

Merck & Co., Inc.
Form 11-K
June 17, 2016

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

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS AND SIMILAR PLANS

Pursuant to Section 15(d) of the Securities Exchange Act of 1934

(Mark One)

S ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

£ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-06571

Employer Identification Number: 22-1918501

Plan Number: 061

MSD PUERTO RICO SAVINGS PLAN

(Full title of the plan)

MERCK & CO., INC.

(Name of issuer of the securities held pursuant to the plan)

2000 Galloping Hill Road

Kenilworth, New Jersey 07033

(Address of principal executive office)

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Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting *and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because they are not applicable.	

Report of Independent Registered Public Accounting Firm

To the Administrator of
MSD Puerto Rico Savings Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of MSD Puerto Rico Savings Plan (the "Plan") at December 31, 2015 and 2014, and the changes in net assets available for benefits for the year ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The supplemental schedule of assets (held at end of year) as of December 31, 2015 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedule of assets (held at end of year) is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ PricewaterhouseCoopers LLP
New York, New York
June 17, 2016

MSD Puerto Rico Savings Plan
 Statements of Net Assets Available for Benefits

	December 31,	
(in thousands)	2015	2014
Assets		
Investments		
Investments, at fair value	\$ 117,953	\$ 122,105
Receivables		
Employer contributions	34	64
Participant contributions	68	114
Notes receivable from participants	3,143	4,219
Total receivables	3,245	4,397
Net assets available for benefits	\$ 121,198	\$ 126,502

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

MSD Puerto Rico Savings Plan
Statement of Changes in Net Assets Available for Benefits

(in thousands)	Year Ended December 31, 2015
Additions to net assets attributed to	
Investment income	
Net depreciation in fair value of investments	\$(124)
Interest and dividends	241
Plan interest in Master Trust investment income	195
Net investment income	312
Interest income, notes receivable from participants	163
Contributions to the Plan	
By participants	4,643
By employer	2,182
Total contributions	6,825
Total additions	7,300
Deductions from net assets attributed to	
Benefits paid to participants	(12,604)
Total deductions	(12,604)
Net decrease	(5,304)
Net assets available for benefits	
Beginning of year	126,502
End of year	\$121,198

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

MSD Puerto Rico Savings Plan
Notes to Financial Statements

1. Description of Plan

The following description of the MSD Puerto Rico Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan established effective July 1, 1997. The Plan is a profit sharing plan designed to provide a systematic means of saving and investing for the future and an opportunity for employees of MSD International GmbH (Puerto Rico Branch) LLC, Merck Sharp & Dohme de Puerto Rico, Inc., MSD Supply Services Inc., and the Puerto Rico branch of Merck Sharp & Dohme (I.A.) LLC (the "Companies") to become shareholders of Merck & Co., Inc. ("Merck" or the "Company"). Regular full-time and part-time employees of the Companies, as defined in the Plan document, who are not covered by a collective bargaining agreement are eligible to enroll in the Plan as soon as administratively feasible after employee begins service with one of the Companies. MSD International GmbH (Puerto Rico Branch) LLC, a branch of MSD International GmbH, a Swiss limited liability company, is the Plan sponsor (the "Sponsor"). The Plan's recordkeeper is Fidelity Investments Institutional Services Company ("Fidelity" or the "Recordkeeper"). Banco Popular de Puerto Rico serves as the Plan's trustee (the "Trustee").

Participants direct the investment of their contributions into any fund investment option available under the Plan, including Merck common stock. At December 31, 2015, the Plan offered two (2) registered investment companies (mutual funds), five (5) common/collective trusts, and 14 separately managed accounts.

The Plan is administered by management committees appointed by the Company's Chief Executive Officer, the Compensation and Benefits Committee of the Board of Directors of Merck or their delegates.

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

Master Trust

A portion of the assets of the Plan are maintained, for investment purposes only, with all the assets of the MSD Employee Stock Purchase and Savings Plan, the Merck US Savings Plan, and the Telerx Marketing, Inc. 401(k) Plan in a single master trust (the "Master Trust"). The Plan participates in the Master Trust for the specific limited purpose of enabling participants in the Plan to invest in separately managed accounts and certain common/collective trusts that are recordkept and trustee pursuant to the Master Trust agreement. The plans do not own specific Master Trust assets but rather maintain individual beneficial interests in such assets.

The portion of fund assets allocable to each plan is based upon the participants' account balances within each plan. Investment income for each fund is allocated to each plan based on the relationship of each plan's beneficial interest in the fund to the total beneficial interest of all plans in the fund.

