FONAR CORP
Form SC 13G
February 08, 2019

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No:)

FONAR CORP

(Name of Issuer)

Common Stock

(Title of Class of Securities)

344437405

(CUSIP Number)

December 31, 2018

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 344437405

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group

(a) [ ]
(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

340992

(6) Shared voting power

0

(7) Sole dispositive power

351699

(8) Shared dispositive power

0

(9) Aggregate amount beneficially owned by each reporting person

351699

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

5.5%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

FONAR CORP

Item 1(b) Address of issuer's principal executive offices:

110 Marcus Drive
MELVILLE NY 11747

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:

BlackRock, Inc.
55 East 52nd Street
New York, NY 10055

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

351699

Percent of class

5.5%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

340992

Shared power to vote or to direct the vote

0

Sole power to dispose or to direct the disposition of

351699

Shared power to dispose or to direct the disposition of

0

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [ ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
FONAR CORP.
No one person's interest in the common stock of
FONAR CORP
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 7, 2019
BlackRock, Inc.

Signature: Spencer Fleming

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to

sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Advisors, LLC
BlackRock Asset Management Canada Limited
BlackRock Fund Advisors
BlackRock Institutional Trust Company, National Association
BlackRock Financial Management, Inc.
BlackRock Investment Management, LLC

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the "Company"), does hereby make, constitute and appoint each of Christopher Meade, Daniel Waltcher, Una Neary, Richard Cundiff, Charles Park, Enda McMahon, Arlene Klein, Con Tzatzakis, Karen Clark, David Maryles, Daniel Ronnen, John Stelley, Daniel Riemer, Elizabeth Kogut, Maureen Gleeson, Daniel Kalish and Spencer Fleming acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company individually or as representative of others, any and all documents, is acting certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person reporting requirements imposed by any United States or non-United States governmental or regulatory authority, Including without limitation Forms 3, 4, 5, 13D, 13F, 13G and 13H and any amendments to any of the Foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be

conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated 8th day of December, 2015 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 2nd day of January, 2019.

BLACKROCK, INC.

By:_ /s/ Daniel Waltcher
Name: Daniel Waltcher
Title: Deputy General Counsel

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Net income attributable to noncontrolling interests

- - - - - - - 58 58

Distributions attributable to noncontrolling interests

- - - - - - - (61) (61)

Balance June 30, 2011

3,577 $1,788 $40,657 $38,243 $(2,776) 494 $(22,416) $2,426 $57,922

Balance January 1, 2012

3,577 $1,788 $40,663 $38,990 $(3,132) 536 $(23,792) $2,426 $56,943

Net income attributable to
Merck & Co., Inc.

- - - 3,531 - - - - 3,531

Cash dividends declared on common stock									
-	-	-	(2,571)	-	-	-	-	(2,571)	
Treasury stock shares purchased									
-	-	-	-	-	26	(985)	-	(985)	
Share-based compensation plans and other									
-	-	(113)	-	-	(24)	809	-	696	
Other comprehensive income									
-	-	-	-	6	-	-	-	6	
Net income attributable to noncontrolling interests									
-	-	-	-	-	-	-	56	56	
Distributions attributable to noncontrolling interests									
-	-	-	-	-	-	-	(3)	(3)	
Balance June 30, 2012									
3,577	$1,788	$40,550	$39,950	$(3,126)	538	$(23,968)	$2,479	$57,673	

In connection with the 1998 restructuring of Astra Merck Inc., the Company assumed $2.4 billion par value preferred stock with a dividend rate of 5% per annum, which is carried by KBI and included in *Noncontrolling interests* on the Consolidated Balance Sheet. If AstraZeneca exercises its option to acquire Merck s interest in AZLP (see Note 8), this preferred stock obligation will be retired.

Notes to Consolidated Financial Statements (unaudited) (continued)

The accumulated balances related to each component of other comprehensive income (loss), net of taxes, were as follows:

($ in millions)	Derivatives	Investments	Employee Benefit Plans	Cumulative Translation Adjustment	Accumulated Other Comprehensive Loss
Balance January 1, 2011	$ 41	$ 31	$ (2,043)	$ (1,245)	$ (3,216)
Other comprehensive (loss) income	(137)	(5)	28	554	440
Balance at June 30, 2011	$ (96)	$ 26	$ (2,015)	$ (691)	$ (2,776)
Balance January 1, 2012	$ 4	$ 21	$ (2,346)	$ (811)	$ (3,132)
Other comprehensive income (loss)	44	30	18	(86)	6
Balance at June 30, 2012	$ 48	$ 51	$ (2,328)	$ (897)	$ (3,126)

Included in cumulative translation adjustment are pretax gains of approximately $340 million for the first six months of 2011 relating to translation impacts of intangible assets recorded in conjunction with the Merger.

11. Share-Based Compensation Plans

The Company has share-based compensation plans under which employees and non-employee directors may be granted restricted stock units (RSUs). In addition, the Company grants options to purchase shares of Company common stock at the fair market value at the time of grant and performance share units (PSUs) to certain management-level employees. The Company recognizes the fair value of share-based compensation in net income on a straight-line basis over the requisite service period.

The following table provides amounts of share-based compensation cost recorded in the Consolidated Statement of Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2012	2011	2012	2011
Pretax share-based compensation expense	$ 93	$ 107	$ 169	$ 200
Income tax benefit	(29)	(37)	(53)	(69)
Total share-based compensation expense, net of taxes	$ 64	$ 70	$ 116	$ 131

During the first six months of 2012 and 2011, the Company granted 7 million RSUs with a weighted-average grant date fair value of $39.29 per RSU and 8 million RSUs with a weighted-average grant date fair value of $36.47 per RSU, respectively.

During the first six months of 2012 and 2011, the Company granted 7 million options with a weighted-average exercise price of $39.26 per option and 8 million options with a weighted-average exercise price of $36.55 per option, respectively. The weighted-average fair value of options granted for the first six months of 2012 and 2011 was $5.46 and $5.37 per option, respectively, and was determined using the following assumptions:

	Six Months Ended June 30,	
	2012	2011
Expected dividend yield	4.4%	4.3%
Risk-free interest rate	1.3%	2.6%
Expected volatility	25.3%	23.2%
Expected life (years)	7.0	7.0

At June 30, 2012, there was $555 million of total pretax unrecognized compensation expense related to nonvested stock options, RSU and PSU awards which will be recognized over a weighted-average period of 2.0 years. For segment reporting, share-based compensation costs are unallocated expenses.

Notes to Consolidated Financial Statements (unaudited) (continued)

12. Pension and Other Postretirement Benefit Plans

The Company has defined benefit pension plans covering eligible employees in the United States and in certain of its international subsidiaries. The net cost of such plans consisted of the following components:

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Service cost	$ 141	$ 151	$ 283	$ 303
Interest cost	166	180	332	359
Expected return on plan assets	(244)	(242)	(488)	(485)
Net amortization	48	46	96	91
Termination benefits	4	7	9	17
Curtailments	(1)	(6)	(1)	(10)
Settlements	-	-	-	(1)
	$ 114	$ 136	$ 231	$ 274

The Company provides medical, dental and life insurance benefits, principally to its eligible U.S. retirees and similar benefits to their dependents, through its other postretirement benefit plans. The net cost of such plans consisted of the following components:

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Service cost	$ 21	$ 28	$ 42	$ 56
Interest cost	31	35	62	71
Expected return on plan assets	(34)	(36)	(68)	(71)
Net amortization	(8)	(6)	(16)	(9)
Termination benefits	3	4	5	6
Curtailments	(2)	-	(4)	1
	$ 11	$ 25	$ 21	$ 54

In connection with restructuring actions (see Note 2), termination charges for the three and six months ended June 30, 2012 and 2011 were recorded on pension and other postretirement benefit plans related to expanded eligibility for certain employees exiting Merck. Also, in connection with these restructuring actions, curtailments were recorded on pension and other postretirement benefit plans and settlements were recorded on pension plans as reflected in the tables above.

13. Other (Income) Expense, Net

Other (income) expense, net, consisted of:

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Interest income	$ (76)	$ (39)	$ (129)	$ (69)
Interest expense	172	170	346	345
Exchange losses	13	1	80	43
Other, net	(6)	(11)	(50)	425
	$ 103	$ 121	$ 247	$ 744

As a result of significant collections of accounts receivable in Spain during the second quarter (see Note 5), the Company recognized incremental interest income of approximately $35 million in the second quarter and first six months of 2012 for accelerated accretion of time value of money discounts related to these receivables. Other, net (as presented in the table above) for the first six months of 2011 reflects a $500 million charge related to the resolution of the arbitration proceeding involving the Company s rights to market *Remicade* and *Simponi* (see Note 4), as well as a $127 million gain on the sale of certain manufacturing facilities and related assets. Interest paid for the six months ended June 30, 2012 and 2011 was $324 million and $194 million, respectively, which excludes commitment fees. Interest paid for the six months ended June 30, 2011 is net of $175 million received by the Company from the termination of certain interest rate swap contracts during the period (see Note 5).

14. Taxes on Income

The effective tax rates of 32.1% and 30.8% for the second quarter and first six months of 2012 and (22.8)% and 8.1% for the second quarter and first six months of 2011 reflect the impacts of acquisition-related costs and restructuring costs, partially offset by the beneficial impact of foreign earnings. In addition, the effective tax rates for the second quarter and first six months of 2011 also reflect a net favorable impact relating to the settlement of Merck s 2002-2005 federal income tax audit as discussed below, as well as the net favorable impact of certain foreign and state tax rate changes that resulted in a net $230 million reduction of deferred tax liabilities on intangibles established in purchase accounting. In addition, the effective tax rate for the first six months of 2011 also reflects the impact of the $500 million charge related to the resolution of the arbitration proceeding with J&J.

In April 2011, the Internal Revenue Service (the IRS) concluded its examination of Merck s 2002-2005 federal income tax returns and as a result the Company was required to make net payments of approximately $465 million. The Company s unrecognized tax benefits for the years under examination exceeded the adjustments related to this examination period and therefore the Company recorded a net $700 million tax provision benefit in the second quarter of 2011. This net benefit reflects the decrease of unrecognized tax benefits for the years under examination partially offset by increases to the unrecognized tax benefits for years subsequent to the examination period as a result of this settlement. The Company disagrees with the IRS treatment of one issue raised during this examination and is appealing the matter through the IRS administrative process.

