As filed with the Securities and Exchange Commission on February 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

(MARK ONE)

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2012

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ________ to ________

Commission File No. 1-6571

Merck & Co., Inc.

One Merck Drive
Whitehouse Station, N. J. 08889-0100
(908) 423-1000

Incorporated in New Jersey — *I.R.S. Employer Identification No. 22-1918501*

Securities Registered pursuant to Section 12(b) of the Act:

Title of Each Class	*Name of Each Exchange on which Registered*
Common Stock ($0.50 par value)	New York Stock Exchange

Number of shares of Common Stock ($0.50 par value) outstanding as of January 31, 2013: 3,022,367,538.

Aggregate market value of Common Stock ($0.50 par value) held by non-affiliates on June 30, 2012 based on closing price on June 30, 2012: $126,837,000,000.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☑ **No** ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ☐ **No** ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☑ **No** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ☑ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Documents Incorporated by Reference:

Document	*Part of Form 10-K*
Proxy Statement for the Annual Meeting of Shareholders to be held May 28, 2013, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this report	Part III

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Merck & Co., Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, equity and cash flows present fairly, in all material respects, the financial position of Merck & Co., Inc. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Merck maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Merck's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report under Item 9A. Our responsibility is to express opinions on these financial statements and on Merck's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Florham Park, New Jersey
February 26, 2013

Capital Stock

A summary of common stock and treasury stock transactions (shares in millions) is as follows:

	2012		2011		2010	
	Common Stock	**Treasury Stock**	Common Stock	Treasury Stock	Common Stock	Treasury Stock
Balance January 1	**3,577**	**536**	3,577	495	3,563	454
Purchases of treasury stock	**—**	**62**	—	58	—	47
Issuances[(1)]	**—**	**(48)**	—	(17)	10	(6)
Mandatory conversion of 6% convertible preferred stock[(2)]	**—**	**—**	—	—	4	—
Balance December 31	**3,577**	**550**	3,577	536	3,577	495

[(1)] *Issuances primarily reflect activity under share-based compensation plans.*

[(2)] *In 2010, the remaining outstanding 6% mandatory convertible preferred stock not converted in connection with the Merger automatically converted by its terms into the right to receive cash and shares of Merck common stock. As a result of the conversion, approximately $72 million was paid to the holders and approximately 4 million Merck common shares were issued.*

Noncontrolling Interests

In connection with the 1998 restructuring of AMI, Merck 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*. If AstraZeneca exercises its option to acquire Merck's interest in AZLP (see Note 9) this preferred stock obligation will be retired.

13. Share-Based Compensation Plans

The Company has share-based compensation plans under which the Company grants restricted stock units ("RSUs") and performance share units ("PSUs") to certain management level employees. In addition, employees, non-employee directors and employees of certain of the Company's equity method investees may be granted options to purchase shares of Company common stock at the fair market value at the time of grant. These plans were approved by the Company's shareholders.

At December 31, 2012, 180 million shares collectively were authorized for future grants under the Company's share-based compensation plans. These awards are settled primarily with treasury shares.

Employee stock options are granted to purchase shares of Company stock at the fair market value at the time of grant. These awards generally vest one-third each year over a three-year period, with a contractual term of 7-10 years. RSUs are stock awards that are granted to employees and entitle the holder to shares of common stock as the awards vest. The fair value of the stock option and RSU awards is determined and fixed on the grant date based on the Company's stock price. PSUs are stock awards where the ultimate number of shares issued will be contingent on the Company's performance against a pre-set objective or set of objectives. The fair value of each PSU is determined on the date of grant based on the Company's stock price. For RSUs and certain PSUs granted before December 31, 2009 employees participate in dividends on the same basis as common shares and such dividends are nonforfeitable by the holder. 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. Over the PSU performance period, the number of shares of stock that are expected to be issued will be adjusted based on the probability of achievement of a performance target and final compensation expense will be recognized based on the ultimate number of shares issued. RSU and PSU distributions will be in shares of Company stock after the end of the vesting or performance period, generally three years, subject to the terms applicable to such awards.

Total pretax share-based compensation cost recorded in 2012, 2011 and 2010 was $335 million, $369 million and $509 million, respectively, with related income tax benefits of $105 million, $118 million and $173 million, respectively.

The Company uses the Black-Scholes option pricing model for determining the fair value of option grants. In applying this model, the Company uses both historical data and current market data to estimate the fair value of its options. The Black-Scholes model requires several assumptions including expected dividend yield, risk-free interest rate, volatility, and term of the options. The expected dividend yield is based on historical patterns of dividend payments. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using a blend of historical and implied volatility. The historical component is based on historical monthly price changes. The implied volatility is obtained from market data on the Company's traded options. The expected life represents the amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior.

The weighted average exercise price of options granted in 2012, 2011 and 2010 was $39.51, $36.47 and $34.30 per option, respectively. The weighted average fair value of options granted in 2012, 2011 and 2010 was $5.47, $5.39 and $7.99 per option, respectively, and were determined using the following assumptions:

Years Ended December 31	**2012**	2011	2010
Expected dividend yield	**4.4%**	4.3%	4.1%
Risk-free interest rate	**1.3%**	2.5%	2.8%
Expected volatility	**25.2%**	23.4%	33.7%
Expected life (years)	**7.0**	7.0	6.8

Summarized information relative to stock option plan activity (options in thousands) is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding January 1, 2012	230,760	$39.51		
Granted	**7,641**	**39.51**		
Exercised	**(44,177)**	**29.64**		
Forfeited	**(28,283)**	**55.20**		
Outstanding December 31, 2012	**165,941**	**$39.46**	**3.90**	**$762**
Exercisable December 31, 2012	**149,407**	**$39.64**	**3.45**	**$700**

Additional information pertaining to stock option plans is provided in the table below:

Years Ended December 31	**2012**	2011	2010
Total intrinsic value of stock options exercised	**$ 528**	$125	$177
Fair value of stock options vested	**80**	189	290
Cash received from the exercise of stock options	**1,310**	321	363

A summary of nonvested RSU and PSU activity (shares in thousands) is as follows:

	RSUs		PSUs	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested January 1, 2012	21,145	$33.73	1,513	$31.58
Granted	**6,899**	**39.45**	**996**	**35.35**
Vested	**(4,340)**	**28.43**	**(756)**	**31.52**
Forfeited	**(961)**	**36.02**	**(105)**	**33.38**
Nonvested December 31, 2012	**22,743**	**$36.38**	**1,648**	**$33.78**

At December 31, 2012, there was $370 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 1.8 years. For segment reporting, share-based compensation costs are unallocated expenses.

14. 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. In December 2011, the Compensation and Benefits Committee of the Company's Board of Directors approved management's proposal to change Merck's primary U.S. defined benefit pension plans' benefit formulas to "cash balance" formulas beginning for service on or after January 1, 2013. Active participants in these plans as of December 31, 2012 are accruing pension benefits prospectively using the new cash balance formulas based on age, service, pay and interest. However, during a transition period from January 1, 2013 through December 31, 2019, participants will earn the greater of the benefit as calculated under the employee's legacy final average pay formula or their new cash balance formula. For all years of service after December 31, 2019, participants will earn future benefits under only the cash balance formula.

In addition, the Company provides medical benefits, principally to its eligible U.S. retirees and their dependents, through its other postretirement benefit plans. In December 2011, the Company approved changes to its U.S. retiree healthcare plans, including changes for certain employees to the contribution subsidy level and eligibility criteria for subsidized retiree medical coverage and the elimination of certain retiree dental coverage.

The Company uses December 31 as the year-end measurement date for all of its pension plans and other postretirement benefit plans.

Net Periodic Benefit Cost

The net periodic benefit cost for pension and other postretirement benefit plans consisted of the following components:

	Pension Benefits			Other Postretirement Benefits		
Years Ended December 31	**2012**	2011	2010	**2012**	2011	2010
Service cost	**$ 555**	$ 619	$ 584	**$ 82**	$ 110	$ 108
Interest cost	**661**	718	688	**121**	141	148
Expected return on plan assets	**(970)**	(972)	(891)	**(136)**	(142)	(132)
Net amortization	**185**	201	148	**(35)**	(17)	8
Termination benefits	**27**	59	54	**18**	29	42
Curtailments	**(10)**	(86)	(50)	**(7)**	1	(10)
Settlements	**18**	4	(1)	**—**	—	—
Net periodic benefit cost	**$ 466**	$ 543	$ 532	**$ 43**	$ 122	$ 164

The decline in net periodic benefit cost for pension and other postretirement benefit plans in 2012 as compared with 2011 and 2010 is largely attributable to the benefit plan design changes discussed above. The changes to Merck's primary U.S. defined benefit pension plans and U.S. retiree healthcare plans reduced benefit obligations at December 31, 2011 by $752 million and $150 million, respectively, with a corresponding offset to *AOCI*, which is being amortized as reduction to net periodic benefit cost over the employees' future service period (approximately 11 years).

