

MERCK & CO INC
Form 11-K
June 20, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 11-K
ANNUAL REPORT
Pursuant to Section 15(d) of the
Securities Exchange Act of 1934**

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 1-3305

Employer Identification Number: 66-0288298

Plan Number: 061

MERCK PUERTO RICO EMPLOYEE SAVINGS AND SECURITY PLAN

(Full title of the plan)

MERCK & CO., INC.

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

One Merck Drive

P.O. Box 100

Whitehouse Station, New Jersey 08889-0100

(Address of principal executive office)

**Merck Puerto Rico Employee Savings and Security Plan
Index to Financial Statements and Supplemental Schedule**

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* Other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not required.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of the
Merck Puerto Rico Employee Savings and Security 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 Merck Puerto Rico Employee Savings and Security Plan (the Plan) at December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 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.

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) as of December 31, 2006 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 supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
San Juan, Puerto Rico
June 18, 2007

**Merck Puerto Rico Employee Savings and Security Plan
Statements of Net Assets Available for Benefits**

| | December 31, | |
|--|----------------------|----------------------|
| | 2006 | 2005 |
| Assets | | |
| Investments | | |
| Investments at market value | \$ 39,265,683 | \$ 31,719,738 |
| Participant loans at cost | 1,792,543 | 1,798,612 |
| | | |
| Total investments | 41,058,226 | 33,518,350 |
| | | |
| Receivables | | |
| Employer contribution | 53,386 | 27,521 |
| Participant contributions | 90,252 | 90,975 |
| Accrued interest and dividends | 178,128 | 185,805 |
| | | |
| Total receivables | 321,766 | 304,301 |
| | | |
| Cash and cash equivalents | 29,884 | |
| | | |
| Net assets available for benefits | \$ 41,409,876 | \$ 33,822,651 |

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

**Merck Puerto Rico Employee Savings and Security Plan
Statement of Changes in Net Assets Available for Benefits**

| | Year Ended December 31, 2006 |
|---|---|
| Additions to net assets attributed to | |
| Investment gain | |
| Net appreciation in market value of investments | \$ 7,069,156 |
| Dividends and interest | 1,738,930 |
| Net investment gain | 8,808,086 |
| Contributions to the Plan | |
| By participants | 4,381,128 |
| By employer | 1,297,972 |
| Total contributions | 5,679,100 |
| Total additions | 14,487,186 |
| Deductions from net assets attributed to | |
| Benefits paid to participants | (6,899,961) |
| Total deductions | (6,899,961) |
| Net increase | 7,587,225 |
| Net assets available for benefits | |
| Beginning of year | 33,822,651 |
| End of year | \$ 41,409,876 |

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

Merck Puerto Rico Employee Savings and Security Plan
Notes to Financial Statements
December 31, 2006 and 2005

1. Description of the Plan

The following description of the Merck Puerto Rico Employee Savings and Security 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 profit sharing plan designed to provide an opportunity for employees of Merck Sharp & Dohme Quimica de Puerto Rico, Inc. and Merck Sharp & Dohme (I.A.) Corp. (the Companies) to become stockholders of Merck & Co., Inc. (Merck) and to encourage them to save on a regular basis by setting aside part of their earnings. Regular full-time and part-time employees of the Companies, as defined in the Plan document, who have completed at least one year of employment and are not covered by a collective bargaining agreement, are eligible to enroll in the Plan.

The Plan is administered in part by the Employee Benefits Committee appointed by the Presidents of the Companies and in part by a management committee appointed by the Compensation and Benefits Committee of the Board of Directors of Merck. All costs of administering the Plan are borne by the Companies.

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

Contributions

Participants may contribute from 2% up to 15% of their base pay, provided that pre-tax contributions shall not exceed 10% of base compensation or \$8,000. In addition, the Companies match 50% of pre-tax and after-tax contributions up to 5% of each participant's base compensation applicable to the pay period in which the contribution is being made. Company matching contributions are invested according to a participant's elections.