As previously disclosed, the Canada Revenue Agency (the CRA) has proposed adjustments for 1999 and 2000 relating to intercompany pricing matters and, in July 2011, the CRA issued assessments for other miscellaneous audit issues for tax years 2001-2004. These adjustments would increase Canadian tax due by approximately $330 million plus approximately $390 million of interest through June 30, 2012. 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.

15. Earnings Per Share

The Company calculates earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. RSUs and certain PSUs granted before December 31, 2009 to certain management level employees participate in dividends on the same basis as common shares and such dividends are nonforfeitable by the holder. As a result, these RSUs and PSUs meet the definition of a participating security. For RSUs and PSUs issued on or after January 1, 2010, dividends declared during the vesting period are payable to the employees only upon vesting and therefore such RSUs and PSUs do not meet the definition of a participating security.

Notes to Consolidated Financial Statements (unaudited) (continued)

The calculations of earnings per share under the two-class method are as follows:

($ and shares in millions except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Basic Earnings per Common Share				
Net income attributable to Merck & Co., Inc.	$ 1,793	$ 2,024	$ 3,531	$ 3,067
Less: Income allocated to participating securities	1	4	3	8
Net income allocated to common shareholders	$ 1,792	$ 2,020	$ 3,528	$ 3,059
Average common shares outstanding	3,041	3,086	3,042	3,085
	$ 0.59	$ 0.65	$ 1.16	$ 0.99
Earnings per Common Share Assuming Dilution				
Net income attributable to Merck & Co., Inc.	$ 1,793	$ 2,024	$ 3,531	$ 3,067
Less: Income allocated to participating securities	1	4	3	8
Net income allocated to common shareholders	$ 1,792	$ 2,020	$ 3,528	$ 3,059
Average common shares outstanding	3,041	3,086	3,042	3,085
Common shares issuable [(1)]	31	24	32	21
Average common shares outstanding assuming dilution	3,072	3,110	3,074	3,106
	$ 0.58	$ 0.65	$ 1.15	$ 0.98

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

For the three months ended June 30, 2012 and 2011, 107 million and 138 million, respectively, and for the first six months of 2012 and 2011, 112 million and 173 million, respectively, of common shares issuable under share-based compensation plans were excluded from the computation of earnings per common share assuming dilution because the effect would have been antidilutive.

16. Segment Reporting

The Company s operations are principally managed on a products basis and are comprised of four operating segments Pharmaceutical, Animal Health, Consumer Care and Alliances (which includes revenue and equity income from the Company s relationship with AZLP). The Animal Health, Consumer Care and Alliances segments are not material for separate reporting and are included in all other in the table below. 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. A large component of pediatric and adolescent vaccines is sold to the U.S. Centers for Disease Control and Prevention Vaccines for Children program, which is funded by the U.S. government. Additionally, the Company sells vaccines to the Federal government for placement into vaccine stockpiles. 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.

Notes to Consolidated Financial Statements (unaudited) (continued)

Sales of the Company s products were as follows:

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Primary Care and Women s Health				
Cardiovascular				
Zetia	$ 632	$ 592	$ 1,246	$ 1,174
Vytorin	445	459	889	939
Diabetes and Obesity				
Januvia	1,058	779	1,977	1,518
Janumet	411	321	802	626
Respiratory				
Singulair	1,431	1,354	2,771	2,682
Nasonex	293	323	668	696
Clarinex	140	209	273	364
Asmanex	51	47	99	107
Dulera	50	25	89	37
Women s Health and Endocrine				
Fosamax	186	221	370	429
NuvaRing	157	154	303	297
Follistim AQ	125	143	241	276
Implanon	85	81	161	141
Cerazette	72	66	139	125
Other				
Maxalt	154	131	310	304
Arcoxia	117	100	229	214
Avelox	44	61	117	167
Hospital and Specialty				
Immunology				
Remicade	518	842	1,037	1,595
Simponi	76	75	150	129
Infectious Disease				
Isentress	398	337	735	629
PegIntron	183	154	345	319
Cancidas	166	168	311	326
Victrelis	126	21	238	22
Invanz	110	103	211	189
Primaxin	104	136	192	272
Noxafil	66	56	125	110
Oncology				
Temodar	225	234	461	481
Emend	145	120	247	207
Other				
Cosopt/Trusopt	105	122	229	236
Bridion	60	47	118	89
Integrilin	60	56	113	120
Diversified Brands				
Cozaar/Hyzaar	337	406	674	832
Propecia	100	112	208	218
Zocor	96	107	199	234
Claritin Rx	48	65	134	186
Remeron	66	57	123	117
Proscar	55	53	106	113
Vasotec/Vaseretic	49	59	102	116
Vaccines [1]				
Gardasil	324	277	608	490

ProQuad/M-M-R II/Varivax	316	291	571	535
RotaTeq	142	148	284	272
Zostavax	148	122	224	146
Pneumovax	101	64	213	143
Other pharmaceutical [2]	985	1,062	2,000	1,957
Total Pharmaceutical segment sales	10,560	10,360	20,642	20,179
Other segment sales [3]	1,680	1,690	3,273	3,323
Total segment sales	12,240	12,050	23,915	23,502
Other [4]	71	101	126	230
	$ 12,311	$ 12,151	$ 24,041	$ 23,732

[1] *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.*

[2] *Other pharmaceutical primarily includes sales of other human health pharmaceutical products not listed separately.*

[3] *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. Revenue from AZLP was $223 million and $306 million for the second quarter of 2012 and 2011, respectively, and $409 million and $628 million for the first six months of 2012 and 2011, respectively.*

[4] *Other revenues are primarily comprised of miscellaneous corporate revenues, third-party manufacturing sales, sales related to divested products or businesses and supply sales not included in segment results. The declines in other revenues in the second quarter and first six months of 2012 as compared with the same periods of 2011 reflect lower third-party manufacturing sales, which for the year-to-date period were attributable in part to the divestiture of certain manufacturing facilities in the first quarter of 2011.*

Notes to Consolidated Financial Statements (unaudited) (continued)

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

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Segment profits:				
Pharmaceutical segment	$ 6,906	$ 6,443	$ 13,502	$ 12,659
Other segments	774	726	1,578	1,517
Total segment profits	7,680	7,169	15,080	14,176
Other profits (losses)	45	34	(28)	(15)
Unallocated:				
Interest income	76	39	129	69
Interest expense	(172)	(170)	(346)	(345)
Equity income from affiliates	11	(87)	(9)	(81)
Depreciation and amortization	(574)	(623)	(1,135)	(1,194)
Research and development	(1,930)	(1,679)	(3,573)	(3,618)
Amortization of purchase accounting adjustments	(1,226)	(1,225)	(2,455)	(2,504)
Restructuring costs	(144)	(668)	(363)	(654)
Arbitration settlement charge	-	-	-	(500)
Other unallocated, net	(1,086)	(1,118)	(2,114)	(1,933)
	$ 2,680	$ 1,672	$ 5,186	$ 3,401

Segment profits are comprised of segment sales less standard costs and certain operating expenses directly incurred by the segments. For internal management reporting presented to the chief operating decision maker, Merck does not allocate materials and production costs, other than standard costs, the majority of 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. In addition, costs related to restructuring activities, as well as the amortization of purchase adjustments are not allocated to segments.

Other profits (losses) are primarily comprised of miscellaneous corporate profits (losses), as well as operating profits (losses) related to third-party manufacturing sales, divested products or businesses and other supply sales.

Other unallocated, net includes expenses from corporate and manufacturing cost centers, product intangible asset impairment charges, gains or losses on sales of businesses and assets and other miscellaneous income or expense items.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

U.S. Health Care Reform Legislation

In 2010, the United States enacted major health care reform legislation. Various market reforms advanced in 2011 and will continue through full implementation in 2014.

Effective in 2011, the law requires pharmaceutical manufacturers to pay a 50% discount to Medicare Part D beneficiaries when they are in the Medicare Part D coverage gap (i.e., the so-called donut hole). Approximately $38 million and $36 million was recorded as a reduction to revenue in the second quarter of 2012 and 2011, respectively, and $76 million and $70 million for the first six months of 2012 and 2011, respectively, related to the estimated impact of this provision of health care reform.

Also, beginning in 2011, pharmaceutical manufacturers are required to pay an annual health care reform fee. The total annual industry fee, which was $2.5 billion in 2011 and will be $2.8 billion in 2012, is assessed on each company in proportion to its share of sales to certain government programs, such as Medicare and Medicaid. The Company s portion of the annual fee is payable no later than September 30 of the applicable calendar year and is not tax deductible. Each year, the liability related to the annual fee is estimated by the Company and recorded in full during the first quarter with a corresponding offset to a deferred asset. The deferred asset is amortized to *Marketing and administrative* expenses on a straight-line basis (net of any revisions) during the year. The liability related to the annual fee recognized in 2012 was $190 million and for 2011 was $162 million. The Company recognized expenses of $48 million and $43 million for the second quarter of 2012 and 2011, respectively, and $95 million and $85 million for the first six months of 2012 and 2011, respectively, related to this fee.

Arbitration Settlement

In April 2011, Merck and Johnson & Johnson (J&J) reached an agreement to amend the agreement governing the distribution rights to *Remicade* (infliximab) and *Simponi* (golimumab). This agreement concluded the arbitration proceeding J&J initiated in May 2009. Under the terms of the amended distribution agreement, Merck relinquished marketing rights for *Remicade* and *Simponi* to J&J in territories including Canada, Central and South America, the Middle East, Africa and Asia Pacific effective July 1, 2011. Merck retained exclusive marketing rights throughout Europe, Russia and Turkey (the Retained Territories). In addition, beginning July 1, 2011, all profits derived from Merck s exclusive distribution of the two products in the Retained Territories are being equally divided between Merck and J&J. J&J also received a one-time payment from Merck of $500 million in April 2011.

***Singulair* Patent Expiries**

The patent that provided U.S. market exclusivity for *Singulair* expired in August 2012. In addition, the patent that provides market exclusivity for *Singulair* will expire in a number of major European markets in February 2013. The Company expects a significant and rapid reduction in sales thereafter in those markets. The patent that provides market exclusivity for *Singulair* in Japan will expire in 2016. For the full year of 2011, sales of *Singulair* were $3.5 billion in the United States, $724 million in Europe and $641 million in Japan.