The net periodic benefit cost attributable to U.S. pension plans included in the above table was $268 million in 2012, $406 million in 2011 and $289 million in 2010.

In connection with restructuring actions (see Note 3), termination charges were recorded in 2012, 2011 and 2010 on pension and other postretirement benefit plans related to expanded eligibility for certain employees exiting Merck. Also, in connection with these restructuring activities, curtailments were recorded in 2012, 2011 and 2010 on pension and other postretirement benefit plans.

In addition, settlements were recorded in 2012, 2011 and 2010 on certain domestic and international pension plans.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

In 2012, we continued to focus on our four-part growth strategy to meet the challenges in our business and create shareholder value. The business challenges in 2012 included the U.S. patent expiration for SINGULAIR—our largest product in terms of revenue in 2011—and external challenges related to pricing across Europe and in other markets. Despite these known challenges, our financial target for 2012 was to maintain sales at or near the same level as in 2011, and to deliver non-GAAP EPS of $3.75 to $3.85.

Our four-part strategy includes the following:

1. Executing on our core business—including R&D, our core brands, launch brands and largest markets;
2. Expanding in fast growth markets, such as Japan and key emerging markets;
3. Extending our complementary businesses of Animal Health and Consumer Care; and
4. Excelling at managing costs while investing for growth.

Our overall performance in 2012 demonstrates that we are well positioned to meet the challenges we face in 2013 while reconfirming our long-term commitment to scientific and medical innovation.

Select Business Highlights for 2012

Top Line / Bottom Line Results:

- Increased revenue by 1% over 2011, excluding the impact of foreign exchange (down 2% including the impact of foreign exchange), despite losing approximately $2 billion in product sales from the U.S. patent expiration for SINGULAIR and relinquishment of REMICADE and SIMPONI markets to Johnson & Johnson as part of the arbitration settlement agreement in 2011; and
- Delivered non-GAAP EPS of $3.82, which was 1% higher than 2011 non-GAAP EPS and in the upper end of our target range.

Shareholder Value Creation:

- Generated approximately $8.1 billion in free cash flow (Cash from operations less Capital Expenditures) and returned approximately $7.7 billion to shareholders via dividend and share repurchases;
- Increased the dividend paid by 10.5% in 2012 and announced a 2.4% increase for 2013;
- Repurchased $2.6 billion of Merck common stock, a 35% increase compared to 2011; and
- Drove a 13% increase in total shareholder return.

Performance against our four-part strategy:

1. Executing on our Core Business:
    - Drove double-digit sales increases for key brands including JANUVIA, ISENTRESS, JANUMET, GARDASIL, VICTRELIS and ZOSTAVAX;
    - Filed four new medicines with regulatory authorities, despite deciding not to file for U.S. approval of our phase III drug TREDAPTIVE and removing it from markets around the world. Three of these medicines were filed in the U.S. (suvorexant for insomnia; sugammadex for neuromuscular blockade and a combination of ezetimibe and atorvastatin for atherosclerosis). Also, a recently in-licensed cancer drug, vintafolide, was filed in Europe; and
    - Entered into 61 licensing and alliance agreements to better position the Company for future growth.

2. Expanding in Fast Growth Markets:
    - Achieved pharmaceutical and vaccine sales of $7.6 billion in emerging markets by driving the fastest growth among our pharmaceutical peer group (13% growth excluding the impact of foreign exchange and the 2011 settlement with Johnson & Johnson); and
    - Achieved pharmaceutical and vaccine sales of $5.0 billion in Japan, a 6% increase, excluding the impact of foreign exchange.

3. Extending our Complementary Businesses:
    - Drove a 9% increase in sales of Merck Animal Health, excluding the impact of foreign exchange; and
    - Drove a 7% increase in sales of Merck Consumer Care, excluding the impact of foreign exchange.

4. Excelling at Managing Costs:
    - Achieved merger-related synergy goal of $3.5 billion annualized net savings since the merger between Merck & Co., Inc. and Schering-Plough Corporation on November 3, 2009; and
    - Reduced non-GAAP operating expenses (Marketing and Administrative expenses and Research & Development expenses) by approximately $750 million while continuing to invest in future growth.

Our performance during 2012, as highlighted above, resulted in slightly above target achievement (103.35 points vs. a target of 100 points) of the operational and strategic objectives of our 2012 Company Scorecard, which determines annual incentive payouts to the majority of our employees, including the Named Executive Officers. The 2012 Company Scorecard is described in more detail beginning on page 29.

In addition, above target EPS growth for the three-year performance period ended December 31, 2012, generated a preliminary payout of 119% of target for our 2010-2012 Performance Share Unit ("PSU") award cycle. However, the payout was reduced by 10% to reflect our below median total shareholder return relative to our peer group over the three-year performance period. As a result, the final payout of the 2010-2012 PSU award cycle was 107% of target. Additional details about our PSU program and the 2010-2012 PSU award cycle are provided on page 34.

Results of 2012 Shareholder Advisory Vote on Executive Compensation and Recent Key Actions taken by the Compensation and Benefits Committee of the Board of Directors

Each year, the Compensation and Benefits Committee of the Board of Directors (the "Committee") considers the outcome of shareholder advisory votes on executive compensation when making future decisions relating to the compensation of the Named Executive Officers and our executive compensation program and policies.

In 2012, shareholders continued their strong support of our executive compensation programs with over **97%** of the votes cast for approval of the "say on pay" proposal at the 2012 Annual Meeting of Shareholders. The Committee believes that the voting results conveyed our shareholders' strong support of the philosophy, strategy and objectives of our executive compensation programs. Furthermore, we continue to engage in constructive dialogue with our shareholders regarding our executive compensation programs and policies to ensure that investors understand the manner in which our policies support our long-term strategic objectives.

During 2012, we, along with several of our pharmaceutical peers, engaged in thoughtful discussions with a group of shareholders that led to the Committee's adoption of a set of principles for a new incentive compensation recoupment policy. This new policy will provide the Committee with full discretion to recoup certain incentive awards in instances of material violations of company policy that cause significant harm to Merck. This policy will apply to senior executives (including the Named Executive Officers) who engaged in the misconduct that led to the material violation or who failed in their supervisory responsibility to manage or monitor conduct or risks appropriately. The formal policy will be finalized later in 2013 and will become effective January 1, 2014. It will supplement our existing recoupment policy which is triggered by a significant financial restatement caused by executive fraud or willful misconduct.

Key Compensation Actions

In addition to the incentive compensation recoupment policy described above, the Committee (or in the case of the anti-hedging and pledging policy, the Governance, Public Policy and Corporate Responsibility Committee) also took the following key actions since the 2012 Annual Meeting of Shareholders:

- Amended our change in control plan to, among other things, (1) reduce the size of the participant population; (2) reduce the cash severance multiples for participants other than the CEO; (3) eliminate additional age and service credits under the supplemental pension plan; and (4) raise certain thresholds used to determine whether a change in control has occurred, thereby increasing the requirements that must be met to trigger the protections under the plan.
- Formalized our anti-hedging and pledging policy which prohibits all executive officers and members of the Board of Directors from engaging in the following transactions with respect to our common stock: (i) short sales; (ii) entering into "derivative" transactions, including exchange-traded put or call options; (iii) engaging in hedging or monetization transactions, such as collars or forward sale contracts; or (iv) pledging, or using as collateral, shares in order to secure personal loans or other obligations, including holding shares in a margin account.

Compensation and Corporate Governance Policies and Practices—Linking Pay with Performance and Mitigating Risk

Our executive compensation programs are designed to link pay closely with operational performance and increases in long-term shareholder value while minimizing excessive risk taking. To help us accomplish these important objectives, we have adopted the following policies and practices:

- **No excise tax gross ups**—we do not provide for "golden parachute" excise tax gross-ups upon a change in control of the Company.
- **Double trigger vesting**—our long-term incentive grants contain a "double trigger" acceleration feature in the event of a change in control.
- **No time-vested restricted stock units**—the annual, long-term incentive mix for our CEO consists solely of PSUs and stock options (weighted 60% / 40%). Beginning in 2013, time-vested restricted stock units will no longer be included as part of the other Named Executive Officer annual, long-term incentive grant. Instead, the other Named Executive Officers' annual, long-term incentives will be delivered in the same mix as our CEO.
- **Total shareholder return metric**—our PSU program uses a total shareholder return metric to further align the overall payout with our long-term stock price performance.
- **No dividend equivalents on unearned PSUs**—dividend equivalents are not paid or accrued on PSUs during the performance period.
- **No hedging or pledging of stock**—executive officers are prohibited from entering into hedging or pledging transactions or short sales of our common stock.
- **No re-pricing of underwater options**—under the terms of our Incentive Stock Plan ("ISP"), the re-pricing of underwater options is strictly prohibited absent prior shareholder approval.
- **Regular monitoring of share utilization**—we manage shareholder dilution, share usage and overhang rates by limiting participation in our long-term incentive program and by eliminating stock option grants below the executive level.
- **Modest perquisites**—we offer only modest perquisites that are supported by a business interest.
- **Independent compensation consultant**—the Committee retains an independent compensation consulting firm which provides no other services to Merck.

