 to complete the Medco acquisition.

Sales for the quarter were $3.5 billion, up 48% from the same period last year. On a comparable basis, after adjusting for the effect of the Medco acquisition and the sale of the Calgon Water Management business in 1993, sales were up 19% over the first quarter of 1993. The differential between sales and net income growth on a year-to-year basis is driven predominantly by Medco's historically lower margin business, a result of its higher product acquisition costs.

Sales growth for the quarter was led by newer products and the Merck-Medco Managed Care business. Both domestic and international operations reported solid unit volume gains. Foreign exchange reduced first quarter sales by 1 percentage point. Excluding exchange, sales of Merck human and animal health products and services increased 9% and total Company sales were up 20% adjusted for the effect of the Medco acquisition and the sale of the Calgon Water Management business. Price increases had virtually no effect on sales growth.

Sales outside the United States accounted for 31% of 1994 first quarter sales, compared with 43% for the same period last year. The 12 point shift is principally due to higher domestic sales as a result of the Medco acquisition.

Income growth for the quarter resulted from strong unit volume gains. The unfavorable effects of exchange, inflation, product mix and a higher tax rate were offset by cost controls and productivity improvements from continuing efforts to streamline and restructure operations.

In the human and animal health products segment of Merck's business, results for the first quarter reflected strong unit sales gains by `Vasotec', `Vaseretic', `Prinivil', `Zocor', `Pepcid', `Prilosec', `Proscar' and ivermectin. Significant volume growth in the Merck-Medco Managed Care business added to the first quarter sales increase.

`Vasotec', Merck's angiotensin converting enzyme (ACE) inhibitor for reducing high blood pressure and treating symptomatic heart failure, is sold in all major markets and continues to be the leading branded product in the worldwide cardiovascular market. `Vasotec' has been cleared for marketing by the Food & Drug Administration for a new and expanded use: to decrease the rate of development of overt heart failure and to reduce hospitalizations for heart failure in people with left ventricular dysfunction, a weakening of the heart's main pumping chamber, but with no heart failure symptoms. The new indication for `Vasotec' is based on data from the Studies of Left Ventricular Dysfunction (SOLVD) Prevention Trial, a five-year study by the National Heart, Lung and Blood Institute.

The first arm of SOLVD involved an evaluation of patients with symptomatic heart failure treated with `Vasotec'. Symptomatic heart failure is a growing public health problem affecting an estimated 2 to 4% of the population worldwide. According to a study, the average daily hospital stay for a heart failure patient costs over $1,100 compared with an average yearly cost of $700 for maintaining a heart failure patient on `Vasotec'. The medicine could reduce the economic impact of symptomatic heart failure worldwide.

`Vaseretic', a combination of `Vasotec' and hydrochlorothiazide for the treatment of high blood pressure, and `Prinivil', Merck's second ACE inhibitor for reducing high blood pressure and an adjunctive therapy to treat heart failure, continue to have strong growth.

Merck's cholesterol-lowering agents, `Mevacor' and `Zocor', hold over 40% of the worldwide cholesterol-lowering market and continued to show solid sales growth in the first quarter of 1994. Unit sales for `Mevacor', however, were down due to strong competition and the lower rate of growth in the cholesterol-lowering market in the United States. `Mevacor' remains the most widely prescribed cholesterol-lowering agent in the treatment of patients with primary elevated cholesterol. Of the 13 million people in the United States with elevated cholesterol who require drug therapy, only about half are being treated with drugs. Merck continues its strategic initiatives to increase appropriate usage.

In March, Merck responded to the announcement of a new cholesterol-lowering drug, fluvastatin, marketed by Sandoz, by identifying significant differences between Merck's `Mevacor' and `Zocor', and fluvastatin, particulary in dosing flexibility and the extensive clinical experience of `Mevacor' and `Zocor', providing an established efficacy and tolerability profile for Merck's drugs.