Operating Results

Sales

Worldwide sales were $12.3 billion for the second quarter of 2012, an increase of 1% compared with the second quarter of 2011. Global sales for the first six months of 2012 were $24.0 billion, an increase of 1% compared with the same period in 2011. Foreign exchange unfavorably affected global sales performance by 4% and 2% for the second quarter and first six months of 2012, respectively. The revenue increases largely reflect higher sales of *Januvia* (sitagliptin), *Victrelis* (boceprevir), *Janumet* (sitagliptin/metformin hydrochloride HCI), *Gardasil* [human papillomavirus quadrivalent (types 6, 11, 16 and 18) vaccine, recombinant], *Isentress* (raltegravir), *Singulair* (montelukast sodium) and *Zostavax* [Zoster Vaccine Live]. Also contributing to revenue growth in both periods were higher sales of the Company s animal health products. These increases were partially offset by lower sales of *Remicade* due to the relinquishment of marketing rights in certain territories as a result of the arbitration settlement discussed above. Sales growth was also negatively affected by lower revenue from the Company s relationship with AstraZeneca LP (AZLP), as well as by lower sales of *Cozaar* (losartan potassium), *Hyzaar* (losartan potassium hydrochlorothiazide), *Clarinex* (desloratadine) and *Primaxin* (imipenem and cilastatin sodium).

While several of the Company s brands experienced positive volume growth trends in the European Union (the EU) in the first half of 2012, the environment in the EU continues to be challenging. Many countries have announced austerity measures, which include the implementation of pricing actions to reduce prices of generic and patented drugs. While the Company is taking steps to mitigate the impact in the EU, the austerity measures continued to negatively affect the Company s revenue performance in the first six months of 2012 and the Company anticipates high mid-single digit pricing pressures for the full year of 2012 across Europe as well as from the biennial price reductions in Japan.

Sales of the Company s products were as follows:

($ in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Primary Care and Women s Health				
Cardiovascular				
Zetia	$ 632	$ 592	$ 1,246	$ 1,174
Vytorin	445	459	889	939
Diabetes and Obesity				
Januvia	1,058	779	1,977	1,518
Janumet	411	321	802	626
Respiratory				
Singulair	1,431	1,354	2,771	2,682
Nasonex	293	323	668	696
Clarinex	140	209	273	364
Asmanex	51	47	99	107
Dulera	50	25	89	37
Women s Health and Endocrine				
Fosamax	186	221	370	429
NuvaRing	157	154	303	297
Follistim AQ	125	143	241	276
Implanon	85	81	161	141
Cerazette	72	66	139	125
Other				
Maxalt	154	131	310	304
Arcoxia	117	100	229	214
Avelox	44	61	117	167
Hospital and Specialty				
Immunology				
Remicade	518	842	1,037	1,595
Simponi	76	75	150	129
Infectious Disease				
Isentress	398	337	735	629
PegIntron	183	154	345	319
Cancidas	166	168	311	326
Victrelis	126	21	238	22
Invanz	110	103	211	189
Primaxin	104	136	192	272
Noxafil	66	56	125	110
Oncology				
Temodar	225	234	461	481
Emend	145	120	247	207
Other				
Cosopt/Trusopt	105	122	229	236
Bridion	60	47	118	89
Integrilin	60	56	113	120
Diversified Brands				
Cozaar/Hyzaar	337	406	674	832
Propecia	100	112	208	218
Zocor	96	107	199	234
Claritin Rx	48	65	134	186
Remeron	66	57	123	117
Proscar	55	53	106	113
Vasotec/Vaseretic	49	59	102	116
Vaccines [1]				
Gardasil	324	277	608	490
ProQuad/M-M-R II/Varivax	316	291	571	535
RotaTeq	142	148	284	272
Zostavax	148	122	224	146
Pneumovax	101	64	213	143
Other pharmaceutical [2]	985	1,062	2,000	1,957

Total Pharmaceutical segment sales	10,560	10,360	20,642	20,179
Other segment sales [3]	1,680	1,690	3,273	3,323
Total segment sales	12,240	12,050	23,915	23,502
Other [4]	71	101	126	230
	$ 12,311	$ 12,151	$ 24,041	$ 23,732

(1) *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.*

(2) *Other pharmaceutical primarily includes sales of other human health pharmaceutical products not listed separately.*

(3) *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. Revenue from AZLP was $223 million and $306 million for the second quarter of 2012 and 2011, respectively, and $409 million and $628 million for the first six months of 2012 and 2011, respectively.*

(4) *Other revenues are primarily comprised of miscellaneous corporate revenues, third-party manufacturing sales, sales related to divested products or businesses and supply sales not included in segment results. The declines in other revenues in the second quarter and first six months of 2012 as compared with the same periods of 2011 reflect lower third-party manufacturing sales, which for the year-to-date period were attributable in part to the divestiture of certain manufacturing facilities in the first quarter of 2011.*

The provision for discounts includes indirect customer discounts that occur when a contracted customer purchases directly through an intermediary wholesale purchaser, known as chargebacks, as well as indirectly in the form of rebates 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. These discounts, in the aggregate, reduced revenues by $1.5 billion and $1.3 billion for the three months ended June 30, 2012 and 2011, respectively, and $3.0 billion and $2.5 billion for the six months ended June 30, 2012 and 2011, respectively. Inventory levels at key U.S. wholesalers for each of the Company s major pharmaceutical products are generally less than one month.

Pharmaceutical Segment

Primary Care and Women s Health

Cardiovascular

Sales of *Zetia* (ezetimibe) (also marketed as *Ezetrol* outside the United States), a cholesterol-absorption inhibitor, were $632 million in the second quarter of 2012, an increase of 7% compared with the second quarter of 2011, and were $1.2 billion for the first six months of 2012, an increase of 6% compared with the same period in 2011. Foreign exchange unfavorably affected global sales performance by 2% and 1% in the second quarter and first six months of 2012, respectively. The sales increases reflect positive performance in the United States due to pricing, partially offset by volume declines. Sales growth in the first six months of 2012 also reflects volume growth in Japan and the emerging markets. Sales of *Vytorin* (ezetimibe/simvastatin) (marketed outside the United States as *Inegy*), a combination product containing the active ingredients of both *Zetia* and *Zocor* (simvastatin), were $445 million and $889 million in the second quarter and first six months of 2012, respectively, representing declines of 3% and 5%, respectively, compared with the same periods in 2011. Foreign exchange unfavorably affected global sales performance by 4% and 2% in the second quarter and first six months of 2012, respectively. The sales declines reflect volume declines in the United States, partially offset by pricing in the United States and volume growth in international markets.

In March 2012, the Data Safety Monitoring Board (the DSMB) of the IMPROVE-IT trial, a large cardiovascular outcomes study evaluating ezetimibe/simvastatin against simvastatin alone in patients presenting with acute coronary syndrome, completed the second pre-specified interim efficacy analysis of the study. The DSMB conducted the planned interim efficacy analysis after the trial had reached approximately 75% of the targeted 5,250 clinical endpoints called for in the study design. The DSMB recommended that the study continue without change in design and stated it planned to review the data again in approximately nine months. That review has been scheduled for March 2013, at which point nine months of additional data will have been adjudicated. Merck remains blinded to IMPROVE-IT safety and efficacy data. IMPROVE-IT is an 18,000 patient event-driven trial and, based on the current rate at which events are being reported, the Company now anticipates the targeted 5,250 clinical endpoints for study completion will be reached in 2014.

Diabetes and Obesity

Global sales of *Januvia*, Merck s dipeptidyl peptidase-4 (DPP-4) inhibitor for the treatment of type 2 diabetes, were $1.1 billion in the second quarter of 2012 and $2.0 billion for the first six months of 2012, representing increases of 36% and 30%, respectively, compared with the same periods of 2011, reflecting volume growth in international markets, including in Japan, and in the United States. 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 $411 million for the second quarter of 2012 and $802 million for the first six months of 2012, representing increases of 28% in each of those periods compared with the same periods of 2011, reflecting growth in the United States, Europe and the emerging markets.

In February 2012, the U.S. Food and Drug Administration (the FDA) approved *Janumet XR*, a treatment for type 2 diabetes that combines sitagliptin with extended-release metformin. *Janumet XR* provides a convenient once-daily treatment option for health care providers and patients who need help to control their blood sugar.

As previously disclosed, on February 17, 2012, the FDA sent a Warning Letter to the Company relating to *Januvia* and *Janumet* stating that the Company did not fulfill a post-marketing requirement for a 3-month pancreatic safety study in a diabetic rodent model treated with sitagliptin. Merck has been in communication with the FDA regarding this study and Merck s efforts to complete it in a timely and satisfactory manner. Under the terms of the Warning Letter, within 30 days from the date of the letter, the Company must submit to the FDA a final study protocol for a new 3-month rodent study that will satisfy the FDA s requirements and a proposed revised timetable for completion of the study. Within 6 months from the date of the letter, the FDA expects that the Company will have obtained agreement with the FDA on an adequate study protocol and will have initiated the study. The letter states that failure to correct the violation may result in regulatory actions by the FDA, including, but not limited to, civil money penalties. The Company has reached an agreement with the FDA on a study protocol and is proceeding with the study. Merck remains fully committed to fulfilling the FDA s requirements.

Respiratory

Worldwide sales for *Singulair*, a once-a-day oral medicine for the chronic treatment of asthma and for the relief of symptoms of allergic rhinitis, were $1.4 billion for the second quarter of 2012 and $2.8 billion for the first six months of 2012, increases of 6% and 3%, respectively, compared with the same periods in 2011. The patent that provided U.S. market exclusivity for *Singulair* expired in August 2012. In addition, the patent that provides market exclusivity for *Singulair* will expire in a number of major European markets in February 2013. The Company expects a significant and rapid reduction in sales thereafter in those markets. The patent that provides market exclusivity for *Singulair* in Japan will expire in 2016. For the full year of 2011, sales of *Singulair* were $3.5 billion in the United States, $724 million in Europe and $641 million in Japan.