Risk Mitigation Policies and Practices:

- **Robust stock ownership guidelines**—senior executives are subject to stock ownership requirements that encourage a long-term perspective and ensure that their interests are closely aligned with those of shareholders.
- **Recoupment policy**—incentive compensation may be subject to recoupment in the event of a significant restatement of financial results caused by executive fraud or willful misconduct. Beginning in 2014, our recoupment policy will be expanded to include material violations of company policy that cause significant harm to Merck and a failure to manage or monitor conduct or risks appropriately.
- **Balanced compensation approach**—our executive compensation program has a reasonable balance between annual and long-term performance, with a significant portion of compensation being delivered in the form of long-term incentives to recognize our long drug discovery and development cycle.
- **Multiple performance goals**—annual cash incentives under the Executive Incentive Plan are funded based on a mix of financial and non-financial performance measures that comprise our Company Scorecard.
- **Caps on incentive awards**—the annual cash incentive awards under the Executive Incentive Plan and payouts under our PSU program are capped.

Detailed Discussion and Analysis

This Compensation Discussion and Analysis or "CD&A" describes the material elements of compensation for the executive officers identified in the *Summary Compensation Table* (the "Named Executive Officers").

Kenneth C. Frazier	Chairman, President and Chief Executive Officer
Peter N. Kellogg	Executive Vice President and Chief Financial Officer
Peter S. Kim, Ph.D.	Executive Vice President and President, Merck Research Laboratories
Bruce N. Kuhlik	Executive Vice President and General Counsel
Adam H. Schechter	Executive Vice President and President, Global Human Health
Richard S. Bowles, III, Ph.D. . .	Executive Vice President (separated on June 24, 2012)

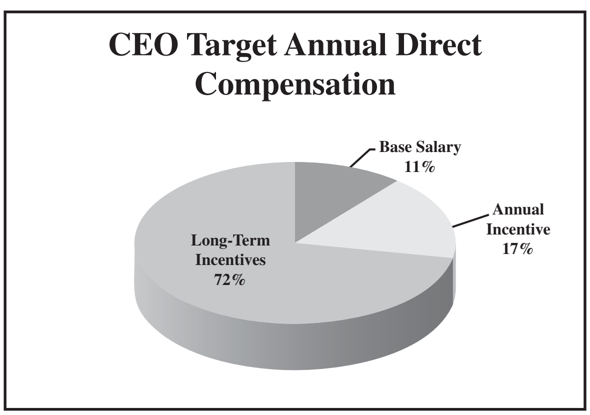
The Committee makes all decisions on the total direct compensation (base salary, annual cash incentives, and long-term incentive awards) of our executive officers other than for the CEO. The Committee's recommendations for the total direct compensation of the CEO are subject to approval by the Board of Directors. Additional details regarding the roles and responsibilities of the Committee are provided on page 20.

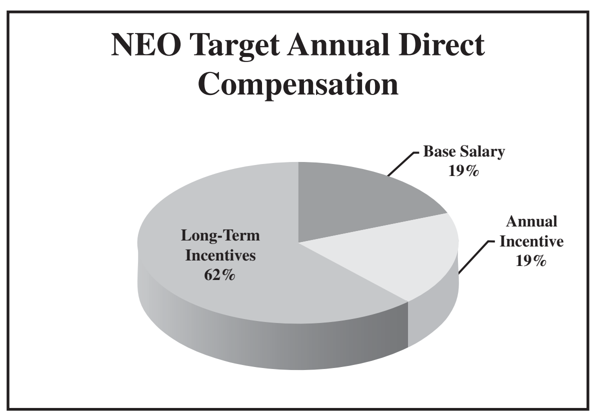
The Elements of 2012 Compensation

This section describes the elements of our Named Executive Officers' 2012 compensation, which consisted of the following:

Direct Compensation	Indirect Compensation
• **Base Salary** • **Annual Cash Incentive** • **Long-Term Equity Incentives**	• **Employee and Other Benefits**

Under our executive compensation program, a significant portion (89% and 81%, respectively) of the CEO's and other Named Executive Officers' annual target total direct compensation is variable based on our operating performance and/or our stock price, as shown below:





Base Salary

The Committee, or in the case of the CEO, the full Board of Directors excluding the CEO, determines base salaries for the Named Executive Officers each year based on the following factors:

- Evaluation of individual performance and expected future contributions;
- Breadth, scope and complexity of the role;

- Review of survey data to ensure competitive compensation against our pharmaceutical peer group (as described in more detail on page 37); and
- Comparison of non-CEO executive officer base salaries to ensure reasonable internal equity.

In connection with Mr. Frazier's election as CEO, effective January 1, 2011, the Board of Directors approved an annual base salary of $1.5 million. For 2012, the Board determined to maintain Mr. Frazier's base salary at this level in order to ensure that a substantial majority of his compensation was variable and tied to longer-term operating and stock price performance.

In addition, as part of the annual total compensation management process applicable to all Merck salaried employees throughout the world, in early 2012, Mr. Frazier recommended, and the Committee reviewed and approved 2% base salary increases for each of the other Named Executive Officers. The 2% increase was consistent with the merit budget established for all other U.S. salaried employees.

Annual Cash Incentive

The Named Executive Officers participate in the shareholder-approved Executive Incentive Plan ("EIP"). Award amounts under the EIP are determined based upon achievement of company performance measures as reflected by the Company Scorecard and individual performance against pre-established objectives. The EIP provides for an award fund of up to 2.5% of the Company's adjusted net income (which is the Company's non-GAAP earnings after certain immaterial adjustments). The CEO may receive a maximum award equal to 10% of the award fund, and the maximum award for the other EIP participants is equal to 90% of the award fund for that year divided by the number of participants other than the CEO.

For 2012, the maximum awards for the CEO and other Named Executive Officers were $29.4 and $18.9 million, respectively. Using a process commonly referred to as negative discretion, the maximum awards are adjusted down to the actual amounts paid to each Named Executive Officer.

2012 Merck Company Scorecard

Our Company Scorecard helps translate our strategic priorities into operational terms that outline how we will track and measure the achievement of our key objectives during the year. These measures focus on our ability to deliver results, both in the short- and long-term. We use a balanced scorecard as a framework to provide a holistic view of performance impacting shareholder value with appropriate emphasis on the following: (1) financial performance, (2) customer interactions and outcomes, (3) key internal business drivers and (4) company culture. As described in more detail below, these four elements, taken together, are intended to measure our progress and performance against both annual operating goals and critically important longer-term strategic drivers of sustainable value creation that are tied to our research and development processes and outcomes. We believe that if we are successful in each of these areas, shareholder value will be created over the longer term.

The Company Scorecard is calibrated so that results will range between 50% and 200% of the target award opportunity, commensurate with performance. The stretch (200%) and threshold (50%) goals are set to ensure our financial performance achieved in each scenario will cover the cost of the cash incentives. The Committee has discretion to adjust the results of individual measures to exclude charges or items from the measurement of performance relating to restructurings, discontinued operations, purchase accounting items, merger-related costs, extraordinary items and other unusual or nonrecurring charges and/or events. Similarly, the Committee has the discretion to determine that no annual cash incentives be paid if it determines, on a qualitative basis, that overall performance on the Company Scorecard is too low. Moreover, the Company Scorecard achievements are also evaluated in the context of compliance and health and safety outcomes.

2012 Merck Company Scorecard	
Scorecard Category	**Description**
Financial	Maximizing shareholder value by growing (i) revenue; (ii) EPS; and (iii) pipeline value (as measured by the change in net present value ("NPV") of the pipeline and return on investment ("ROI" vs. plan).
Customer	Becoming an industry leader in delivering value to patients and other customers as well as delivering products that address unmet medical needs and improve patient outcomes, as measured by: (i) Merck's customer service level—the percentage of customer orders that are delivered on time per the customer's expectation; and (ii) annual survey results measuring Merck's performance in select markets, relative to peers, as the most trusted and valued company in helping healthcare providers assist their patients.
Key Business Drivers	Streamlining processes and costs throughout Merck while remaining focused on results; and delivering strong growth in the emerging markets, as measured by: (i) achieving plan operating expense targets; and (ii) rate of revenue growth, relative to peers, in certain high priority markets.
Culture	Creating a high-performance, sustainable culture as measured by the results of our annual employee culture survey.

