

SCHERING PLOUGH CORP

Form 11-K

June 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 11-K

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

For the fiscal year ended December 31, 2002

Commission file number 2-84723

THE SCHERING-PLOUGH PUERTO RICO EMPLOYEES RETIREMENT SAVINGS PLAN
(Full Title of Plan)

Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, NJ 07033

(Name of Issuer of Securities Held Pursuant to the Plan and Address of Principal Executive
Offices)

**THE SCHERING-PLOUGH PUERTO RICO
EMPLOYEES RETIREMENT SAVINGS PLAN**

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Supplemental schedules not included herein are omitted due to the absence of conditions under which they are required.

INDEPENDENT AUDITORS REPORT

To the Participants of
The Schering-Plough Puerto Rico Employees Retirement Savings Plan:

We have audited the accompanying statements of net assets available for benefits of The Schering-Plough Puerto Rico Employees Retirement Savings Plan (the Plan) as of December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets Held at End of Year is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2002 financial statements, and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 financial statements taken as a whole.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
June 27, 2003

**THE SCHERING-PLOUGH PUERTO RICO
EMPLOYEES RETIREMENT SAVINGS PLAN**

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2002 AND 2001

| | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|
| INVESTMENTS: | | |
| Vanguard Funds | \$ 15,470,824 | \$ 16,411,120 |
| Schering-Plough Stock Fund | 3,125,535 | 3,936,908 |
| Loan Fund | 1,912,905 | 1,907,064 |
| TOTAL INVESTMENTS | <u>20,509,264</u> | <u>22,255,092</u> |
| Participant Contributions Receivable | 119,727 | |
| NET ASSETS AVAILABLE FOR BENEFITS | <u>\$20,628,991</u> | <u>\$22,255,092</u> |

See Notes to Financial Statements.

**THE SCHERING-PLOUGH PUERTO RICO
EMPLOYEES RETIREMENT SAVINGS PLAN**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2002

| | |
|---|-----------------------------|
| Additions to net assets attributed to: | |
| Investment Income - Interest and dividends | \$ 493,734 |
| Participant contributions | 3,515,389 |
| | <u> </u> |
| Total additions | 4,009,123 |
| | <u> </u> |
| Deductions from net assets attributed to: | |
| Withdrawals and benefit payments | 1,133,508 |
| Net depreciation in fair value of investments | 4,501,716 |
| | <u> </u> |
| Total deductions | 5,635,224 |
| | <u> </u> |
| Net decrease | (1,626,101) |
| Net assets available for benefits: | |
| Beginning of year | 22,255,092 |
| | <u> </u> |
| End of year | \$20,628,991 |
| | <u> </u> |

See Notes to Financial Statements.

**THE SCHERING-PLOUGH PUERTO RICO
EMPLOYEES RETIREMENT SAVINGS PLAN**

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

The Schering-Plough Puerto Rico Employees Retirement Savings Plan (the Plan) is a defined contribution plan established effective April 1, 1990. The Plan is intended to encourage retirement savings by eligible employees of Schering-Plough Products LLC (the Sponsor or the Company) and any of its affiliated companies that adopt the Plan. Vanguard Fiduciary Trust Company (Vanguard), the recordkeeper, is a trust company incorporated under Chapter 10 of the Pennsylvania Banking Code, and a wholly-owned subsidiary of The Vanguard Group, Inc. Banco Santander serves as the Plan's trustee.

Generally, all Puerto Rico employees of Schering-Plough Products LLC and Schering-Plough del Caribe, Inc. are eligible to participate in the Plan on the date of employment. The participants may elect to have their salary deferral contributions allocated to any of the investment funds available under this Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Plan have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

The financial statements were prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as permitted by the Securities and Exchange Commission.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end.

The Schering-Plough Stock Fund is valued using the unit accounting method whereby a participant's account value is expressed in units of participation rather than number of shares of Schering-Plough common stock.

The closing stock prices of Schering-Plough Corporation common stock at December 31, 2002 and December 31, 2001 were \$22.20 and \$35.81, respectively.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Dividends received in the Schering-Plough Stock Fund are reinvested in Schering-Plough common stock units.

Participant loans are valued at cost which approximates fair value.

Withdrawals and Benefit Payments - Withdrawals and benefit payments are recorded when paid.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

3. PLAN DESCRIPTION

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

Salary Deferral Contributions - The Plan is designed to permit eligible employees to elect to have a portion of their salary contributed to the Plan on their behalf (salary deferral contributions). Under the provisions of the Plan, salary deferral contributions can range from 1% to 10% of the employee's earnings, in increments of 1%, subject to certain regulated limits. Salary deferral contributions and any earnings accrued thereon are fully and immediately vested to the participant.

Participant Accounts - Each participant's account is credited with the participant's contribution and allocations of Plan earnings. Allocations are based on participant earnings or account balances, as defined. Participants have a non-forfeitable right to their contributions plus (minus) actual earnings (losses) thereon which vest fully and immediately.