Global sales of *Nasonex* (mometasone furoate monohydrate), an inhaled nasal corticosteroid for the treatment of nasal allergy symptoms, were $293 million for the second quarter of 2012 and $668 million for the first six months of 2012, representing declines of 9% and 4%, respectively, compared with the same periods of 2011. Foreign exchange unfavorably affected global sales performance by 3% and 1% for the second quarter and first six months of 2012, respectively. The sales declines were driven by unfavorable pricing in Europe, as well as lower volumes in the United States and the emerging markets. In addition, for the year-to-date period in 2012, lower volumes in Japan also contributed to the sales decline. In June 2012, the U.S. District Court for the District of New Jersey ruled against the company in a patent infringement suit against Apotex Inc. and Apotex Corp. (collectively Apotex) holding that Apotex s generic version of *Nasonex* does not infringe on the Company s patent (see Note 9 to the interim consolidated financial statements). Apotex is seeking FDA approval to sell its generic version of *Nasonex*. If generic versions become available, significant losses of *Nasonex* sales in the U.S. market are anticipated and could result in a material non-cash impairment charge related to the *Nasonex* intangible asset. U.S. sales of *Nasonex* were $604 million for the full year of 2011. As a result of the unfavorable U.S. District Court decision, the Company evaluated the *Nasonex* intangible asset for impairment and concluded that it was not impaired. The Company has appealed the U.S. District Court decision.

Global sales of *Clarinex* (marketed as *Aerius* in many countries outside the United States), a non-sedating antihistamine, were $140 million for the second quarter of 2012 and $273 million for the first six months of 2012, decreases of 33% and 25%, respectively, compared with the same periods of 2011, reflecting volume declines in Europe as a result of generic competition. As previously disclosed, by virtue of litigation settlements, certain generic manufacturers have been given the right to enter the U.S. market in 2012. The U.S. patent and exclusivity periods otherwise expire in 2020. In July 2012, a generic manufacturer launched a generic version of *Clarinex* in the United States. Accordingly, the Company anticipates that U.S. sales of *Clarinex* will be negatively impacted in the third and fourth quarters of 2012 and beyond. U.S. sales of *Clarinex* were $197 million for the full year of 2011.

Women s Health and Endocrine

Worldwide sales for *Fosamax* (alendronate sodium) and *Fosamax Plus D* (alendronate sodium/cholecalciferol) (marketed as *Fosavance* throughout the EU and as *Fosamac* in Japan) for the treatment and, in the case of *Fosamax*, prevention of osteoporosis were $186 million for the second quarter of 2012 and $370 million for the first six months of 2012, representing declines of 16% and 14%, respectively, over the comparable periods of 2011. These medicines have lost market exclusivity in the United States and have also lost market exclusivity in most major European markets. Accordingly, the Company is experiencing sales declines within the *Fosamax* product franchise and the Company expects the declines to continue.

Worldwide sales of *NuvaRing* (etonogestrel/ethinyl estradiol vaginal ring), a vaginal contraceptive product, were $157 million for the second quarter of 2012 and $303 million for the first six months of 2012, increases of 2% in each of these periods compared with the same periods of 2011, largely reflecting volume growth in the emerging markets. Foreign exchange negatively affected sales performance by 4% and 3% for the second quarter and first six months of 2012, respectively.

Global sales of *Follistim AQ* (follitropin beta injection) (marketed in most countries outside the United States as *Puregon*), a biological fertility treatment, were $125 million for the second quarter of 2012 and $241 million for the first six months of 2012, declines of 12% and 13%, respectively, compared with the same periods of 2011, largely driven by volume declines in Europe. *Puregon* lost market exclusivity in the EU in August 2009. Foreign exchange unfavorably affected global sales performance by 3% and 2% for the second quarter and first six months of 2012, respectively.

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

In August 2011, *Zoely* (nomegestrol acetate 2.5 mg/17b-estradiol 1.5 mg), an oral contraceptive, was granted marketing authorization by the European Commission (the EC) for use by women to prevent pregnancy. *Zoely* is a combined oral contraceptive tablet containing a unique monophasic combination of two hormones: nomegestrol acetate, a highly selective progesterone-derived progestin, and 17-beta estradiol, an estrogen that is similar to the one naturally present in a woman s body. In November 2011, Merck received a Complete Response Letter from the FDA for NOMAC/E2 (MK-8175A), which is being marketed as *Zoely* in the EU. The Company is planning to conduct an additional clinical study requested by the FDA and update the application in the future.

Other

Global sales of *Maxalt* (rizatriptan benzoate), a product for the acute treatment of migraine, were $154 million for the second quarter of 2012, an increase of 17% compared with the second quarter of 2011, largely reflecting positive performance in the United States primarily due to favorable pricing, partially offset by declines in Europe and Canada. Sales of *Maxalt* were $310 million for the first six months of 2012, an increase of 2% compared with the first six months of 2011, reflecting favorable pricing in the United States, as well as volume growth in Japan, partially offset by volume declines in the United States and declines in Europe and Canada. The patent that provides U.S. market exclusivity for *Maxalt* will expire in December 2012. U.S. sales of *Maxalt* were $451 million for the full year of 2011. In addition, the patent that provides market exclusivity for *Maxalt* is scheduled to expire in a number of major European markets in February 2013. However, the Company has applied for a six-month pediatric extension in the EU, which has been granted by most major countries and the Company expects to obtain the extension in the remaining countries by February 2013. The Company anticipates that sales in the United States and in these European markets will decline significantly after these patent expiries.

Other products included in the Primary Care and Women s Health customer business line include among others, *Asmanex* (mometasone furoate inhalation powder), an inhaled corticosteroid for asthma; *Dulera* (mometasone furoate/formoterol fumarate dihydrate) Inhalation Aerosol, a fixed-dose combination asthma treatment; *Implanon* (etonogestrel implant), a single-rod subdermal contraceptive implant; *Cerazette* (desogestrol), a progestin only oral contraceptive; *Arcoxia* (etoricoxib) for the treatment of arthritis and pain; and *Avelox* (moxifloxacin hydrochloride), which the Company only markets in the United States, a broad-spectrum fluoroquinolone antibiotic for the treatment of certain respiratory and skin infections. In January 2012, Merck received a Complete Response Letter from the FDA on the Company s supplemental New Drug Application for *Dulera*, for the treatment of chronic obstructive pulmonary disease. The Company is evaluating next steps.

Hospital and Specialty

Immunology

Sales of *Remicade,* a treatment for inflammatory diseases, were $518 million for the second quarter of 2012 and $1.0 billion for the first six months of 2012, declines of 38% and 35%, respectively, compared with the same periods of 2011. Prior to July 1, 2011, *Remicade* was marketed by the Company outside of the United States (except in Japan and certain other Asian markets). As a result of the agreement reached in April 2011 to amend the agreement governing the distribution rights to *Remicade* and *Simponi* (as discussed above), effective July 1, 2011, Merck relinquished marketing rights for these products in certain territories including Canada, Central and South America, the Middle East, Africa and Asia Pacific. Sales performance in 2012 as compared with 2011 reflects these changes. In the Retained Territories, *Remicade* sales declined 6% in the second quarter of 2012 and 1% in the first six months of 2012, which reflect 8% and 6% unfavorable impacts, respectively, from foreign exchange. Sales of *Simponi*, a once-monthly subcutaneous treatment for certain inflammatory diseases, were $76 million in the second quarter of 2012 compared with $75 million in the second quarter of 2011, and were $150 million for the first six months of 2012 compared with $129 million for the first six months of 2011. In the Retained Territories, sales of Simponi grew 29% and 49% for the second quarter and first six months of 2012, respectively, due in part to ongoing launches. In July 2012, a submission was made to the European Medicines Agency requesting approval of *Simponi* for

the treatment of adult patients with moderately to severely active ulcerative colitis who have had an inadequate response to conventional therapy.

Infectious Disease

Global sales of *Isentress*, an HIV integrase inhibitor for use in combination with other antiretroviral agents for the treatment of HIV-1 infection, were $398 million in the second quarter of 2012, an increase of 18% compared with the second quarter of 2011, and $735 million in the first six months of 2012, an increase of 17% compared with the first six months of 2011, primarily reflecting volume growth in the United States, Latin America and the Eastern Europe, Middle East and Africa region. Foreign exchange unfavorably affected global sales performance by 5% and 3% in the second quarter and first six months of 2012, respectively.

Worldwide sales of *PegIntron* (peginterferon alpha-2b), a treatment for chronic hepatitis C, were $183 million for the second quarter of 2012, an increase of 19% compared with the second quarter of 2011, and were $345 million for the first six months of 2012, an increase of 8% compared with the same period in 2011, reflecting volume growth and favorable pricing in the United States and volume growth in the Eastern Europe, Middle East and Africa region.

In May 2011, the FDA approved *Victrelis*, the Company s innovative oral medicine for the treatment of chronic hepatitis C. *Victrelis* is approved for the treatment of chronic hepatitis C genotype 1 infection, in combination with peginterferon alfa and ribavirin, in adult patients (18 years of age and older) with compensated liver disease, including cirrhosis, who are previously untreated or who have failed previous interferon and ribavirin therapy. *Victrelis* is an antiviral agent designed to interfere with the ability of the hepatitis C virus to replicate by inhibiting a key viral enzyme. In July 2011, the EC approved *Victrelis*. The EC s decision grants a single marketing authorization that is valid in the 27 countries that are members of the EU, as well as unified labeling applicable to Iceland, Liechtenstein and Norway. *Victrelis* is approved in 43 countries and has launched in 23 of those markets. Sales of *Victrelis* were $126 million and $238 million for the second quarter and first six months of 2012, respectively, compared with $21 million and $22 million for the second quarter and first six months of 2011, respectively.

Sales of *Primaxin*, an anti-bacterial product, were $104 million in the second quarter of 2012 and $192 million for the first six months of 2012, representing declines of 24% and 30%, respectively, compared with the same periods of 2011, primarily reflecting volume declines in the United States, Europe and for the year-to-date period the Eastern Europe, Middle East Africa region, partially offset by volume growth in China. Patents on *Primaxin* have expired worldwide and multiple generics have been launched. Accordingly, the Company is experiencing a decline in sales of *Primaxin* and the Company expects the decline to continue.

Oncology

Sales of *Temodar* (temozolomide) (marketed as *Temodal* outside the United States), a treatment for certain types of brain tumors, were $225 million for the second quarter of 2012 and $461 million for the first six months of 2012, representing declines of 4% compared with the same periods of 2011, primarily reflecting generic competition in Europe, mitigated in part by price increases in the United States. *Temodar* lost patent exclusivity in the EU in 2009. As previously disclosed, by agreement, one generic manufacturer has been given the right to enter the U.S. market in August 2013. The U.S. patent and exclusivity periods otherwise will expire in February 2014.

Global sales of *Emend* (aprepitant), for the prevention of chemotherapy-induced and post-operative nausea and vomiting, were $145 million in the second quarter of 2012, an increase of 21% compared with the second quarter of 2011, and were $247 million for the first six months of 2012, an increase of 19% compared with the first six months of 2011, primarily reflecting volume growth in the United States and Japan.