For 2012, the final Company score of **103.35** is reflected in the following table:

2012 Merck Company Scorecard Results		
Measure	**Target Points**	**Final Score**
Financial	**60**	**61.07**
Revenue vs. Plan	20	20.66
EPS vs. Plan	20	20.61
Value of Pipeline Growth (NPV + ROI)	20	19.80
Customer	**14**	**16.31**
Merck Customer Service Level	7	9.23
Merck Trust & Value Customer Survey	7	7.08
Key Business Drivers	**16**	**19.27**
Cost Structure	10	9.74
Revenue Growth in High Priority Markets	6	9.53
Culture	**10**	**6.70**
Culture Improvement	10	6.70
	100	**103.35**

Financial: The Company earned above target points based on:

- Achieving revenue of \$47.8 billion, which exceeded our planned revenue goal of \$47.7 billion (which includes 50% of revenue from joint venture sales);
- Achieving non-GAAP EPS of \$3.82 which exceeded our planned non-GAAP EPS goal of \$3.80 (the reconciliation of non-GAAP EPS to GAAP EPS is publicly disclosed in the Form 8-K filed by the Company with the SEC on February 19, 2013); and
- Slightly below target pipeline growth (above target change in the NPV of the pipeline was offset by below target ROI vs. plan, driven primarily by the challenges associated with TREDAPTIVE).

Customer: The Company earned above target points based on: (1) above target score on the customer service level metric; and (2) above target score on the Merck Trust & Value Survey.

Key Business Drivers: The Company earned above target points based on: (1) strong revenue growth in our high priority markets which offset (2) slightly below target points for our cost structure goal (the goal was missed by less than 1% of the target).

Culture: We maintained strong results in one of our three focus areas (Reputation & Trust) and made progress on the other two (Customer Focus and Innovation) but not enough to achieve our full target points.

For more information on the EIP, see "Narrative Information Relating to the Grants of Plan-Based Awards Table" starting on page 44.

2012 CEO Performance

Mr. Frazier's award for 2012 reflects the achievement of the Company Scorecard objectives at 103.35% of target and the accomplishments described in the "Executive Summary" on page 25. The Board viewed Mr. Frazier's strong leadership and oversight as key factors in driving the Company to overcome the significant hurdles we faced in 2012.

2012 Other Named Executive Officer Performance

Mr. Kellogg's award reflects his leadership and contributions to the achievement of our financial goals, the generation of strong cash flows, and the accelerated achievement of our merger-related synergy goals. In addition, Mr. Kellogg played a significant role in our business development and licensing activities.

Dr. Kim's award reflects the achievements of Merck's research laboratories during 2012, which included the filing of four new medicines with regulatory authorities. However, the recent challenges in our late-stage pipeline were factored into the Committee's determination of his final award.

Mr. Kuhlik's award reflects his leadership and counsel on a broad range of complex litigation, commercial and transactional matters in the United States and globally.

Mr. Schechter's award reflects his leadership and impact in (i) driving year-over-year revenue growth of the pharmaceutical and vaccines business including double-digit sales increases for several of our key brands; (ii) driving strong growth in key emerging markets; and (iii) maintaining Merck's reputation as the most trusted and valued company in helping healthcare providers assist their patients, as measured by our annual Trust & Value survey.

2012 Annual Incentive Payouts

The 2012 incentive pool was determined based on Company performance as reflected in the Company Scorecard. Individual performance determined the allocation for each Named Executive Officer.

The table below shows the 2012 annual cash incentives calculated using the methodology as described on page 29. The total annual incentive paid to each Named Executive Officer is reflected in the "Non-Equity Incentive Plan Compensation" column of the *Summary Compensation Table*.

Named Executive Officer 2012 Annual Incentive Payments(1)

		Target		Actual		
Named Executive Officer	Annual Base Salary (as of 12/31/12)	Target Annual Cash Incentive % of Salary	Target Annual Cash Incentive	Company Performance	Individual Performance	Total
K.C. Frazier	$1,500,000	150%	$2,250,000	$2,325,375	$174,625	$2,500,000
P.N. Kellogg	978,156	95	929,248	960,378	96,038	1,056,416
P.S. Kim	1,142,352	105	1,199,470	1,239,652	(61,983)	1,177,669
B.N. Kuhlik	795,564	95	755,786	781,105	117,165	898,270
A.H. Schechter	943,512	105	990,688	1,023,867	230,372	1,254,248

(1) Pursuant to the terms of his employment agreement and the EIP, Dr. Bowles received his target incentive based on his June 24, 2012, separation date and his incentive was not adjusted for company or individual performance. This payment is reflected as a termination-related payment in the "All Other Compensation" column of the *Summary Compensation Table*.

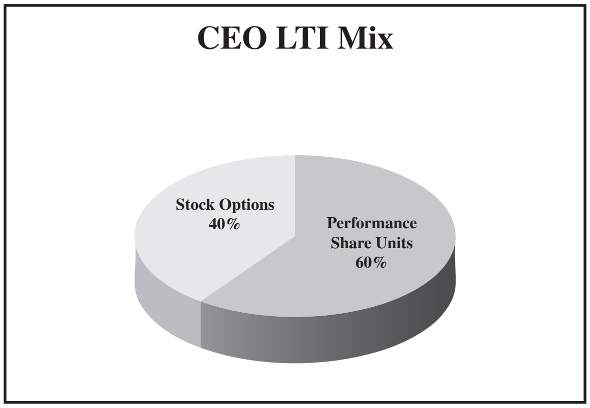
Long-Term Equity Incentives

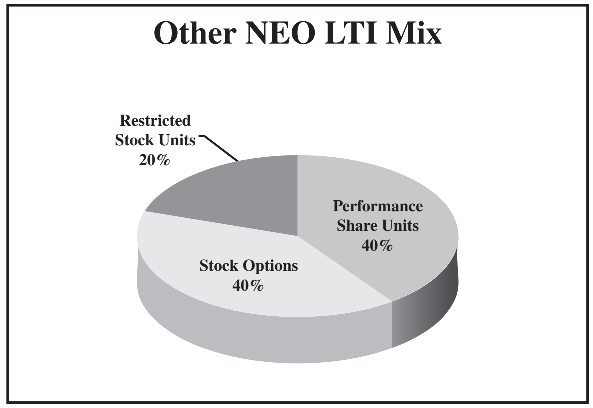
2012 Award Mix

We utilize the following long-term incentive ("LTI") vehicles in order to ensure that our LTI program remains balanced, sustainable and supportive of its objectives over a multi-year period:

- **Performance Share Units ("PSUs")** support the objectives of linking realized value to the achievement of critical financial objectives and shareholder alignment because the earned award varies based on results versus pre-determined performance goals, as well as long-term returns to shareholders as measured by stock price performance and dividend yield.
- **Stock options** support the shareholder alignment objective because options only have financial value to the recipient if the price of our stock at the time of exercise exceeds the stock price on the date of grant. As a result, we believe stock option grants encourage executives to focus on behaviors and initiatives that support sustained long-term stock price appreciation, which benefits all shareholders.
- **Restricted Stock Units ("RSUs")** support the retention objective because executives only receive shares of company stock provided they remain employed through the end of the vesting period. Time-vested RSUs have been eliminated from the CEO's LTI mix.

The 2012 LTI award mix for the CEO and the other Named Executive Officers is shown on the following charts:





Beginning in 2013, time-vested restricted stock units will no longer be included as part of the other Named Executive Officer annual, long-term incentive grant. Instead, the other Named Executive Officers' annual, long-term incentives will be delivered in the same mix as our CEO.

2012 LTI Grants

The Committee and, in the case of Mr. Frazier, the full Board of Directors (not including Mr. Frazier) determined the value of 2012 annual LTI grants for the Named Executive Officers based on competitive market data, the executives' future potential contributions, sustained performance, degree of importance of their contributions to Merck, tenure and experience in the role, and skill set relative to industry peers and other executives of comparable level.

The Board of Directors increased Mr. Frazier's target LTI value from $7.5 million to $9.5 million. The Board felt that this level was appropriate given Mr. Frazier's assumption of the Chairman responsibilities in December 2011, sustained performance and expected future contributions as well as the competitive positioning of Mr. Frazier's target total direct compensation versus that of other CEOs in our pharmaceutical peer group, which was aligned with the lower quartile.

The 2012 LTI grant values for the Named Executive Officers are shown in the following table. The number of shares associated with each award is set forth in the *Grants of Plan-Based Awards* table on page 43.

Named Executive Officer 2012 LTI Grant Values(1)

Named Executive Officer	PSUs(2)	Stock Options(3)	RSUs(3)	Total LTI Value
K.C. Frazier	$5,700,000	$3,800,000	$ 0	$9,500,000
P.N. Kellogg	1,280,000	1,280,000	640,000	3,200,000
P.S. Kim	1,200,000	1,200,000	600,000	3,000,000
B.N. Kuhlik	920,000	920,000	460,000	2,300,000
A.H. Schechter	1,520,000	1,520,000	760,000	3,800,000

(1) Dr. Bowles did not receive an LTI grant in 2012.

(2) PSU dollar values were converted to a number of target units using the closing price on the grant date, March 30, 2012, which was $38.40. The 2012 PSU values shown in the *Summary Compensation Table*, beginning on page 40, and *Grants of Plan-Based Awards* table, beginning on page 43, will be different from what is shown above as the amounts in those tables are calculated pursuant to SEC disclosure rules.

(3) Stock option dollar values were converted to a number of shares using the Black-Scholes value on the date of grant of $5.47 per share; RSU dollar values were converted to a number of units using the closing price on the grant date, May 2, 2012, which was $39.29.