Participants direct the investment of their contributions into any fund investment option available under the Plan, including the Merck Common Stock Fund. During 2006, the Plan offered 16 mutual funds, a commingled fund, a separately managed fund and the Merck Common Stock Fund.

Participant Accounts

Each participant's account is credited with the participant's contribution, the Companies' matching contribution, 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.

Participant Loans

Participants may borrow from their account balances with interest charged at prime rate plus 1%. Loan terms range from one to five years or up to thirty years for the purchase of a primary residence. The minimum loan is \$500 and the maximum loan is the lesser of (i) \$50,000 less the highest

Merck Puerto Rico Employee Savings and Security Plan
Notes to Financial Statements
December 31, 2006 and 2005

outstanding loan balance 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.

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 Significant Accounting Policies

Basis of Accounting

The 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The investments of the Plan are stated at quoted market prices in an active market (except for participant loans which are presented at the outstanding balance). Shares of mutual funds are presented at quoted market prices which represent the net asset value of the shares held by the Plan at the reporting date. For the commingled and separately managed funds, the investment units are based on the current market values of the underlying assets of the fund.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on them. Interest income on participant loans is recorded on accrual basis.

Contributions

Employee and Companies matching contributions 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.

Transfer of Assets to Other Plans

Companies employees or retirees may elect to transfer their savings to other plans qualified by the Puerto Rico Treasury Department (the PRTD) or by the U.S. Internal Revenue Service (the IRS).

Merck Puerto Rico Employee Savings and Security Plan
Notes to Financial Statements
December 31, 2006 and 2005
Risks and Uncertainties

The Plan provides for various investment options in investment securities. 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 the values 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 statement of net assets available for benefits.

3. Investments

The following presents investments that represent 5% or more of the Plan's net assets as of year-end:

| | December 31, | |
|---|----------------------|----------------------|
| | 2006 | 2005 |
| Merck Common Stock Fund | \$ 21,289,077 | \$ 15,974,013 |
| Columbia Acorn Fund, Class Z | 2,462,764 | 2,099,540 |
| Fidelity Retirement Money Market Portfolio | 2,411,076 | 2,884,487 |
| T. Rowe Price Blue Chip Growth Fund | 2,377,861 | 2,434,726 |
| American Funds EuroPacific Growth Fund, Class A | 2,137,185 | 1,370,330 |
| Fidelity Low-Priced Stock Fund | 1,929,524 | 1,727,269 |
| | \$ 32,607,487 | \$ 26,490,365 |

During 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$7,069,156 as follows:

| | Year Ended December 31, 2006 |
|---|---|
| Mutual Funds | \$ 927,580 |
| Commingled and Separately Managed Funds | 297,777 |
| Merck Common Stock Fund | 5,843,799 |
| | \$ 7,069,156 |

Merck Puerto Rico Employee Savings and Security Plan
Notes to Financial Statements
December 31, 2006 and 2005

4. Related Party Transactions

Certain Plan investments are shares of mutual funds managed by Fidelity Management Trust Company (Fidelity). Fidelity is the record keeper and custodian as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. The total market value of investments in the mutual funds managed by Fidelity was \$7,085,691 and \$6,307,715 at December 31, 2006 and December 31, 2005, respectively.

Merck & Co., Inc. also is a party-in-interest to the Plan under the definition provided in Section 3(14) of ERISA. Therefore, Merck Common Stock Fund transactions qualify as party-in-interest transactions. The total market value of investments in the Merck Common Stock Fund was \$21,289,077 and \$15,974,013 at December 31, 2006 and December 31, 2005, respectively.

5. Plan Termination

Although they have not expressed any intent to do so, the Companies have the right under the Plan to discontinue its 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.