Other

Worldwide sales of ophthalmic products *Cosopt* (dorzolamide hydrochloride-timolol maleate ophthalmic solution) and *Trusopt* (dorzolamide hydrochloride ophthalmic solution) were $105 million in the second quarter of 2012, a decline of 14% compared with the second quarter of 2011, and were $229 million for the first six months of 2012, a decrease of 3% compared with the same period in 2011, primarily reflecting lower sales in Europe. The year-to-date decline was mitigated in part by higher *Cosopt* sales in Japan. Foreign exchange unfavorably affected global sales performance by 5% and 2% for the second quarter and first six months of 2012, respectively. The patent that provided U.S. market exclusivity for *Cosopt* and *Trusopt* has expired. *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 February 2012, the FDA approved *Cosopt PF* (dorzolamide hydrochloride-timolol maleate ophthalmic solution), Merck s preservative-free formulation of *Cosopt* ophthalmic solution, indicated for the reduction of elevated intraocular pressure in appropriate patients with open-angle glaucoma or ocular hypertension.

Bridion (sugammadex), for the reversal of certain muscle relaxants used during surgery, is currently approved and has been launched in many countries outside of the United States. Sales of *Bridion* were $60 million and $47 million for the second quarter of 2012 and 2011, respectively, and were $118 million and $89 million for the first six months of 2012 and 2011, respectively. *Bridion* is in Phase III development in the United States.

In 2009, the FDA approved *Saphris* (asenapine), an antipsychotic indicated for the treatment of schizophrenia in adults and for the acute treatment, as monotherapy or adjunctive therapy to lithium or valproate, of manic or mixed episodes associated with bipolar I disorder in adults. In 2010, asenapine, 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. In 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 makes product supply payments in exchange for exclusive commercial rights to *Sycrest* in all markets outside the United States, China and Japan. Merck s sales of *Saphris* were $43 million and $23 million in the second quarter of 2012 and 2011, respectively, and were $83 million and $46 million for the first six months of 2012 and 2011, respectively. Merck continues to focus on building the brand awareness of *Saphris* in the United States and the Company continues to monitor and assess *Saphris/Sycrest* and the related intangible asset. If increasing the brand awareness or Lundbeck s on-going 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.

In February 2012, the FDA approved *Zioptan* (tafluprost ophthalmic solution), a preservative-free prostaglandin analog ophthalmic solution for reducing elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension. Merck has exclusive commercial rights to tafluprost in Western Europe (excluding Germany), North America, South America, Africa, the Middle East, India and Australia. *Zioptan* is marketed as *Saflutan* in certain markets outside the United States.

Other products contained in the Hospital and Specialty customer business line include among others, *Cancidas* (caspofungin acetate), an anti-fungal product; *Invanz* (ertapenem sodium) for the treatment of certain infections; *Noxafil* (posaconazole) for the prevention of certain invasive fungal infections; and *Integrilin* (eptifibatide) Injection, a treatment for patients with acute coronary syndrome, which is sold by the Company in the United States and Canada. The compound patent that provides U.S. market exclusivity for *Cancidas* expires in September 2013.

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), treatments for hypertension, declined 17% in the second quarter of 2012 and 19% in the first six months of 2012 compared with the same periods of 2011. The patents that provided market exclusivity for *Cozaar* and *Hyzaar* in the United States and in a number of major European markets expired in 2010. Accordingly, the Company is experiencing significant declines in *Cozaar* and *Hyzaar* sales and the Company expects the declines to continue.

Other products contained in the Diversified Brands customer business line include among others, *Propecia* (finasteride), a product for the treatment of male pattern hair loss; *Zocor*, a statin for modifying cholesterol; prescription *Claritin* (loratadine), a treatment for seasonal outdoor allergies and year-round indoor allergies; *Remeron* (mirtazapine), an antidepressant; *Proscar* (finasteride), a urology product for the treatment of symptomatic benign prostate enlargement; and *Vasotec* (enalapril maleate) and *Vaseretic* (enalapril maleate-hydrochlorothiazide), hypertension and/or heart failure products.

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 grew 17% in the second quarter of 2012 to $324 million and rose 24% to $608 million for the first six months of 2012 driven by positive performance in the United States and the launch in Japan. In addition, growth in the Asia Pacific region also contributed to the performance of *Gardasil* in the year-to-date period. *Gardasil,* the world s top-selling human papillomavirus (HPV) vaccine, is indicated for girls and women 9 through 26 years of age for the prevention of cervical, vulvar, vaginal and anal cancer caused by HPV types 16 and 18, certain 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 9 through 26 years of age for the prevention of anal cancer caused by HPV types 16 and 18, anal dyplasias and precancerous lesions caused by HPV types 6, 11, 16 and 18, and genital warts caused by HPV types 6 and 11.

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

ProQuad [Measles, Mumps, Rubella and Varicella Virus Vaccine Live], a pediatric combination vaccine to help protect against measles, mumps, rubella and varicella, one of the VZV-containing vaccines, is not currently available for ordering. The Company anticipates that *ProQuad* will become available in the fourth quarter of 2012. Merck s sales of *ProQuad* were $37 million in the first quarter of 2011 when *ProQuad* was last available.

Merck s sales of *Varivax*, a vaccine to help prevent chickenpox (varicella), were $216 million for the second quarter of 2012 compared with $206 million for the second quarter of 2011 and were $392 million for the first six months of 2012 compared with $350 million for the first six months of 2011 reflecting positive performance in the United States from volume growth and favorable pricing. Merck s sales of *M-M-R* II [Measles, Mumps and Rubella Virus Vaccine Live], a vaccine to help protect against measles, mumps and rubella, were $101 million for the second quarter of 2012 compared with $86 million for the second quarter of 2011 and were $180 million for the first six months of 2012 compared with $149 million for the first six months of 2011 reflecting higher volumes in the United States.

Global sales of *RotaTeq* [Rotavirus Vaccine, Live, Oral, Pentavalent], a vaccine to help protect against rotavirus gastroenteritis in infants and children, recorded by Merck were $142 million in the second quarter of 2012, a decline of 4% compared with the second quarter of 2011, primarily reflecting lower public sector sales in the United States, partially offset by volume growth in the Eastern Europe, Middle East and Africa region. Sales for the first six months of 2012 were $284 million, an increase of 4% compared with the first six months of 2011, reflecting volume growth in the emerging markets, particularly within the Latin America and Eastern Europe, Middle East and Africa regions, partially offset by lower public sector sales in the United States.

Merck s sales of *Zostavax*, a vaccine to help prevent shingles (herpes zoster) in adults 50 years of age and older, were $148 million in the second quarter of 2012 as compared with $122 million in the second quarter of 2011 and were $224 million in the first six months of 2012 compared with $146 million in the first six months of 2011. The Company experienced supply issues in 2011 and filled a significant number of backorders during the second quarter of 2011. The Company has resumed a normal supply schedule for *Zostavax* in the United States. No broad international launches or immunization programs are currently planned for 2012.

Merck s sales of *Pneumovax* [pneumococcal vaccine polyvalent], a vaccine to help prevent pneumococcal disease, were $101 million in the second quarter of 2012 compared with $64 million in the second quarter of 2011 and were $213 million in the first six months of 2012 compared with $143 million in the first six months of 2011, reflecting favorable pricing in the United States and volume growth in the United States and in Japan.

The Company anticipates that Merck s adult formulation of *Vaqta* [Hepatitis A Vaccine, Inactivated], a vaccine against hepatitis A, will be available in the third quarter of 2012.

Other

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 $865 million for the second quarter of 2012, an increase of 8% compared with the second quarter of 2011. Foreign exchange unfavorably affected global sales performance by 6% in the second quarter of 2012. The increased sales reflect positive performance in cattle and swine products. Sales of Animal Health products for the first six months of 2012 were $1.7 billion, an increase of 8% compared with the same period in 2011, which reflects a 4% unfavorable effect from foreign exchange. The sales growth reflects growth in cattle, swine, companion animal and poultry products.

Consumer Care

Consumer Care products include over-the-counter, foot care and sun care products such as *Claritin* non-drowsy antihistamines; *MiraLAX*, a treatment for occasional constipation; *Dr. Scholl s* foot care products; and *Coppertone* sun care products. Global sales of Consumer Care products were $552 million for the second quarter of 2012, an increase of 2% compared with the second quarter of 2011 and were $1.1 billion for the first six months of 2012, an increase of 5% compared with the first six months of 2011. The increased sales in both periods reflect higher sales of *MiraLAX*, *Claritin* and *Coppertone*, partially offset by lower sales of *Marvelon*, an oral contraceptive, which is an over-the-counter product in China. Consumer Care product sales are affected by competition and consumer spending patterns.

Costs, Expenses and Other

In February 2010, subsequent to the Merck and Schering-Plough Corporation (Schering-Plough) merger (the Merger), 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. In July 2011, the Company announced the latest phase of the Merger Restructuring Program during which the Company expects to reduce its workforce measured at the time of the Merger by an additional 12% to 13% across the Company worldwide. A majority of the workforce reductions in this phase of the Merger Restructuring Program relate to manufacturing (including Animal Health), administrative and headquarters organizations. Previously announced workforce reductions of approximately 17% in earlier phases of the program primarily reflect the elimination of 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 hire employees in strategic growth areas of the business as necessary. 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.

The Company recorded total pretax restructuring costs of $291 million and $808 million in the second quarter of 2012 and 2011, respectively, and $568 million and $921 million for the first six months of 2012 and 2011, respectively, related to this program. The restructuring actions under the Merger Restructuring Program are expected to be substantially completed by the end of 2013, with the exception of certain actions, principally manufacturing-related, which are expected to be substantially completed by 2015. The Company originally estimated the total cumulative pretax costs for this program to be approximately $5.8 billion to $6.6 billion and the Company now expects the cumulative costs to be near the upper end of this range. 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 Merger Restructuring Program to yield annual savings by the end of 2013 of approximately $3.5 billion to $4.0 billion and annual savings upon completion of the program of approximately $4.0 billion to $4.6 billion. These cost savings, which are expected to come from all areas of the Company s pharmaceutical business, are in addition to the previously announced ongoing cost reduction initiatives at both legacy companies. Additional savings will come from non-restructuring-related activities.