PSU Program

Under the PSU program, executives are granted a target award opportunity at the beginning of a multi-year performance cycle that is denominated in units of our common stock and paid in actual shares. The number of shares that are ultimately earned varies based on performance against earnings per share ("EPS") goals and is modified based on relative total shareholder return over the three-year performance period. The Committee selected EPS as the performance measure because it incorporates aspects of growth, profitability and capital efficiency, all of which are critical to our long-term financial success. No dividends or dividend equivalents are paid or accrued on PSUs. Failure to attain the minimum performance goal results in forfeiture of the shares applicable to the respective award opportunity. For more information on the PSU program, see "Narrative Information Relating to the Grants of Plan-Based Awards Table" starting on page 44.

Payouts under the 2010-2012 PSU Award Cycle

For the 2010-2012 award cycle, preliminary payouts were determined based on the average annual achievement of a pre-established EPS goal for each year during the performance period (2010, 2011 and 2012). For purposes of the award, EPS is defined as the Company's diluted earnings per share adjusted to exclude charges or items from the measurement of performance relating to (1) restructurings, discontinued operations, purchase accounting items, merger-related costs, extraordinary items and other unusual or non-recurring charges and/or events; (2) an event either not directly related to Company operations or not reasonably within the control of Company management; and (3) the effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles, or other significant legislative changes.

The preliminary award is then adjusted (positive/negative/neutral) based on our three-year (2010 – 2012) annualized total shareholder return ("TSR") ranking against our eleven pharmaceutical peers (see page 37 for additional details on our peer group). The Committee believes that having this TSR modifier ensures that final awards are aligned with the relative return delivered to our shareholders for the three-year performance period.

The tables below show our TSR ranking and resultant modifier for 2010-2012 PSU award cycle:

Company	Annualized TSR[1,2]	TSR Percentile	Rank
AMGN	17.1%	100th	1
LLY	16.6%	91st	2
PFE	15.7%	82nd	3
BMY	13.1%	73rd	4
SNY	11.0%	64th	5
RHHBY	10.8%	55th	6
ABT	10.2%	45th	7
MRK	**9.8%**	**36th**	**8**
NVS	8.5%	27th	9
AZN	7.1%	18th	10
GSK	6.7%	9th	11
JNJ	6.7%	0	12

TSR Percentile	Rank	Payout Modifier
81% to 100%	**1,2,3**	**120%**
61% to 80%	**4,5**	**110%**
41% to 60%	**6,7**	**neutral**
21% to 40%	**8,9**	**90%**
0% to 20%	**10,11,12**	**80%**

1 TSR as reported by Bloomberg. Assumes reinvestment of dividends.
2 TSR calculated using the average closing price of Merck common stock for December 2009 and December 2012.

Payout Schedule for 2010-2012 PSU Award Cycle	Threshold	Target	Stretch	Actual	Payout
2010 EPS:	$3.02	$3.35	$3.85	**$3.42**	117.5%
2011 EPS:	3.33	3.70	4.26	**3.85**(1)	134.1%
2012 EPS:	3.42	3.80	4.37	**3.82**	104.2%
Preliminary Payout:					119%
TSR Modifier					90%
Final Payout:					**107%**

(1) Includes an upward adjustment of $0.08 to account for the unplanned impact of the REMICADE/SIMPONI settlement as previously described in our 2012 Proxy Statement on Form DEF-14A, filed on April 12, 2012.

Based on the final payout percentage described above, the Named Executive Officers received the following number of shares of Merck common stock: Frazier—40,107; Kellogg—28,648; Kim—28,648; Kuhlik—20,626; Schechter—11,694 and Bowles—5,538 (pro-rated based on his June 24, 2012 separation date). Additional information regarding the payouts under the 2010-2012 PSU award cycle is provided in the *Option Exercises and Stock Vested* table on page 48.

Employee and Other Benefits

Similar to other salaried, U.S.-based employees of Merck, the Named Executive Officers participate in a variety of retirement, health and welfare, and paid time-off benefits designed to enable us to attract and retain our workforce in a competitive marketplace. Pension and savings plans help employees, especially long-service employees, save and prepare financially for retirement. Health and welfare and paid time-off benefits help ensure that we have a productive and focused workforce.

Additionally, the Named Executive Officers, along with other senior management employees, are provided a limited number of other benefits, which the Committee believes are reasonable, appropriate and consistent with our executive compensation philosophy. The primary purposes of these other benefits are to minimize distractions from the executives' attention to important company initiatives and to ensure their security and safety. The benefits described below are reflected in the "All Other Compensation" column of the *Summary Compensation Table*.

- Reimbursement for financial counseling and tax preparation. The value is taxable to executives, and is limited to $10,000 per year. This benefit is intended to encourage executives to engage knowledgeable experts to assist with financial and tax planning. It supports our objectives by helping to ensure that executives understand the compensation and benefit plans in which they participate and are not unnecessarily distracted from Company responsibilities to attend to personal financial matters.
- Limited personal use of company aircraft and company cars. We believe that these benefits provide better security for executives and allow them to devote additional time to Company business.
- Reimbursement for the installation and maintenance of residential security systems. We believe that providing this benefit allows us to ensure that our executives have appropriate security. We do not reimburse executives for monthly security monitoring fees.

Executive Compensation Program Objectives and Strategy

Objectives

Our executive compensation program is designed to:

- Align the interests of our senior executives with those of our shareholders to ensure prudent, short-term actions that will benefit Merck's long-term value;
- Reward our executives based on the achievement of sustained financial and operating performance as well as demonstrated leadership;
- Attract, engage, and retain high-performing executives that help us achieve immediate and future success and maintain our position as an industry leader in the development of innovative medicines; and
- Support a shared, one-company mindset of performance and accountability to deliver on business objectives.

How our business environment impacts our executive compensation objectives and strategy

The pharmaceutical industry is science-focused and driven by innovation. Other characteristics of the pharmaceutical industry include:

- Enormous impact—drugs discovered through scientific innovation save and improve the quality of lives;
- The inherently risky nature of the complex and dynamic science of human and animal health—even if every step of the discovery and development process is executed flawlessly, there is an ever-present risk of failure;
- The need to achieve a balance between benefits and risks for every drug. Society's increasing demand for innovation to treat and cure illness is offset by society's increasing awareness of and aversion to risk;
- A highly regulated industry environment, including uncertainties in the political environment that impact the regulatory framework;
- A lengthy 5-year to 15-year new drug cycle for research-based drug discovery and development;
- The high and often unpredictable cost of drug discovery and development; and
- The dynamics of the industry environment, which include intellectual property laws that evolve as governments change, competitive and reimbursement pressures, and regulatory/science developments, often limit the effective commercial life of a drug to a few years and put pressure on replenishing the product portfolio through successful research and development.

As a result of these challenges and complexities, we believe executives with certain specific, relevant skills and experience, including but not limited to pharmaceutical industry experience, are more likely to excel. At the same time, there is a small pool of superior executives with the desired relevant experience. These factors can complicate the process of attracting and retaining a top-performing management team with the right extensive industry and other experience. As such, our executive compensation program is designed to balance its attraction and retention objectives carefully with pay-for-performance objectives. Each element of the compensation program is structured to support these critical objectives and, as a whole, designed to ensure that we are able to retain the talent critical to our long-term success. Our executives are rewarded commensurate with the degree to which they are able to achieve our short- and long-term strategic and operational objectives and enhance shareholder value.

Strategy

Our mission is to discover and provide innovative products and services that save and improve lives around the world. It is therefore critical that we hire, engage and retain the best talent and thought leaders globally in academia and industry to leverage diverse experiences and cutting-edge thinking. Each compensation element has a specific purpose in furthering the executive compensation program objectives described above.

Compensation Element	Purpose
Base Salary	Attract and retain high-quality executives over time and mitigate pressures that might otherwise exist to support high-risk business strategies.
Annual Incentive	Motivate executives to achieve financial and non-financial performance objectives that are key to our annual operating and strategic plans.
Long-Term Incentives	- Align the interests of executives with shareholders by tying the value of awards to the performance of our common stock over the long term; - Encourage executives to achieve multi-year strategic and financial objectives; and - Enhance the retention of key talent.
Employee Benefits (Retirement and Medical)	- Assist employees, especially long-service employees, to save and prepare financially for retirement; and - Help ensure that we have a productive and focused workforce.
Perquisites	Minimize distractions from the executives' attention to important company initiatives and to ensure their security and safety.
Post-Employment Benefits	Provide temporary income to employees following an involuntary termination of employment. These benefits fit into our overall compensation structure by enhancing our ability to attract, retain, and motivate highly talented individuals in a highly competitive marketplace where such protections are commonly offered.