Investment Options - Upon enrollment in the Plan, a participant may direct their contributions into any of the following Vanguard investment options:

500 Index Fund Investor Shares - Designed to provide returns which correspond to the performance of Standard & Poor's 500 Composite Stock Price Index.

Explorer Fund - Primarily equity securities of smaller companies with the objective of providing above average capital appreciation but with a potentially higher level of risk.

Intermediate-Term Corporate Fund Investor Shares - Invests in a widely diversified group of intermediate-term bonds, most of them issued by corporations with good credit ratings and may also invest in U.S. Treasury Securities.

International Growth Fund - A non-U.S. equity portfolio, primarily investing in securities of issuers within Europe and Asia.

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LifeStrategy Conservative Growth Fund - Fund invests in five Vanguard funds: a domestic stock fund, an international stock fund, two bond funds and an asset allocation fund, with the objective of providing current income and low to moderate growth of capital.

LifeStrategy Growth Fund - Fund invests in four Vanguard funds: a domestic stock fund, an international stock fund, a bond fund and an asset allocation fund, with the objective of providing growth of capital.

LifeStrategy Income Fund - Fund invests in four Vanguard funds: a stock fund, two bond funds and an asset allocation fund, with the objective of providing current income.

LifeStrategy Moderate Growth Fund - Fund invests in four Vanguard funds: a domestic stock fund, an international stock fund, a bond fund and an asset allocation fund, with the objective of providing growth of capital and a reasonable level of current income.

Short-Term Corporate Fund Investor Shares - A diversified portfolio primarily consisting of short-term corporate bonds and U.S. Treasury securities.

Treasury Money Market Fund - Predominantly invests in U.S. Treasury securities with maturities of 13 months or less with the objective of providing current income based on current market interest rates, with preservation of capital and liquidity.

U.S. Growth Fund - Invests in large, high-quality U.S. companies with records of exceptional growth and above-average prospects for future growth.

Wellington Fund Investor Shares - Primarily equity and fixed income securities with the objective of providing current income and capital appreciation.

Windsor Fund - Primarily equity securities with the objective of providing long-term capital growth.

A participant may also direct their contributions to the:

Schering-Plough Stock Fund - Fund is comprised of Schering-Plough common stock and a small percentage of cash as required for liquidity purposes. Participants may contribute up to a maximum investment election of 50% of their Salary Deferral Contribution into this fund or allocate no more than 50% of the value of his or her accounts at the time of reallocation to this fund.

Loan Fund - Participants may borrow from their fund accounts up to the lesser of one half of their account or \$50,000 (reduced by any outstanding loans). Loan transactions are treated as a transfer between the investment funds and the Loan Fund. These loans, which are secured by the participants' individual fund accounts, bear a fixed rate of interest as determined to be reasonable by The Schering-Plough Puerto Rico Employees' Retirement Savings Plan Committee, and are repayable over periods not exceeding five years, except loans relating to a principal residence which are repayable over a period not to exceed 20 years.

Payment of Benefits - On termination of service due to death, disability or retirement, a participant may elect to receive either a lump sum amount or annual installments not to exceed the life expectancy of the participant. For termination of service due to other reasons, a participant may receive the value of the account as a lump sum distribution. Distribution of all or a portion of a participant's account, prior to termination of employment, may be granted by the Company in the case of financial hardship. Active participants may elect to withdraw all or a portion of their accounts at any time after age 59 1/2.

4. PLAN TERMINATION

Although it has not expressed any intent to do so, the Sponsor has the right under the Plan to terminate the Plan subject to provisions of ERISA.

5. TAX STATUS

The Plan as amended and restated effective January 1, 1995 was qualified under Section 1165(a) of the Puerto Rico Internal Revenue Code of 1995, as amended (the PR Code), pursuant to a favorable determination letter dated February 18, 1997 issued by the Puerto Rico Department of the Treasury. The Plan was also amended effective January 1, 1996 and October 1, 1996 pursuant to Amendment No. 2. The Puerto Rico Department of the Treasury issued a favorable determination letter dated April 14, 1997 in connection with the qualification of Amendment No. 2.

The trust of the Plan is intended to be exempt from taxation under Section 1165(a) of the PR Code, and pursuant to Section 1022(i)(1) of the Employee Retirement Income Security Act of 1974, as amended, under Section 501(a) of the United States Internal Revenue Code of 1986, as amended.

As long as the Plan is qualified under the PR Code and related regulations, participants will not be taxed on salary-deferred contributions until the year received. In addition, the earnings attributable to such contributions held by the trustee are also exempt from taxation until the taxable year in which they are withdrawn by or distributed to the participant.

The Plan's tax counsel believes that the Plan is designed in compliance with the applicable requirements of the Puerto Rico Internal Revenue Code, and the Plan Administrator believes that the Plan is being operated in compliance with the applicable requirements of the Puerto Rico Internal Revenue Code.