Contributions

Participants may contribute up to 25% of their annual eligible compensation on a before-tax basis. However, before-tax contributions cannot exceed the lesser of: (i) the amount as in effect under Section 402(g) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Code") or Section 1081.01(d)(7)(A) of the Internal Revenue Code for a New Puerto Rico of 2011, as amended (the "2011 PR Code"); or (ii) in the case of highly compensated employees, the average actual deferral percentage limit. Also, total annual additions to a participant's accounts during a plan year are limited to the lesser of: (i) the applicable limit for a particular tax year under Section 415(c) of the U.S. Code as adjusted by the Secretary of the Treasury; or (ii) one hundred percent (100%) of the participant's compensation paid by the employer during the calendar year. Participants may also contribute up to 25% of their annual eligible compensation on an after-tax basis subject to the limit provided under Section 1081.01(a)(15). Upon reaching the before-tax statutory limit, or upon reasonable expectations that any of the aforementioned limits will be exceeded, the participant may elect to suspend contributions for the remainder of the plan year or elect to continue on an after-tax basis. The combination of before-tax and after-tax contributions may not exceed the statutory limit (\$53,000 in 2015).

In addition, the Company makes matching contributions of \$0.75 for every \$1.00 of an employee's contributions, up to 6% of such employee's eligible compensation (maximum match is 4.5% of eligible compensation) per pay period (to

the statutory limit). Participant and Company matching contributions are invested according to a participant's elections.

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MSD Puerto Rico Savings Plan
Notes to Financial Statements

Participants are automatically enrolled in the Plan 60 days after first becoming eligible with a before-tax contribution rate of 6%. In addition, each participant with a before-tax base pay contribution rate of at least 1% may elect to participate in an annual automatic increase program, in whole percentages of at least 1% and not more than 3% per year. The automatic percentage increase may not cause a participant's before-tax base pay contribution rate to exceed 25%.

Age 50 and above — In addition, the Plan permits unmatched before-tax “catch-up contributions” of up to \$1,500 for 2015 by participants who are at least age 50 by year-end.

Participant Accounts

Each participant's account is credited with the participant's contributions, the Companies' contributions, and an allocation of Plan earnings. The allocation is based on participants' account balances, as defined in the Plan document.

Vesting

Participants are immediately vested in their contributions, all Companies' matching contributions, plus actual earnings thereon.

Notes Receivable from Participants

Participants may borrow from their account balances with interest charged at the prime rate plus 1%. Loan terms range from one to five years for a short-term loan or up to fifteen years for the purchase of a primary residence and bear interest at rates that range from 4.25% to 10.00%. The minimum loan is \$1,000 and the maximum loan is the lesser of (i) \$50,000 less the highest outstanding loan balance(s) during the one year period prior to the new loan application date, or (ii) 50% of the participant's account balance less any current outstanding loan balance(s) and defaulted loan amounts.

Payment of Benefits

Participants are entitled to receive automatic, voluntary, in-service (which include hardship withdrawals), or mandatory distributions as provided in the applicable Plan provisions.

2. Summary of Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

All investments are recorded at fair value in the accompanying financial statements. Valuation of investments of the Plan that are in the Master Trust represents the Plan's allocable portion of the Master Trust. The Plan's investment is stated at fair value and is based on the beginning of year value of the Plan's interest in the Master Trust plus actual Plan contributions and allocated investment income less Plan distributions, allocated investment losses and allocated expenses.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned. Realized gains and losses from security transactions are reported on the average cost method.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as benefit payments based upon the terms of the plan document. No allowance for credit losses has been recorded as of December 31, 2015 and 2014.

MSD Puerto Rico Savings Plan
Notes to Financial Statements

Contributions

Employee and matching contributions by the Companies are recorded in the period in which the Companies make the payroll deductions from the participants' earnings.

Payment of Benefits

Benefits are recorded when paid.

Expenses

The Plan's administrative expenses are generally paid by the Companies. Inactive participants pay an annual recordkeeping fee from their account balance.

Recently Issued Accounting Standards

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent), which amends disclosure requirements of Accounting Standards Codification Topic 820, Fair Value Measurement ("Topic 820"), for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 is effective for the Plan's fiscal years beginning after December 15, 2015, with early application permitted. The Plan Sponsor is currently evaluating the impact on the Plan of adopting ASU No. 2015-07.