`Mevacor' also has exclusive evidence in its prescribing information on results from the Monitored Atherosclerosis Regression Study in 270 patients with high cholesterol. In the evaluations of the primary endpoint as well as most secondary endpoints, favorable trends were seen with the use of

`Mevacor', but no statistically significant differences were seen between the drug and the placebo. However, another secondary endpoint, the Global Change Score, determined by common consensus of an expert panel that performed a visual assessment of angiograms, found significant slowing of progression of atherosclerosis in patients on `Mevacor'; in some patients, `Mevacor' actually caused regression. Other studies are underway with both `Mevacor' and `Zocor' to assess their effects on heart disease.

`Pepcid', an H2-receptor antagonist for treatment of duodenal ulcers and the short-term treatment of gastric ulcers and gastroesophageal reflux disease (GERD), continues to grow rapidly in the United States and maintains its position against strong competition outside the United States. `Pepcid AC', an over-the-counter (OTC) version of `Pepcid', was launched in the United Kingdom in February by the joint venture of Johnson & Johnson and Merck. It was the first H2-receptor antagonist introduced for OTC use in the world. A New Drug Application has been filed with the U.S. Food and Drug Administration for the OTC formulation.

`Prilosec', which is indicated for poorly responsive symptomatic GERD and as a first-line therapy for short-term treatment of active duodenal ulcers and severe erosive esophagitis, continues to show strong growth.

`Proscar', a significant medical advance for the treatment of symptomatic benign prostate enlargement, a common condition that affects the majority of men over the age of 50, has been introduced in over 50 countries, representing nearly every major market including the United States, and it has received medical approval in 10 other countries. The Company is continuing an extensive medical and consumer education program worldwide to heighten awareness of the disease, improve understanding of its natural history and communicate the effects of treatment with `Proscar'. The results of a study, directed by the Merck Research Laboratories and published in the March issue of Urology, showed that after three years of therapy with `Proscar', two-thirds of the 297 men in the study achieved a 20% or more shrinkage in prostate size and close to half had a reduction of 50% or more in total symptom score, as compared to

values at the start of the study. Ongoing investigational studies of `Proscar' include a trial to determine the medicine's potential as a treatment for male pattern baldness and a National Cancer Institute study involving 18,000 healthy men to examine the possible role of `Proscar' in preventing prostate cancer.

Ivermectin, Merck's broad-spectrum antiparasitic and the world's leading animal health product, continues to show strong growth.

`Fosamax', Merck's new medicine for the treatment of osteoporosis, was launched in Italy in November 1993. Regulatory filings in other countries are planned in 1994 and in the United States in 1995. `Fosamax' is licensed to Merck by Italy's Istituto Gentili. Osteoporosis, a bone-thinning disease associated with aging, afflicts more than 150 million people worldwide and is a leading cause of disability and death in older women. Merck is also conducting studies on the prevention of osteoporosis and evaluating `Fosamax' in the prevention of bone fractures.

Merck, the world's largest pharmaceutical company, and Medco Containment Services, Inc., the leader in pharmacy benefits management, which Merck acquired in November, 1993, have combined their resources to form a new business unit. The Merck-Medco U.S. Managed Care Division is uniquely equipped to serve the needs of the rapidly expanding managed health-care segment of the U.S. prescription drug market. The principal focus of the Division is to develop and implement programs and methodology in the managed-care setting that are designed to achieve the Company's vision of coordinated pharmaceutical care. Merck-Medco currently manages pharmaceutical benefits for approximately 38 million plan participants, up strongly since the time of the merger announcement. Also, the Division has contracts with managed-care organizations covering an additional 37 million individuals.

In January, Merck-Medco launched a new prescription drug program called Coordinated Care Network(TM), which is designed to more actively use the skills of the community pharmacist for counseling and monitoring patients whose health insurance includes a Merck-Medco prescription drug benefit plan. In the first 60 days of operation, the Network had signed up 46,000 pharmacies, which include all drugstore chains and 80% of independent pharmacies, and health benefit plan sponsors covering 1.5 million plan participants.