6. Tax Status

The Plan obtained a tax determination letter from the PRTD dated February 18, 1998 indicating that it had been designed in accordance with applicable sections of the Puerto Rico Internal Revenue Code of 1994 (PRIRC) and is, therefore, exempt from Puerto Rico income taxes. On August 20, 2003, the Plan obtained a tax determination letter from the Internal Revenue Service indicating it has been designed in accordance with applicable sections of the Internal Revenue Code (IRC). However, the Plan has been amended since the receipt of the determination letter. The Plan sponsor and legal counsel believe that the Plan is designed and currently operates in compliance with the PRIRC and IRC. Therefore, no provision for income taxes has been made.

The Plan failed the non-discrimination test for the year ended December 31, 2006. This failure will be remediated by making additional contributions to non-highly compensated employees in the aggregate amount of \$25,724. Considering the remedial actions taken pursuant to the provisions of the Plan Document, management believes that this situation did not affect the tax-exempt status of the Plan.

* * * * *

Supplemental Schedule
Schedule HMerck Puerto Rico Employee Savings and Security Plan
Schedule of Assets (Held at End of Year) at December 31, 2006
(Schedule H, Part IV, Line 4i on Form 5500)

| Identity of Issuer, Borrower, Lessor or Similar Party | Description of Investment | Share Balance | Cost | Current Value |
|--|--|------------------|------|------------------|
| * Merck & Co. Inc. | Merck Common Stock Fund | 1,006,825.670 | ** | \$ 21,289,077 |
| Fidelity Investment Co. | Fidelity Retirement Money Market Portfolio | 2,411,076.090 | ** | 2,411,076 |
| * | Fidelity Low-Priced Stock Fund | 44,316.126 | ** | 1,929,524 |
| | Fidelity Diversified International Fund | 41,616.036 | ** | 1,537,713 |
| | Fidelity Freedom 2005 Fund | 2,913.117 | ** | 33,821 |
| | Fidelity Freedom 2010 Fund | 1,863.468 | ** | 27,244 |
| | Fidelity Freedom 2015 Fund | 24,664.742 | ** | 300,910 |
| | Fidelity Freedom 2020 Fund | 10,878.874 | ** | 168,949 |
| | Fidelity Freedom 2025 Fund | 18,145.852 | ** | 231,723 |
| | Fidelity Freedom 2030 Fund | 17,083.370 | ** | 273,846 |
| | Fidelity Freedom 2035 Fund | 6,029.196 | ** | 79,525 |
| | Fidelity Freedom 2040 Fund | 9,637.149 | ** | 91,360 |
| T. Rowe Price Associates, Inc. | T. Rowe Price Blue Chip Growth Fund | 66,550.817 | ** | 2,377,861 |
| The Capital Group Companies | American Funds EuroPacific Growth Fund, Class A | 45,901.747 | ** | 2,137,185 |
| Columbia Wanger Asset Management, LP | Columbia Acorn Fund, Class Z | 82,893.449 | ** | 2,462,764 |
| Pacific Investment Management Company | PIMCO Total Return Fund - Institutional Fund | 76,854.129 | ** | 797,746 |
| AXA Rosenberg Investment Management, LLC | AXA Rosenberg U.S. Small Capitalization Fund | 84,832.816 | ** | 1,056,327 |
| SSgA Funds Management, Inc. | SSgA Flagship 500 Index Fund Series A | 7,664.007 | ** | 2,059,032 |
| * Participant Loans | Interest rates ranging from 5% to 10.5% and with maturities through 2034 | | | 1,792,543 |
| | Total | | | \$ 41,058,226 |

* Denotes a party-in-interest to the Plan.

** Cost is not required for

participant
directed
investment.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the undersigned plan administrator has duly caused this annual report to be signed on behalf of the Merck Puerto Rico Employee Savings and Security Plan by the undersigned hereunto duly authorized.

Merck & Co., Inc., as plan administrator

By: /s/ Mark E. McDonough
Mark E. McDonough
Vice President and Treasurer

June 20, 2007

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EXHIBIT INDEX

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