In October 2008, 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. Pretax restructuring costs of $(4) million and $1 million were recorded in the second quarter of 2012 and 2011, respectively, and $10 million and $5 million were recorded in the first six months of 2012 and 2011, respectively, related to the 2008 Restructuring Program. The 2008 Restructuring Program was substantially completed in 2011, with the exception of certain manufacturing-related actions, which

are expected to be completed by 2015, with the total cumulative pretax costs estimated to be up to $2.0 billion. The Company estimates that two-thirds of the cumulative pretax costs relate to cash outlays, primarily from 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. Merck expects the 2008 Restructuring Program to yield cumulative pretax savings of $3.8 billion to $4.2 billion from 2008 to 2013.

The Company anticipates that total costs associated with restructuring activities in 2012 for the Merger Restructuring Program and the 2008 Restructuring Program will be in the range of $800 million to $1.1 billion.

The costs associated with all of these restructuring activities are primarily comprised of accelerated depreciation recorded in *Materials and production*, *Marketing and administrative* and *Research and development* and separation costs recorded in *Restructuring costs* (see Note 2 to the interim consolidated financial statements).

Materials and Production

Materials and production costs were $4.1 billion for the second quarter of 2012, a decline of 4% compared with the second quarter of 2011, and were $8.2 billion for the first six months of 2012, a decline of 2% compared with the first six months of 2011. Costs in both the second quarter of 2012 and 2011 include $1.2 billion, and for both the first six months of 2012 and 2011 include $2.5 billion, of expenses for the amortization of intangible assets recognized in connection with mergers and acquisitions. Costs in the second quarter and first six months of 2011 include an intangible asset impairment charge of $118 million. Also included in materials and production costs were costs associated with restructuring activities which amounted to $83 million and $109 million in the second quarter of 2012 and 2011, respectively, and $88 million and $181 million in the first six months of 2012 and 2011, respectively, 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.

Gross margin was 66.6% in the second quarter of 2012 compared with 64.7% in the second quarter of 2011 and was 66.1% in the first six months of 2012 compared with 64.8% in the first six months of 2011. The amortization of intangible assets, impairment charges and restructuring charges noted above had an unfavorable effect on gross margin of 10.6 and 12.0 percentage points for the second quarter of 2012 and 2011, respectively, and 10.6 and 11.9 percentage points for the first six months of 2012 and 2011, respectively. Excluding these impacts, the gross margins in 2012 as compared with the same periods of 2011 reflect improvements resulting from changes in product mix and lower costs due to manufacturing efficiencies.

Marketing and Administrative

Marketing and administrative expenses were $3.2 billion in the second quarter of 2012, a decline of 8% compared with the second quarter of 2011, and were $6.3 billion in the first six months of 2012, a decrease of 5% compared with the first six months of 2011. The declines were due to ongoing productivity measures, as well as the favorable impact of foreign exchange. Expenses for the second quarter of 2012 and 2011 included restructuring costs of $21 million and $23 million, respectively, and for the first six months of 2012 and 2011 $45 million and $46 million, respectively, primarily related to accelerated depreciation for facilities to be closed or divested. Separation costs associated with sales force reductions have been incurred and are reflected in *Restructuring costs* as discussed below. Marketing and administrative expenses also include $64 million and $77 million of acquisition-related costs in the second quarter of 2012 and 2011, respectively, and $115 million and $135 million for the first six months of 2012 and 2011, respectively, consisting largely of integration costs.

Research and Development

Research and development expenses were $2.2 billion for the second quarter of 2012, an increase of 12% compared with the second quarter of 2011, and were $4.0 billion for the first six months of 2012, a decline of 2% compared with the first six months of 2011. Research and development expenses are comprised of the costs directly incurred by Merck Research Labs (MRL), the Company s research and development division that focuses on human health-related activities, which were approximately $1.1 billion and $1.2 billion in the second quarter of 2012 and 2011, respectively, and were $2.2 billion and $2.3 billion in the first six months of 2012 and 2011, respectively. Also included in research and development expenses are costs incurred by other divisions in support of research and development activities, including depreciation, production and general administrative, as well as certain costs from operating segments, including Pharmaceutical, Animal Health and Consumer Care, which were $888 million and $742 million in the aggregate for the second quarter of 2012 and 2011, respectively, and $1.6 billion and $1.5 billion for the first six months of 2012 and 2011, respectively. Research and development expenses in 2012 and 2011 were favorably affected by cost savings resulting from restructuring activities.

Research and development expenses also include in-process research and development (IPR&D) impairment charges and research and development related restructuring charges. During the second quarter of 2012 and 2011, the Company recorded $127 million and $19 million, respectively, and for the first six months of 2012 and 2011 $136 million and $321 million, respectively, of IPR&D impairment charges primarily for programs that had previously been deprioritized and were deemed to have no alternative use during the period. The Company may recognize additional non-cash impairment charges in the future for the cancellation or delay of other pipeline programs that were measured at fair value and capitalized in connection with mergers and acquisitions and such charges could be material. Research and development expenses also reflect accelerated depreciation and asset abandonment costs associated with restructuring activities of $41 million and $16 million in the second quarter of 2012 and 2011, respectively, and $86 million and $61 million, respectively, in the first six months of 2012 and 2011. Included in research and development expenses in the second quarter and first six months of 2012 is a $120 million upfront payment related to an agreement with Endocyte, Inc. (Endocyte). See Research and Development Update below.

Restructuring Costs

Restructuring costs, primarily representing separation and other related costs associated with restructuring activities, were $144 million and $363 million for the second quarter and first six months of 2012, nearly all of which related to the Merger Restructuring Program. Restructuring costs were $668 million and $654 million for the second quarter and first six months of 2011, respectively. Separation costs 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 approximately 780 positions in the second quarter of 2012, all of which related to the Merger Restructuring Program. During the first six months of 2012, Merck eliminated approximately 1,940 positions of which 1,800 related to the Merger Restructuring Program and 140 related to the 2008 Restructuring Program. For the second quarter of 2011, Merck eliminated 645 positions of which 585 related to the Merger Restructuring Program and 60 related to the 2008 Restructuring Program. During the first six months of 2011, Merck eliminated approximately 1,515 positions of which 1,335 related to the Merger Restructuring Program and 180 related to the 2008 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 associated with pension and other postretirement benefit plans, share-based compensation 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*. (See Note 2 to the interim consolidated financial statements.)

Equity Income from Affiliates

Equity income from affiliates, which reflects the performance of the Company s joint ventures and other equity method affiliates, primarily AZLP, was $142 million in the second quarter of 2012 compared with $55 million in the second quarter of 2011 and $253 million for the first six months of 2012 compared with $193 million in the first six months of 2011 largely reflecting higher equity income from AZLP. (See Selected Joint Venture and Affiliate Information below.)

Other (Income) Expense, Net

Other (income) expense, net was $103 million of expense in the second quarter of 2012 compared with $121 million of expense in the second quarter of 2011 and $247 million of expense in the first six months of 2012 compared with $744 million of expense in the first six months of 2011. Included in other (income) expense, net during the first six months of 2011 was a $500 million charge related to the resolution of the arbitration proceeding involving the Company s rights to market *Remicade* and *Simponi* (see Note 4 to the interim consolidated financial statements), as well as a $127 million gain on the sale of certain manufacturing facilities and related assets.

Segment Profits

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2012	2011	2012	2011
Pharmaceutical segment profits	$ 6,906	$ 6,443	$ 13,502	$ 12,659
Other non-reportable segment profits	774	726	1,578	1,517
Other	(5,000)	(5,497)	(9,894)	(10,775)
Income before income taxes	$ 2,680	$ 1,672	$ 5,186	$ 3,401

Segment profits are comprised of segment sales less standard costs and certain operating expenses directly incurred by the segment and 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 materials and production costs, other than standard costs, the majority of 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 arbitration settlement charge and a gain on the sale of certain manufacturing facilities and related assets recorded in 2011, the amortization of purchase accounting adjustments and other acquisition-related costs, intangible asset 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 (losses), as well as operating profits (losses) related to third-party manufacturing sales, divested products or businesses, and other supply sales.

Pharmaceutical segment profits rose 7% in both the second quarter and first six months of 2012 driven largely by the increases in sales discussed above, as well as lower operating expenses.

Taxes on Income

The effective tax rates of 32.1% and 30.8% for the second quarter and first six months of 2012 and (22.8)% and 8.1% for the second quarter and first six months of 2011 reflect the impacts of acquisition-related costs and restructuring costs, partially offset by the beneficial impact of foreign earnings. In addition, the effective tax rates for the second quarter and first six months of 2011 also reflect the net favorable impact of approximately $700 million relating to the settlement of Merck s 2002-2005 federal income tax audit, as well as the favorable impact of certain foreign and state tax rate changes that resulted in a net $230 million reduction of deferred tax liabilities on intangibles established in purchase accounting. In addition, the effective tax rate for the first six months of 2011 also reflects the impact of the $500 million charge related to the resolution of the arbitration proceeding with J&J.

Net Income and Earnings per Common Share

Net income attributable to Merck & Co., Inc. was $1.8 billion for the second quarter of 2012 compared with $2.0 billion for the second quarter of 2011 and $3.5 billion for the first six months of 2012 compared with $3.1 billion for the first six months of 2011. Earnings per common share assuming dilution attributable to Merck & Co., Inc. common shareholders (EPS) for the second quarter of 2012 were $0.58 compared with $0.65 in the second quarter of 2011 and were $1.15 for the first six months of 2012 compared with $0.98 for the first six months of 2011. The declines in net income and EPS in the second quarter of 2012 as compared with the second quarter of 2011 are primarily due to the favorable impact of tax items in 2011 as noted above, as well as higher research and development expenses, partially offset by lower restructuring costs and lower marketing and administrative expenses, as well as the arbitration settlement charge recorded in 2011. The increases in net income and EPS in the first six months of 2012 as compared with the same period in 2011 were primarily due to lower restructuring costs, lower marketing and administrative expenses, lower intangible asset impairment charges and the arbitration settlement charge recorded in 2011, partially offset by the favorable impact of tax items in 2011.