Other Compensation Practices

Merck's Peer Group. Individual executive officer compensation levels and opportunities are compared to a peer group of large multinational pharmaceutical companies that participate in a pharmaceutical industry compensation survey. The survey is conducted by Towers Watson, an independent consulting firm. In setting compensation levels for 2012, the Committee utilized the survey, which consisted of the following peer companies with which Merck competes to attract talented, high-performing executives:

Merck's Pharmaceutical Peer Group	
Abbott Laboratories	**Johnson & Johnson**
Amgen	**Novartis**
AstraZeneca	**Pfizer**
Bristol-Myers Squibb	**Roche**
Eli Lilly	**Sanofi**
GlaxoSmithKline	

	Merck	Pharmaceutical Peer Group Median
Revenue in $ billions (as of 12/31/2012)	$ 47.27(1)	$ 41.89
Market Capitalization in $ billions (as of 12/31/2012)	$123.91	$106.33
# of Employees	83,000	82,089

(1) Excludes 50% of revenue from joint venture sales.

Our overarching strategy is to position our executives' target total direct compensation (base salary, annual cash incentive and annual LTI grants) at the 50th percentile. This positioning ensures that actual realized compensation varies above or below targeted levels based on attainment of longer-term goals and changes in shareholder value, and overall costs and share dilution are reasonable and sustainable relative to market practices. However, compensation for individual executives may be positioned above or below the 50th percentile based on scope of responsibility, market availability of proven talent, the critical need to retain the executive, sustained performance over time, potential for advancement as part of key succession planning processes, and other unique factors that may exist from time to time.

In addition to the pharmaceutical peer group described above, we also utilize as a reference for other compensation-related practices (for example, share usage and dilution, change in control policy design and share ownership and retention guidelines) a supplemental peer group consisting of the companies that comprise the Dow Jones Industrial Average (excluding the financial services companies) to provide insight on practices among companies with which we compete for investor capital.

Current LTI Grant Practices. Annual stock option and RSU grants are made on the third business day following announcement of our first quarter earnings. We may also selectively grant stock options and RSUs to employees on the third business day following the announcement of second, third, and fourth quarter earnings. These dates were chosen to ensure that grants are made shortly after we have released information about our financial performance to the public. However, the Committee reserves the right to change the date when grants are made, in view of its responsibility to take into account all facts and circumstances so as to ensure that grants are consistent with our compensation philosophy and objectives. All grants to executive officers are made by the Committee.

Stock options are granted at fair market value on a fixed date or event, with all required approvals obtained in advance of or on the actual grant date. Fair market value is the closing price of a share of Company stock on the grant date. In certain countries, a higher grant price may be used to satisfy provisions of local applicable law. The re-pricing of stock options is not permitted under the ISP without prior shareholder approval.

Stock Ownership Requirements. The Committee recognizes the critical role that executive stock ownership has in aligning the interests of management with those of shareholders. As such, we maintain a formal stock ownership policy, under which the CEO and other senior executives are required to acquire and hold Merck common stock in an amount representing a multiple of base salary. Until the designated multiple of base salary is reached, executives are required to retain in stock a percentage of the after-tax net proceeds associated with stock option exercises and/or PSU and RSU distributions (100% for the CEO and 75% for the other Named Executive Officers).

The following table sets forth the stock ownership requirements and current holdings for the CEO and other Named Executive Officers. As of March 1, 2013, each of the Named Executive Officers had satisfied their respective ownership requirement.

Named Executive Officer Ownership Requirements

Role	Base Salary Multiple	Holdings at 3/1/2013 (multiple of base salary)
Chairman and CEO		
K.C. Frazier	6	7*
Other Named Executive Officers		
P.N. Kellogg	3	4**
P.S. Kim	3	9
B.N. Kuhlik	3	5
A.H. Schechter	3	3

* Includes shares purchased with approximately $1,000,000 of Mr. Frazier's personal funds in 2011.

** Includes shares purchased with approximately $500,000 of Mr. Kellogg's personal funds in 2011.

Return of Incentive Compensation. Under our incentive compensation recoupment policy, in the case of a significant restatement of financial results caused by executive fraud or willful misconduct, the Board of Directors will seek reimbursement for the portion of the annual bonus and/or PSUs paid to the executive in excess of the amount that would have been paid if the financial results were reported accurately. The provisions of this policy will be reviewed for any necessary changes to comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Additionally, as described on page 26, the Committee has approved the principles of an expanded incentive recoupment policy that will apply to senior executives in instances of material violations of company policy that cause significant harm to Merck and instances of a failure to manage or monitor conduct or risks appropriately. This expanded policy is expected to be effective beginning in 2014.

Tax Deductibility of Compensation. The Company intends to deliver tax efficient compensation, taking into account Section 162(m) of the Internal Revenue Code, provided that other compensation objectives are met. We believe annual cash incentives paid to executive officers under the shareholder-approved EIP and PSUs, stock options and RSUs granted under the shareholder approved ISP may qualify as performance-based compensation under Section 162(m) and, therefore, be generally deductible by the Company for federal income tax purposes.

Compensation Risk Assessment

Our executive compensation program and policies are driven by our business environment and designed to enable us to achieve our mission and adhere to our values. The Committee and senior management continually evaluate the relationship between risk and reward as it relates to our executive compensation program and has adopted policies and practices that mitigate undue risk while preserving the incentive/variable nature of the compensation. These policies and practices are described in more detail in the chart on page 27.

Management's compensation consultant, Pay Governance LLC, performed an independent assessment of our global compensation programs including our executive compensation program and policies in late 2010. The results of the assessment were reviewed and discussed with the Committee in February 2011. The assessment reaffirmed our belief that our compensation programs and policies are structured and operated in a manner that does not create risks that are reasonably likely to have a material adverse effect on our business. No changes were made to our programs and polices during 2012 that altered our conclusion in this regard.

Compensation and Benefits Committee Report

The Compensation and Benefits Committee, comprised of independent directors, reviewed and discussed the above CD&A with management. Based on the review and discussions, the Committee recommended to our Board of Directors that the CD&A be included in these proxy materials.

Compensation and Benefits Committee

Thomas H. Glocer
(Chairperson)

William B. Harrison, Jr.   Patricia F. Russo
Carlos E. Represas   Peter C. Wendell

The following table summarizes the total compensation that was paid or accrued for the Named Executive Officers for the fiscal years ended December 31, 2012, 2011 and 2010. The Named Executive Officers are the Company's Chief Executive Officer, Chief Financial Officer, the three other most highly compensated executive officers as of December 31, 2012, and one additional individual for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of the Company's fiscal year.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)(2)	Bonus ($)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensa-tion ($)(5)	Change in Pension Value and Nonquali-fied Deferred Compen-sation Earnings ($)(6)	All Other Compensa-tion ($)(7)	Total ($)
Kenneth C. Frazier,	2012	$1,500,000	$ 0	$3,284,997	$3,799,998	$2,500,000	$4,316,762	$ 57,850	$15,459,607
Chairman, President and	2011	1,500,000	0	3,107,878	2,999,997	3,096,563	2,586,840	56,374	13,347,652
Chief Executive Officer	2010	1,155,614	0	2,351,323	1,899,998	2,149,296	1,824,565	58,836	9,439,632
Peter N. Kellogg,	2012	973,362	0	1,818,176	1,280,002	1,056,416	598,085	19,282	5,745,323
Executive Vice President and	2011	954,279	0	1,486,330	1,280,000	1,211,177	418,484	18,985	5,369,255
Chief Financial Officer	2010	934,878	0	1,929,653	1,750,000	1,154,102	350,586	19,275	6,138,494
Peter S. Kim, Ph.D.,	2012	1,136,751	0	1,725,241	1,199,998	1,177,669	1,221,376	58,415	6,519,450
Executive Vice President and	2011	1,114,458	0	1,493,252	1,200,002	1,294,716	842,991	42,116	5,987,535
President, Merck Research Laboratories	2010	1,093,524	0	1,883,207	1,500,000	1,233,705	777,315	30,874	6,518,625
Bruce N. Kuhlik,	2012	791,664	0	1,236,796	919,999	898,270	732,748	21,250	4,600,727
Executive Vice President and	2011	776,142	0	919,912	719,998	1,031,991	506,114	21,025	3,975,182
General Counsel	2010	755,510	0	1,652,739	1,470,003	938,669	367,232	21,025	5,205,178
Adam H. Schechter,	2012	938,886	0	1,858,845	1,519,998	1,254,248	2,115,949	42,977	7,730,903
Executive Vice President and	2011	906,258	0	1,356,800	1,400,000	1,352,735	1,484,367	39,735	6,539,895
President, Global Human Health	2010(8)	—	—	—	—	—	—	—	—
Richard S. Bowles, III, Ph.D.	2012	$ 218,064	0	$ 163,984	$ 0	$ 0	$ 0	$5,340,885	$ 5,722,933
Executive Vice President and	2011(9)	—	—	—	—	—	—	—	—
Chief Ethics & Compliance Officer (1)	2010(8)	—	—	—	—	—	—	—	—

(1) Dr. Bowles served as Executive Vice President and Chief Ethics and Compliance Officer of the Company until June 24, 2012.