6. PARTY-IN-INTEREST

Contributions are transmitted from the trustee, Banco Santander, to the recordkeeper, Vanguard, which invests cash received, interest and dividend income and makes distributions to the participants. The recordkeeper also administers the collection of interest and principal on the participant loans. These transactions qualify as permitted party-in-interest transactions.

Certain Plan investments are shares of mutual funds managed by the recordkeeper. These transactions qualify as permitted party-in-interest transactions.

Certain Plan investments are shares of the Company's stock. These transactions qualify as permitted party-in-interest transactions.

Certain administrative functions are performed by officers or employees of the Sponsor who also may be participants in the Plan. These actions qualify as permitted party-in-interest activities. No such officer or employee receives compensation from the Plan.

All plan administration expenses are borne by the Sponsor.

7. NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

During 2002, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$4,501,716 as follows:

| | |
|--|-----------------------------|
| *Schering-Plough Stock Fund | \$(1,508,140) |
| *Vanguard Windsor Fund | (787,595) |
| *Vanguard Short-Term Corporate Fund Investor Shares | 45 |
| *Vanguard Wellington Fund Investor Shares | (72,628) |
| *Vanguard Intermediate-Term Corporate Fund Investor Shares | 24,309 |
| *Vanguard LifeStrategy Income Fund | (498) |
| *Vanguard LifeStrategy Conservative Growth Fund | (1,425) |
| *Vanguard LifeStrategy Growth Fund | (9,429) |
| *Vanguard LifeStrategy Moderate Growth Fund | (13,863) |
| *Vanguard International Growth Fund | (57,523) |
| *Vanguard U.S. Growth Fund | (37,208) |
| *Vanguard Explorer Fund | (301,935) |
| *Vanguard 500 Index Fund Investor Shares | (1,735,826) |
| | <u> </u> |
| | \$(4,501,716) |
| | <u> </u> |

* Permitted party-in-interest to the Plan.

8. FUND INFORMATION

The following funds represent 5% or more of the Plan's net assets available for benefits at:

| | December 31, | |
|---|--------------|-------------|
| | 2002 | 2001 |
| ***Vanguard 500 Index Fund Investor Shares | \$5,901,432 | \$7,259,133 |
| ***Schering-Plough Stock Fund | 3,125,535 | 3,936,908 |
| ***Vanguard Treasury Money Market Fund | 2,937,481 | 2,362,116 |
| ***Vanguard Windsor Fund | 2,528,752 | 3,300,847 |
| ***Loan Fund | 1,912,905 | 1,907,064 |
| ***Vanguard Short-term Corporate Fund Investor Shares | 1,155,091 | ** |
| ***Vanguard Explorer Fund | * | 1,168,131 |

* This fund did not exceed 5% in 2002.

** This fund did not exceed 5% in 2001.

*** Permitted party-in-interest to the Plan.

THE SCHERING-PLOUGH PUERTO RICO EMPLOYEES RETIREMENT SAVINGS PLAN

PART IV, LINE 4i - SCHEDULE OF ASSETS HELD AT END OF YEAR - DECEMBER 31, 2002

| Identity of Issuer, Borrower, Lessor or Similar Party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Current Value |
|--|--|---------------|
| * Vanguard | 500 Index Fund Investor Shares | \$ 5,901,432 |
| * Vanguard | Treasury Money Market Fund | 2,937,481 |
| * Vanguard | Windsor Fund | 2,528,752 |
| * Vanguard | Short-Term Corporate Fund Investor Shares | 1,155,091 |
| * Vanguard | Explorer Fund | 927,361 |
| * Vanguard | Intermediate -Term Corporate Fund Investor Shares | 710,199 |
| * Vanguard | Wellington Fund Investor Shares | 681,183 |
| * Vanguard | International Growth Fund | 283,206 |
| * Vanguard | LifeStrategy Moderate Growth Fund | 99,126 |
| * Vanguard | U.S. Growth Fund | 85,024 |
| * Vanguard | LifeStrategy Income Fund | 81,934 |
| * Vanguard | LifeStrategy Growth Fund | 62,735 |
| * Vanguard | LifeStrategy Conservative Growth Fund | 17,300 |
| | Total Vanguard Registered Investment Company Shares | 15,470,824 |
| * Schering - Plough Corp. | Schering-Plough Stock Fund | 3,125,535 |
| * | Outstanding loan balance (interest rates ranging from 5.25% to 6.50%, maturing from 1 to 20 years) | 1,912,905 |
| | Total Assets Held for Investment Purposes | \$20,509,264 |

* Permitted party-in-interest to the Plan.

See Notes to Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this Annual Report to be signed on its behalf by the undersigned hereunto duly authorized.

The Schering-Plough Puerto Rico Employees Retirement Savings Plan

Date: June 27, 2003

By: /s/ Vincent Sweeney

Name: Vincent Sweeney
Title: Plan Administrator