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 acquisition-related costs, restructuring 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 except per share amounts)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Pretax income as reported under GAAP	$ 2,680	$ 1,672	$ 5,186	$ 3,401
Increase (decrease) for excluded items:				
Acquisition-related costs	1,417	1,440	2,706	3,097
Restructuring costs	289	816	582	942
Other items:				
Arbitration settlement charge	-	-	-	500
Loss (gain) on sale of manufacturing facilities and related assets	-	7	-	(127)
	4,386	3,935	8,474	7,813
Taxes on income as reported under GAAP	860	(382)	1,599	276
Estimated tax benefit on excluded items	272	407	548	738
Tax benefit from settlement of federal income tax audit	-	700	-	700
Tax benefit from foreign and state tax rate changes	-	230	-	230
	1,132	955	2,147	1,944
Non-GAAP net income	3,254	2,980	6,327	5,869
Less: Net income attributable to noncontrolling interests	27	30	56	58
Non-GAAP net income attributable to Merck & Co., Inc.	$ 3,227	$ 2,950	$ 6,271	$ 5,811
EPS assuming dilution as reported under GAAP	$ 0.58	$ 0.65	$ 1.15	$ 0.98
EPS difference [(1)]	0.47	0.30	0.89	0.89
Non-GAAP EPS assuming dilution	$ 1.05	$ 0.95	$ 2.04	$ 1.87

[(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 for the applicable period.*

Acquisition-Related Costs

Non-GAAP income and non-GAAP EPS exclude the impact of certain amounts recorded in connection with mergers and acquisitions. These amounts include the amortization of intangible assets and inventory step-up, as well as intangible asset impairment charges. Also excluded are integration and transaction costs associated with the Merger, as well as other costs associated with mergers and acquisitions, such as severance costs which are not part of the Company s formal restructuring programs. These costs are excluded because management believes that these costs are not representative of ongoing normal business activities.

Restructuring Costs

Non-GAAP income and non-GAAP EPS exclude costs related to restructuring actions, including restructuring activities related to the Merger (see Note 2 to the interim 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.

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 are comprised of the arbitration settlement charge and the gain associated with the sale of certain manufacturing facilities and related assets recorded in 2011 discussed above. Also excluded from non-GAAP income and non-GAAP EPS are the tax benefits from the settlement of a federal income tax audit and the favorable impact of certain foreign and state tax rate changes that resulted in a net reduction of deferred tax liabilities on intangibles established in purchase accounting.

Research and Development Update

In July 2012, Merck announced an update on the Phase III trial assessing fracture risk reduction with odanacatib (MK-0822), the Company s investigational cathepsin K inhibitor for osteoporosis. The Data Monitoring Committee (the DMC) for the study recently completed its first planned interim analysis for efficacy and recommended that the study be closed early due to robust efficacy and a favorable benefit-risk profile. As a result, Merck is taking steps to close the trial. The DMC noted that safety issues remain in certain selected areas and made recommendations with respect to following up on them. Merck s previously announced plan to conduct a blinded extension trial will allow further monitoring of the issues. The extension trial will also continue to measure efficacy. Merck anticipates submitting regulatory applications for approval of odanacatib in the United States and EU in the first half of 2013 and Japan in the third quarter of 2013.

In June 2012, Merck announced new data from two pivotal Phase III efficacy trials for suvorexant (MK-4305), an investigational medicine Merck is developing for the treatment of insomnia. In the studies, suvorexant significantly reduced the time it took patients to fall asleep and increased the time that patients stayed asleep as early as the first night and at the three-month time point compared to placebo. The investigational medicine met statistical significance for all primary endpoints except for one measurement at month 3 in one of the trials. These data were presented at SLEEP 2012, the 26th Annual Meeting of the Associated Professional Sleep Societies. Merck plans to file a New Drug Application (NDA) for suvorexant with the FDA in 2012. If approved, suvorexant would be the first medicine approved in a new class of medicines, called orexin receptor antagonists, for use in patients with difficulty falling or staying asleep. Commercial launch timing will be impacted by FDA approval and evaluation by the Controlled Substance Staff of the FDA and Drug Enforcement Agency.

Also in June 2012, Merck announced that the FDA issued a Complete Response Letter regarding the NDA for ridaforolimus. Ridaforolimus is an investigational oral mTOR inhibitor under development for maintenance therapy for patients with metastatic soft tissue or bone sarcoma who have stable disease or better after four or more cycles of chemotherapy. The Complete Response Letter states that the FDA cannot approve the application in its present form, and that additional clinical trial(s) would need to be conducted to further assess safety and efficacy. The Company is evaluating next steps. Merck also is in ongoing discussions with health authorities in Europe and other countries as part of their application procedures for ridaforolimus for the treatment of metastatic soft-tissue or bone sarcomas in patients who had a favorable response to chemotherapy. Additionally, Merck is studying ridaforolimus in combination with other mechanisms in several tumor types. As part of an exclusive license agreement with ARIAD Pharmaceuticals, Inc. (ARIAD), Merck is responsible for the development and worldwide commercialization of ridaforolimus in oncology. ARIAD has exercised its option to co-promote ridaforolimus for sarcoma if the drug is approved in the United States.

In March 2012, Merck announced that the FDA issued a Complete Response Letter regarding Merck s NDA for *Atozet* (MK-0653C), an investigational combination medicine for the treatment of primary or mixed hyperlipidemia. In the letter, the FDA advised Merck that it has completed its review of the submission and stated that additional data are needed. Merck is planning to submit additional information to the FDA for ezetimibe and atorvastatin by the end of 2012. The previously disclosed patent litigation with Pfizer has been resolved.

As previously disclosed, the 14,000-patient Phase III event-driven clinical study of V503, the Company s investigational 9-valent HPV vaccine candidate, is ongoing. V503 incorporates antigens against five additional cancer-causing HPV types as compared with *Gardasil*. Based on the current rate at which disease endpoints are being reported in the study, Merck now anticipates filing a Biologics License Application for V503 with the FDA in 2013.

MK-0524B is a drug candidate that combines the novel approach to raising HDL cholesterol and lowering triglycerides from extended-release niacin combined with laropiprant and simvastatin in one combination product. In July 2012, Merck placed the MK-0524B program on hold for business reasons and no longer anticipates filing an NDA for MK-0524B with the FDA in 2014. This has no impact on the HPS2-THRIVE trial or the MK-0524A program, both of which are continuing as planned.

In April 2012, the Company entered into an agreement with Endocyte to develop and commercialize Endocyte s novel investigational therapeutic candidate vintafolide (MK-8109). Vintafolide is currently being evaluated in a Phase III clinical trial for platinum-resistant ovarian cancer (PROCEED) and a Phase II trial for non-small cell lung cancer. Under the agreement, Merck gained worldwide rights to develop and commercialize vintafolide. Endocyte received a $120 million upfront payment, which the Company recorded in *Research and development* expenses in the second quarter of 2012, and is eligible for milestone payments of up to $880 million based on the successful achievement of development, regulatory and commercialization goals for vintafolide for a total of six cancer indications. In addition, if vintafolide receives regulatory approval, Endocyte will receive an equal share of the profit in the United States as well as a royalty on sales of the product in the rest of the world. Endocyte has retained the right to co-promote vintafolide with Merck in the United States and Merck has the exclusive right to promote vintafolide in the rest of world. Endocyte will be responsible for the majority of funding and completion of the PROCEED trial. Merck will be responsible for most other development activities, all other costs and have most decision rights for vintafolide. Merck has the right to terminate the agreement on

90 days notice. Merck and Endocyte both have the right to terminate the agreement due to the material breach or insolvency of the other party. Endocyte has the right to terminate the agreement in the event that Merck challenges an Endocyte patent right relating to vintafolide. Upon termination of the agreement, depending upon the circumstances, the parties have varying rights and obligations with respect to the continued development and commercialization of vintafolide and, in the case of termination for cause by Merck, certain royalty obligations and U.S. profit and loss sharing. Endocyte plans to file an application for vintafolide in the EU for the treatment of folate receptor positive platinum-resistant ovarian cancer in 2012. Endocyte remains responsible for the development, manufacture and commercialization worldwide of etarfolatide, a non-invasive companion diagnostic imaging agent that is used to identify folate receptor positive tumor cells.

The chart below reflects the Company s research pipeline as of July 27, 2012. Candidates shown in Phase III include specific products and the date such candidate entered into Phase III development. 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 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	Phase III (Phase III entry date)	Under Review
Allergy	**Allergy**	**Atherosclerosis**
MK-8237, Immunotherapy[1]	MK-7243, Grass pollen (March 2008)[1]	MK-0653C (*Atozet*) (U.S.)[7]
Cancer	MK-3641, Ragweed (September 2009)[1]	**Sarcoma**
MK-0646 (dalotuzumab)	**Atherosclerosis**	MK-8669 (ridaforolimus) (EU) (U.S.)[8]
MK-1775	MK-0524A (extended-release niacin/laropiprant) (U.S.) (December 2005)	
MK-2206	MK-0524B (extended-release niacin/laropiprant/simvastatin) (July 2007)[2]	
MK-7965 (dinaciclib)	MK-0859 (anacetrapib) (May 2008)	**Footnotes:**
Contraception, Medicated IUS	**Atrial Fibrillation**	
MK-8342	MK-6621 (vernakalant i.v.) (U.S.) (August 2003)[3]	[1] North American rights only.
Diabetes Mellitus	***Clostridium difficile* Infection**	[2] In July 2012, Merck placed the MK-0524B program on hold.
MK-3102	MK-3415A (actoxumab/bezlotoxumab) (November 2011)	[3] The program remains on hold in the United States. The Company plans to have further discussions with the FDA.
Hepatitis C	**Contraception**	
MK-5172	MK-8175A (NOMAC/E2) (U.S.) (June 2006)[4]	[4] In November 2011, Merck received a Complete Response letter from the FDA for NOMAC/E2 (MK-8175A). The Company is planning to conduct an additional clinical study requested by the FDA and update the application in the future.
Insomnia	**Diabetes and Atherosclerosis**	
MK-3697	MK-0431E (sitagliptin/atorvastatin) (October 2011)	[5] For development in Japan only.
MK-6096	**Fertility**	
Migraine	MK-8962 (corifollitropin alfa for injection) (U.S.) (July 2006)	[6] Vintafolide started Phase III clinical trials in April 2011 sponsored by Endocyte Inc.
MK-1602	**Hepatitis C**	
Overactive Bladder	MK-7009 (vaniprevir) (June 2011)[5]	[7] In March 2012, Merck received a Complete Response Letter from the FDA for *Atozet* (MK-0653C). Merck is planning to submit
MK-4618		

Pneumoconjugate Vaccine

V114

Psoriasis

MK-3222

Rheumatoid Arthritis

MK-8457

Herpes Zoster

V212 (inactivated VZV vaccine) (December 2010)

HPV-Related Cancers

V503 (HPV vaccine (9 valent)) (September 2008)

Insomnia

MK-4305 (suvorexant) (December 2009)

Neuromuscular Blockade Reversal

MK-8616 (*Bridion*) (U.S.) (November 2005)

Osteoporosis

MK-0822 (odanacatib) (September 2007)

Parkinson s Disease

MK-3814 (preladenant) (July 2010)

Pediatric Hexavalent Combination Vaccine

V419 (April 2011)

Platinum-Resistant Ovarian Cancer

MK-8109 (vintafolide) (April 2011)[(6)]

Thrombosis

MK-5348 (vorapaxar) (September 2007)

additional information to the FDA.