(2) Amounts shown reflect actual base salary earnings and are not reduced to reflect the Named Executive Officers' elections, if any, to defer receipt of salary into the Merck Deferral Program, an unfunded savings plan.

During 2012, Mr. Frazier deferred $675,000 into the Merck Deferral Program. For more information about deferred amounts, see the *Nonqualified Deferred Compensation* table and related footnotes beginning on page 52.

(3) The amounts shown in this column represent the full grant date fair value of RSUs and PSUs granted to each of the Named Executive Officers during 2012, 2011 and 2010, respectively, as calculated in accordance with FASB ASC Topic 718. These amounts do not represent the actual value realized by the Named Executive Officers during the respective year. For discussion of the assumptions used in these valuations, see *Note 13 to Company's Consolidated Financial Statements* in the Annual Report on Form 10-K for the year ended December 31, 2012.

The maximum value of the PSU awards granted to the Named Executive Officers during 2012, assuming achievement of the highest level of performance (240% of target), was $7,883,993, $2,827,634, $2,700,583, $1,864,294, $2,637,262 and $393,562, for Mr. Frazier, Mr. Kellogg, Dr. Kim, Mr. Kuhlik, Mr. Schechter and Dr. Bowles, respectively. For Dr. Bowles, the amount shown reflects the grant date fair value of the award as calculated in accordance with FASB ASC Topic 718. Although Dr. Bowles did not receive a new grant of PSUs in 2012, an amount is required to be included by virtue of the design of our PSU program (see page 34 for additional details).

For more information on the awards granted during 2012, see the *Grants of Plan-Based Awards* table and related narrative and footnotes.

(4) The amounts shown in this column represent the full grant date fair value of stock options granted to each of the Named Executive Officers during 2012, 2011 and 2010, respectively, as calculated in accordance with FASB ASC Topic 718. These amounts do not represent the actual value realized by the Named Executive Officers during the respective year. The stock option values were calculated using the Black-Scholes option pricing model. For discussion of the assumptions used in these valuations, see *Note 13 to Company's Consolidated Financial Statements* in the Annual Report on Form 10-K for the year ended December 31, 2012.

For more information on stock options granted during 2012, see the *Grants of Plan-Based Awards* table and related narrative and footnotes.

(5) Represents amounts paid under the EIP. For more information, see the *Grants of Plan-Based Awards* table and related narrative and footnotes.

(6) Amounts shown are solely an estimate of the change in actuarial present value of the Named Executive Officer's accrued benefit under the Company's pension plans from December 31, 2011 to December 31, 2012. For more information about those plans, see the *Pension Benefits* table and accompanying narrative beginning on page 49.

The Merck Deferral Program, an unfunded savings plan, does not provide for above market or preferential earnings. For more information, see the *Nonqualified Deferred Compensation* table and related notes and narrative.

Dr. Bowles received a distribution of his non-qualified pension plan benefits in 2012. For more information, see the *Pension Benefits* table on page 49 and the *Nonqualified Deferred Compensation* table and related footnotes and narrative on page 52.

(7) See the *All Other Compensation* table below for additional details on amounts. In accordance with SEC disclosure rules, we calculated the cost of personal benefits provided to the Named Executive Officers as the incremental cost of providing those benefits. We believe that there is a business purpose for the few personal benefits provided only to executives.

(8) Was not a Named Executive Officer during 2010.

(9) Was not a Named Executive Officer during 2011.

All Other Compensation

Named Executive Officer	Year	Financial/ Tax Counseling & Tax Preparation Services (3)	Company Aircraft (4)	Company Car and Driver (5)	Installation and Maintenance of Home Security Monitoring System (3)	Termination-related Payments (6)	Savings Plan Company Match (7)	Executive Life Insurance (8)	TOTAL
K. C. Frazier	2012	$10,000	$ 0	$30,253	$6,347	$ 0	$11,250	$ 0	$ 57,850
	2011	10,000	0	35,349	0	0	11,025	0	56,374
	2010	9,000	1,983	34,919	1,909	0	11,025	0	58,836
P. N. Kellogg	2012	8,032	0	0	0	0	11,250	0	19,282
	2011	7,960	0	0	0	0	11,025	0	18,985
	2010	8,250	0	0	0	0	11,025	0	19,275
P. S. Kim	2012	10,000	0	35,504	1,661	0	11,250	0	58,415
	2011	10,000	0	21,091	0	0	11,025	0	42,116
	2010	5,000	1,174	11,766	1,909	0	11,025	0	30,874
B. N. Kuhlik	2012	10,000	0	0	0	0	11,250	0	21,250
	2011	10,000	0	0	0	0	11,025	0	21,025
	2010	10,000	0	0	0	0	11,025	0	21,025
A. H. Schechter	2012	10,000	0	21,067	660	0	11,250	0	42,977
	2011	10,000	0	18,710	0	0	11,025	0	39,735
	2010(1)	—	—	—	—	—	—	—	—
R. S. Bowles, III	2012	$ 6,000	$ 0	$ 0	$ 0	$5,244,234	$27,303	$63,348	$5,340,885
	2011(2)	—	—	—	—	—	—	—	—
	2010(1)	—	—	—	—	—	—	—	—

(1) Was not a Named Executive Officer during 2010.

(2) Was not a Named Executive Officer during 2011.

(3) Financial planning, tax preparation, and installation and maintenance of home security are valued at actual costs billed by outside vendors.

(4) The value of any personal use of Company aircraft by the Named Executive Officers is based on the aggregate incremental per-hour cost based on the flight time flown from origination to destination and a return to point of origination without passengers, when applicable. This benefit generally is taxable to the Named Executive Officers.

(5) The value of any personal use of Company car and driver by the Named Executive Officers is based on the recipient's cost if equivalent assets were used independent of the Company. This benefit generally is taxable to the Named Executive Officers.

The incremental cost calculation for personal use of the car and driver by the Named Executive Officers included driver overtime, meals and travel pay, maintenance and fuel costs. Company cars also provided business transportation to other executives and non-executive Company personnel. Since the cars were used primarily for business travel, the calculation excludes the fixed costs that do not change based on personal usage, such as drivers' salaries and the purchase costs of the cars.

(6) Termination related payments to Dr. Bowles include the following: severance—$2,415,000, prorated 2012 target annual incentive—$137,640, enhanced pension benefits—$428,925, enhanced medical benefits—$17,238 and 280G excise tax gross-up—$2,245,431.

(7) The Named Executive Officers (other than Dr. Bowles) received Company matching contributions equal to 75% of the first 6% of base salary contributed (up to the IRS limit for qualified savings plans) to the Merck U.S Savings Plan (formerly known as the MSD Employee Savings and Security Plan).

Dr. Bowles received company contributions of 5% of his pay (up to the IRS limit for qualified savings plans) to his account under the Schering-Plough Employees' Savings Plan and 5% of his pay in excess of the IRS limit for qualified savings plans to his account under the Merck Deferral Plan.

(8) Executive life insurance is computed based on the cost of life insurance premiums paid during the year.

The following table provides information concerning each grant of an award made in 2012 to the Named Executive Officers under any plan.

Grants of Plan-Based Awards for Fiscal Year Ended December 31, 2012

				Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Board Approval Date	Award Type	Thres-hold ($)(1)	Target ($)(1)	Maximum ($)(1)	Thres-hold (#)(2)	Target (#)(2)	Maximum (#)(2)	All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Option Awards: Number of Securities Under-lying Options (#)(4)	Exercise or Base Price of Option Awards ($ / Sh) (4)	Grant Date Fair Value of Stock and Option Awards ($)(5)
Frazier	03/30/2012	02/28/2012	PSUs				0	148,438	356,251				$3,284,997(2)
	05/02/2012	02/28/2012	Options								694,698	$39.29	3,799,998(4)
			EIP	$ 0	$2,250,000	$5,625,000							
Kellogg	03/30/2012	02/28/2012	PSUs				0	33,333	79,999				$1,178,181(2)
	05/02/2012	02/28/2012	RSUs							16,289			639,995(3)
	05/02/2012	02/28/2012	Options								234,004	39.29	1,280,002(4)
			EIP	0	929,248	2,323,121							
Kim	03/30/2012	02/28/2012	PSUs				0	31,250	75,000				1,125,243(2)
	05/02/2012	02/28/2012	RSUs							15,271			599,998(3)
	05/02/2012	02/28/2012	Options								219,378	39.29	1,199,998(4)
			EIP	0	1,199,470	2,998,674							
Kuhlik	03/30/2012	02/28/2012	PSUs				0	23,958	57,499				776,789(2)
	05/02/2012	02/28/2012	RSUs							11,708			460,007(3)
	05/02/2012	02/28/2012	Options								168,190	39.29	919,999(4)
			EIP	0	755,786	1,889,465							
Schechter	03/30/2012	02/28/2012	PSUs				0	39,583	94,999				1,098,859(2)
	05/02/2012	02/28/2012	RSUs							19,343			759,986(3)
	05/02/2012	02/28/2012	Options								277,879	39.29	1,519,998(4)
			EIP	0	990,688	2,476,719							
Bowles	03/30/2012	02/28/2012	PSUs				—	—	—				$ 163,984(2)
	05/02/2012	02/28/2012	RSUs							—			—
	05/02/2012	02/28/2012	Options								—	—	—
			EIP	$ 0	$ 330,336	$ 825,840							

(1) Amounts represent awards under the EIP, which equal a specified percentage of base salary as in effect on December 31, 2012. The actual amounts earned by each Named Executive Officer are set forth in the "Non-Equity Incentive Plan Compensation" column of the *Summary Compensation Table*.