In July 2015, the FASB issued ASU No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (Consensus of the Emerging Issues Task Force). ASU No. 2015-12 designates contract value as the only required measure for fully benefit-responsive investment contracts; eliminates the requirement to disclose (1) individual investments that represent five percent or more of net assets available for benefits and (2) the net appreciation or depreciation for investment by general type for both participant-directed investments and nonparticipant-directed investments; requires investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways; removes the requirement to disclose an investment's strategy for investments measured using the net asset value per share (or its equivalent) practical expedient in Topic 820 and that are in a fund that files a U.S. Department of Labor Form 5500; and permits plans to measure investments and investment-related accounts as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with a month-end. ASU No. 2015-12 is effective for fiscal years beginning after December 15, 2015, with early application permitted. The Plan Sponsor is currently evaluating the impact on the Plan of adopting ASU No. 2015-12.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 requires changes to how certain equity instruments are measured and recognized; simplifies the impairment assessment of equity investments without readily determinable fair values; eliminates certain disclosure requirements and requires changes to the presentation of financial assets and financial liabilities on the balance sheet and accompanying notes to the financial statements. The amendments in ASU No. 2016-01 are effective for the Plan's fiscal years beginning after December 15, 2018. The Plan Sponsor is currently evaluating the impact on the Plan of adopting ASU No. 2016-01.

Risks and Uncertainties

The Plan provides for various investment options in investment securities. Investment securities, in general, are exposed to various risks and may decline in value for a number of reasons, including changes in prevailing interest rates and credit availability, increases in defaults, increases in voluntary prepayments for investments that are subject to prepayment risk under normal market conditions, widening of credit spreads and overall market volatility. Due to

the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near

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MSD Puerto Rico Savings Plan
Notes to Financial Statements

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. Related-Party Transactions

Contributions are transmitted from the Trustee to the Recordkeeper, 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 notes receivable from participants. These transactions qualify as permitted party-in-interest transactions.

Certain Plan investments are shares of registered investment companies (mutual funds) and common/collective trusts managed by the Recordkeeper. Fidelity is the Recordkeeper as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. The total market value of the Plan's allocated portion of the investments managed by the Recordkeeper was \$10.2 million and \$10.0 million at December 31, 2015 and December 31, 2014, respectively. During 2015, the Plan's allocated portion of interest and dividends, realized gains and unrealized gains from investments managed by the Recordkeeper was \$10,157, \$23,775 and \$87,241, respectively.

Merck also is a party-in-interest to the Plan under the definition provided in Section 3(14) of ERISA. Therefore, Plan transactions of Merck common stock qualify as party-in-interest transactions. The market value of the Plan's allocated portion of the investments in Merck common stock was \$26.0 million and \$30.2 million at December 31, 2015, and December 31, 2014, respectively. During 2015, the Plan's allocated portion of dividends, realized gains and unrealized losses was \$912,949, \$75,759 and (\$1.9) million, respectively. The Plan's allocated portion of purchases and sales of Merck common stock during 2015 was \$1.1 million and \$3.4 million, respectively.

4. Plan Termination

Although they have not expressed any intent to do so, the Companies have the right under the Plan to discontinue their contributions at any time and to terminate the Plan subject to the provisions of ERISA. Upon termination of the Plan, each participant thereby affected would receive the entire value of his or her account as though he or she had retired as of the date of such termination.

5. Tax Status

The Plan is qualified under Section 1081.01 of the 2011 PR Code and with Section 401(a) of the U.S. Code, and has received a favorable determination letter from the Puerto Rico Department of Treasury (the "PR Treasury") and from the U.S. Internal Revenue Service as to its qualified status under the 2011 PR Code and the U.S. Code, respectively. The Trust associated with the Plan is intended to be exempt from Puerto Rico income taxation pursuant to the provisions of Section 1081.01(a) of the 2011 PR Code. The Plan's Master Trust is to be considered as an organization as described in Section 401(a) and exempt under Section 501(a) of the U.S. Code. Accordingly, no provision for income taxes has been made. Finally, the Trust has complied with the requirements established by Section 1022(i)(1) of ERISA.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the PR Treasury pursuant to the provisions of the 2011 PR Code. The Company has analyzed the tax positions taken by the Plan and has concluded that, as of December 31, 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2012.

MSD Puerto Rico Savings Plan
Notes to Financial Statements

6. Master Trust and Investments

The Plan had a 1.3% and 1.3% interest in the Master Trust at December 31, 2015 and 2014, respectively. The net assets of the Master Trust are as follows:

(in thousands)	December 31,	
	2015	2014
Registered investment companies (mutual funds)	\$1,238,958	\$1,232,151
Common/collective trusts	4,257,789	4,496,033
Fixed income securities	180,713	196,979
Merck common stock		