As part of the plan of the Coordinated Care Network(TM) to strengthen the pharmacist's role in counseling patients, Merck-Medco has developed a series of disease-specific care modules. The first two for patients with asthma and chronic obstructive pulmonary disease were introduced on April 1.

Unit sales declined for a group of longer-established human and animal health products due to competition.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

(a)

Exhibits	Description	Method of Filing
11	Computation of Earnings Per Common Share	Filed with this document
12	Computation of Ratios of Earnings to Fixed Charges	Filed with this document

(b) Reports on Form 8-K

During the three-month period ending March 31, 1994, no current reports on Form 8-K were filed.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERCK & CO., INC.

/s/ Mary M. McDonald

Date: May 11, 1994 MARY M. MCDONALD
Senior Vice President and General Counsel

/s/ Peter E. Nugent

Date: May 11, 1994 PETER E. NUGENT
Vice President, Controller

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number	Description
<S>	<C>
11	Computation of Earnings Per Common Share
12	Computation of Ratios of Earnings to Fixed Charges

</TABLE>

Exhibit 11

MERCK & CO., INC. AND SUBSIDIARIES

Computation of Earnings Per Common Share

(In millions except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended March 31	
	1994	1993
<S>	<C>	<C>
Net Income and Adjusted Earnings:		
Net Income..	$ 675.2	$ 613.8
Effect on Earnings of Compensation Expense on Stock Option and Executive Incentive Plans.......	2.5	1.7
Effect on Earnings of Interest on Debentures Issued by Medco.......................	.1	-
Adjusted Earnings for Fully Diluted Earnings Per Share..............................	$ 677.8	$ 615.5
Weighted Average Shares and Share Equivalents Outstanding:		
Weighted Average Shares Outstanding (As Reported)..	1,255.2	1,142.7
Common Share Equivalents Issuable Under Stock Option Plans	14.9	7.8
Common Shares Issuable Under Executive Incentive Plans........................	1.7	2.1
Common Share Equivalents Issuable on Assumed Conversion of Debentures Issued by Medco.........	3.0	-
Weighted Average Shares and Share Equivalents Outstanding....................	1,274.8	1,152.6
Earnings Per Share (As Reported):		
Net Income..	$ .54	$ .54
Fully Diluted Earnings Per Share: (a)		

- - --------------------------------

Fully Diluted Earnings Per Share..................	$ .53	$ .53
	========	========

</TABLE>

(a) This calculation is submitted in accordance with the regulations of the Securities and Exchange Commission although not required by APB Opinion No. 15 because it results in dilution of less than 3%.

Exhibit 12

MERCK & CO., INC. AND SUBSIDIARIES

Computation of Ratios of Earnings to Fixed Charges

(In millions except ratio data)

<TABLE>
<CAPTION>

	Three Months Ended March 31	Years Ended December 31				
	1994	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income Before Taxes and Cumulative Effect of Accounting Changes	$1,012.3	$3,102.7	$3,563.6	$3,166.7	$2,698.8	$2,283.0
Add:						
One-third of Rents	9.2	35.0	34.0	31.1	26.5	20.0
Interest Expense (Net)	17.0	48.0	23.6	26.0	51.9	45.5
Income as Adjusted	$1,038.5	$3,185.7	$3,621.2	$3,223.8	$2,777.2	$2,348.5
Fixed Charges						
One-third of Rents	$ 9.2	$ 35.0	$ 34.0	$31.1	$26.5	$20.0
Interest Expense	30.9	84.7	72.7	68.7	69.8	53.2
Fixed Charges	$40.1	$119.7	$106.7	$99.8	$96.3	$73.2
Ratio of Earnings to Fixed Charges	26	27	34	32	29	32

</TABLE>

For purposes of computing these ratios, "earnings" consist of income before taxes and cumulative effect of accounting changes, one-third of rents (deemed by the Company to be representative of the interest factor inherent in rent), and interest expense, net of amounts capitalized. "Fixed charges" consist of one-third of rents and interest expense as reported in the Company's consolidated financial statements.