[(8)] In June 2012, Merck received a Complete Response Letter from the FDA for ridaforolimus (MK-8669). The Company is evaluating next steps.

Selected Joint Venture and Affiliate Information

AstraZeneca LP

In 1998, Merck and Astra completed the restructuring of the ownership and operations of their existing joint venture whereby Merck acquired Astra s interest in 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, became the exclusive distributor of the products for which KBI retained rights.

In June 2012, Merck and AstraZeneca amended the 1998 option agreement which gave AstraZeneca the option to buy Merck s common stock interest in KBI and, through it, Merck s interest in Nexium and Prilosec as well as AZLP. The updated agreement eliminates AstraZeneca s option to acquire Merck s interest in KBI in 2012 and provides AstraZeneca a new option to acquire Merck s interest in KBI in June 2014. As a result of the amended agreement, Merck will continue to record supply sales and equity income from the partnership for the remainder of 2012 and 2013. In 2014, AstraZeneca has the option to purchase Merck s interest in KBI based in part on the value of Merck s interest in Prilosec and Nexium. AstraZeneca s option is exercisable between March 1, 2014 and April 30, 2014. If AstraZeneca chooses to exercise this option, the closing date is expected to be June 30, 2014. Under the amended agreement, AstraZeneca will make a payment to Merck upon closing of $327 million, reflecting an estimate of the fair value of Merck s interest in Nexium and Prilosec. This portion of the exercise price is subject to a true-up in 2018 based on actual sales from closing in 2014 to June 2018. The exercise price will also include an additional amount equal to a multiple of ten times Merck s average 1% annual profit allocation in the partnership for the three-years prior to exercise. The Company believes that it is likely that AstraZeneca will exercise its option in 2014. If AstraZeneca exercises its option, the Company will no longer record equity income from AZLP and supply sales to AZLP will decline substantially.

Sanofi Pasteur MSD

In 1994, Merck and Pasteur Mérieux Connaught (now Sanofi Pasteur S.A.) established an equally-owned joint venture to market vaccines in Europe and to collaborate in the development of combination vaccines for distribution in Europe. Total vaccine sales reported by SPMSD were $229 million and $243 million in the second quarter of 2012 and 2011, respectively, and were $435 million and $430 million for the first six months of 2012 and 2011, respectively. SPMSD sales of *Gardasil* were $60 million and $66 million for the second quarter of 2012 and 2011, respectively, and were $115 million and $124 million for the first six months of 2012 and 2011, respectively.

The Company records the results from its interest in AZLP and SPMSD in *Equity income from affiliates*.

Liquidity and Capital Resources

($ in millions)	June 30, 2012	December 31, 2011
Cash and investments	$ 21,535	$ 18,430
Working capital	18,727	16,936
Total debt to total liabilities and equity	18.0%	16.7%

During the first six months of 2012, cash provided by operating activities was $5.1 billion compared with $4.6 billion in the first six months of 2011. Cash provided by operating activities in the first six months of 2012 reflects the payment of $960 million (including interest) related to the resolution of certain litigation related to *Vioxx*. See Note 9 to the interim consolidated financial statements. 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 adversely impacted foreign receivables in certain European countries (see Note 5 to the interim consolidated financial statements). While the Company continues to receive payment on these receivables, including significant collections during the second quarter in connection with the Spanish government s debt stabilization/stimulus plan, these conditions have resulted in an increase in the average length of time it takes to collect accounts receivable outstanding thereby adversely affecting cash provided by operating activities.

Cash used in investing activities was $568 million in the first six months of 2012 compared with $943 million in the first six months of 2011 primarily reflecting higher proceeds from the sales of securities and other investments and lower use of funds for the acquisitions of businesses, partially offset by higher purchases of

securities and other investments. In addition, the Company received proceeds from the disposition of businesses in the first six months of 2011. Cash used in financing activities in the first six months of 2012 was $1.3 billion compared with $2.4 billion in the first six months of 2011. The lower use of cash in financing activities was primarily driven by lower payments on debt, higher proceeds from the exercise of stock options and an increase in short-term borrowings, partially offset by higher purchases of treasury stock and higher dividends paid to stockholders.

At June 30, 2012, the total of worldwide cash and investments was $21.5 billion, including $17.5 billion of cash, cash equivalents and short-term investments and $4.1 billion of long-term investments. Generally, 80% - 90% of these cash and investments are held by foreign subsidiaries and would be subject to significant tax payments if such cash and investments were repatriated in the form of dividends. The Company records U.S. deferred tax liabilities for certain unremitted earnings, but when amounts earned overseas are expected to be indefinitely reinvested outside of the United States, no accrual for U.S. taxes is provided. The amount of cash and investments held by U.S. and foreign subsidiaries fluctuates due to a variety of factors including the timing and receipt of payments in the normal course of business. Cash provided by operating activities in the United States continues to be the Company s primary source of funds to finance domestic operating needs, capital expenditures, treasury stock purchases and dividends paid to shareholders.

In April 2011, the Internal Revenue Service (the IRS) concluded its examination of Merck s 2002-2005 federal income tax returns and as a result the Company was required to make net payments of approximately $465 million. The Company s unrecognized tax benefits for the years under examination exceeded the adjustments related to this examination period and therefore the Company recorded a net $700 million tax provision benefit in the second quarter of 2011. This net benefit reflects the decrease of unrecognized tax benefits for the years under examination partially offset by increases to the unrecognized tax benefits for years subsequent to the examination period as a result of this settlement. The Company disagrees with the IRS treatment of one issue raised during this examination and is appealing the matter through the IRS administrative process.

As previously disclosed, the Canada Revenue Agency (the CRA) has proposed adjustments for 1999 and 2000 relating to intercompany pricing matters and, in July 2011, the CRA issued assessments for other miscellaneous audit issues for tax years 2001-2004. These adjustments would increase Canadian tax due by approximately $330 million plus approximately $390 million of interest through June 30, 2012. 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.

Capital expenditures totaled $762 million and $689 million for the first six months of 2012 and 2011, respectively. Capital expenditures for full year 2012 are estimated to be $2.2 billion.

Dividends paid to stockholders were $2.6 billion and $2.4 billion for the first six months of 2012 and 2011, respectively. In May and July 2012, the Board of Directors declared a quarterly dividend of $0.42 per share on the Company s common stock for the third and fourth quarters, respectively, of 2012.

In April 2011, Merck s Board of Directors approved additional purchases of up to $5 billion of Merck s common stock for its treasury. The Company purchased $985 million of its common stock (26 million shares) for its treasury during the first six months of 2012. The Company has approximately $3.5 billion remaining under this program. The treasury stock purchases have no time limit and will be made over time on the open market, in block transactions or in privately negotiated transactions.

In May 2012, the Company terminated its existing credit facilities and entered into a new $4.0 billion, five-year credit facility maturing in May 2017. The facility provides backup liquidity for the Company s commercial paper borrowing facility and is to be used for general corporate purposes. The Company has not drawn funding from this facility.

Critical Accounting Policies

The Company s significant accounting policies, which include management s best estimates and judgments, are included in Note 2 to the consolidated financial statements for the year ended December 31, 2011 included in Merck s Form 10-K filed on February 28, 2012. Certain of these accounting policies are considered critical as disclosed in the Critical Accounting Policies and Other Matters section of Management s Discussion and Analysis of Financial Condition and Results of Operations included in Merck s Form 10-K because of the potential for a significant impact on the financial statements due to the inherent uncertainty in such estimates. There have been no significant changes in the Company s critical accounting policies since December 31, 2011.

Recently Issued Accounting Standards Not Yet Adopted

In July 2012, the Financial Accounting Standards Board issued amended guidance that simplifies how an entity tests indefinite-lived intangibles for impairment. The amended guidance will allow companies to first assess qualitative factors to determine whether it is more-likely-than-not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The updated guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is currently evaluating the impact of adoption on its financial position and results of operations.

Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures over financial reporting for the period covered by this Form 10 Q. Based on this assessment, the Company s Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2012, the Company s disclosure controls and procedures are effective. There have been no changes in internal control over financial reporting for the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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 th 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed on February 28, 2012, 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.

PART II - Other Information

Item 1. Legal Proceedings

The information called for by this Item is incorporated herein by reference to Note 9 included in Part I, Item 1, Financial Statements (unaudited) Notes to Consolidated Financial Statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer purchases of equity securities for the three months ended June 30, 2012 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	($ in millions) Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[1]
April 1 - April 30	3,897,300	$38.41	$3,880
May 1 - May 31	4,529,400	$38.13	$3,707
June 1 - June 30	5,341,400	$38.52	$3,501
Total	13,768,100	$38.36	$3,501

[1]All shares purchased during the period were made as part of a plan approved by the Board of Directors in April 2011 to purchase up to $5 billion in Merck shares.

Item 6. Exhibits

Number	Description
3.1	Restated Certificate of Incorporation of Merck & Co., Inc. (November 3, 2009) Incorporated by reference to Current Report on Form 8-K filed on November 4, 2009
3.2	By-Laws of Merck & Co., Inc. (effective January 1, 2012) Incorporated by reference to Current Report on Form 8-K filed December 21, 2011
31.1	Rule 13a 14(a)/15d 14(a) Certification of Chief Executive Officer
31.2	Rule 13a 14(a)/15d 14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101	The following materials from Merck & Co., Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Income, (ii) the Consolidated Statement of Comprehensive Income, (iii) the Consolidated Balance Sheet, (iv) the Consolidated Statement of Cash Flows, and (v) Notes to Consolidated Financial Statements.

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.

Date: August 7, 2012

/s/ Bruce N. Kuhlik
BRUCE N. KUHLIK
Executive Vice President and General Counsel

Date: August 7, 2012

/s/ John Canan
JOHN CANAN
Senior Vice President Finance - Global Controller

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