(2) The payout of PSUs can range from zero at threshold to a maximum of 240% of target, depending on the level of achievement of the applicable performance goals. For more information on PSUs, see "The Elements of 2012 Compensation" on page 28 and the Narrative to the *Grants of Plan Based Awards* table below.

(3) RSUs vest and are payable as shares of Merck common stock on the third anniversary of their grant provided the individual remains continuously employed through that date. Beginning for grants made in 2010, dividend equivalents are accrued and paid at the end of the restricted period.

(4) Stock options generally become exercisable in equal installments on the first, second and third anniversaries of the grant date.

The exercise price of all stock options granted in 2012 is the closing price of Merck common stock, as traded on New York Stock Exchange on the grant date.

(5) This column represents the full grant date fair value of PSUs, RSUs and stock options granted to each of the Named Executive Officers, as calculated in accordance with FASB ASC Topic 718. These amounts do not represent the actual value realized by the Named Executive Officers during 2012.

For Dr. Bowles, the amount shown in this column reflects the grant date fair value of the award as calculated in accordance with FASB ASC Topic 718. Although Dr. Bowles did not receive a new grant of PSUs in 2012, an amount is required to be included by virtue of the design of our PSU program (see page 34 for additional details).

Narrative Information Relating to the Grants of Plan-Based Awards Table.

General Information Regarding the Executive Incentive Plan ("EIP"). The EIP is a shareholder-approved plan that is administered by the Compensation and Benefits Committee of the Board (the "Committee"). It is designed to provide cash awards to employees who are subject to Section 16 of the Securities Exchange Act of 1934. Compensation paid under this plan is intended to be treated as "performance-based compensation" under Section 162(m) of the Internal Revenue Code. Awards are based on an objective formula defined in the plan that provides for a maximum award fund equal to 2.5% of adjusted net income. The CEO may receive an award not to exceed 10% of the maximum award fund. The maximum individual award for all other plan participants is 90% of the award fund for that year divided by the number of participants other than the CEO. The Committee can use its discretion to reduce (commonly called "negative discretion"), but not increase, the maximum awards payable under this formula for executive officers. In prior years, it has been the Committee's practice to reduce the maximum awards to the amount actually paid using the process described below.

The following methodology is used by the Committee for adjusting the maximum awards payable under the EIP to the actual amounts paid to executive officers:

- Each executive officer is assigned a target award opportunity that is expressed as a multiple of salary.
- The target award opportunity is determined based on Company performance as reflected by the Company Scorecard. The Company performance component can range between 50% and 200% of target.
- The award can be adjusted higher or lower based on the assessment of the individual's performance against pre-established objectives.

No annual cash incentive will be paid to an individual if the Company or individual performance is below minimum performance expectations as determined by the Committee.

General Information Regarding Long-Term Incentives.

Stock Options. Stock options enable executives to share in the financial gain derived from the potential appreciation in stock price from the date that the option is granted until the date that the option is exercised. The exercise price of a stock option is set as the closing price of Merck common stock as reported on the New York Stock Exchange on the grant date (unless a higher grant price is required under local law).

Subject to their terms, stock options generally vest in equal installments on the first, second, and third anniversaries of the grant date and expire on the day before the tenth anniversary of the grant date.

Stock Units. Restricted Stock Units ("RSUs") and Performance Share Units ("PSUs") provide for the payout of shares of Company stock, generally in three years, if the recipient has met certain performance and/or service requirements.

- *RSUs*

Subject to their terms, RSUs generally vest and become payable in shares of Merck common stock on the third anniversary of the grant date. For RSUs granted in and after 2010, dividend equivalents are accrued and paid out in cash if and when the RSUs vest.

- *PSUs*

PSU awards are granted and payouts are determined under a four-step process that spans a three-year performance cycle:

Step 1: Within the first 90 days of the performance period, the Committee will approve an award of PSUs to eligible executives. One third of the award is a target annual tranche.

Step 2: Within the first 90 days of each year of the performance cycle, the Committee will set an annual EPS goal by adopting a schedule reflecting EPS minimum, target, and stretch goals (and interim points) applicable to that annual tranche.

Step 3: After the end of the third year of the performance period, the results of the three annual tranches as determined in Step 2 will be aggregated to determine a preliminary award.

Step 4: The result from Step 3 will be increased or decreased by up to 20% based on the Company's three-year total shareholder return ranking (including the impact of dividends, if any) as compared to our pharmaceutical peer group (described on page 37).

Failure to attain the minimum performance goal results in forfeiture of the shares applicable to the respective award opportunity.

The following table provides details about each outstanding equity award held by the Named Executive Officers as of December 31, 2012.

Outstanding Equity Awards at Fiscal Year Ended December 31, 2012

	Option Awards							Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Grant Date	Option Exercise Price ($)	Vesting Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(8)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(8)
Frazier	105,499(1)			02/28/03	$49.96	02/28/04	02/27/13				
	45,000(1)			02/27/04	48.24	02/27/05	02/26/14				
	42,500(1)			02/25/05	31.84	02/25/06	02/24/15				
	112,000(1)			03/03/06	35.09	03/03/07	03/02/16				
	131,040(1)			03/02/07	44.19	03/02/08	03/01/17				
	60,000(1)			08/01/07	51.02	08/01/08	07/31/17				
	252,000(1)			02/29/08	44.30	02/28/09	02/28/18				
	280,000(1)			04/24/09	23.45	04/24/10	04/23/19				
	152,060(1)	76,031(1)		05/07/10	33.49	05/07/11	05/06/20				
	186,567(1)	373,134(1)		05/04/11	36.56	05/04/12	05/03/21				
		694,698(1)		05/02/12	39.29	05/02/13	05/01/22				
								76,860(3)	$3,146,648		
										218,116(6)	$ 8,929,669
										356,251(7)	14,584,916
Kellogg	175,000(4)			11/13/07	$57.49	11/13/08	11/12/17				
	62,400(1)			02/29/08	44.30	02/28/09	02/28/18				
	93,600(1)			04/24/09	23.45	04/24/10	04/23/19				
	140,056(1)	70,028(1)		05/07/10	33.49	05/07/11	05/06/20				
	79,602(1)	159,204(1)		05/04/11	36.56	05/04/12	05/03/21				
		234,004(1)		05/02/12	39.29	05/02/13	05/01/22				
								40,000(5)	$1,637,600		
								71,119(3)	2,911,612		
										93,062(6)	$ 3,809,958
										79,999(7)	3,275,159
Kim	210,998(1)			02/28/03	$49.96	02/28/04	02/27/13				
	100,000(1)			02/27/04	48.24	02/27/05	02/26/14				
	115,200(1)			03/02/07	44.19	03/02/08	03/01/17				
	115,200(1)			02/29/08	44.30	02/28/09	02/28/18				
	120,048(1)	60,024(1)		05/07/10	33.49	05/07/11	05/06/20				
	74,627(1)	149,254(1)		05/04/11	36.56	05/04/12	05/03/21				
		219,378(1)		05/02/12	39.29	05/02/13	05/01/22				
								61,542(3)	$2,519,529		
										87,247(6)	$ 3,571,892
										75,000(7)	3,070,500
Kuhlik	24,000(1)			03/02/07	$44.19	03/02/08	03/01/17				
	50,000(1)			08/01/07	51.02	08/01/08	07/31/17				
	62,400(1)			02/29/08	44.30	02/28/09	02/28/18				
	42,800(1)			04/24/09	23.45	04/24/10	04/23/19				
	117,646(1)	58,825(1)		05/07/10	33.49	05/07/11	05/06/20				
	44,776(1)	89,552(1)		05/04/11	36.56	05/04/12	05/03/21				
		168,190(1)		05/02/12	39.29	05/02/13	05/01/22				
								54,699(3)	$2,239,377		
										52,349(6)	$ 2,143,168
										57,499(7)	2,354,009

Name	Option Awards							Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Grant Date	Option Exercise Price ($)	Vesting Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(8)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(8)
Schechter	3,165(1)			02/03/03	$52.88	02/03/04	02/02/13				
	26,375(1)			02/28/03	49.96	02/28/04	02/27/13				
	12,500(1)			02/27/04	48.24	02/27/05	02/26/14				
	2,500(1)			05/03/04	47.39	05/03/05	05/02/14				
	3,000(1)			08/02/04	45.41	08/02/05	08/01/14				
	5,000(1)			02/01/06	34.47	02/01/07	01/31/16				
	19,200(1)			03/03/06	35.09	03/03/07	03/02/16				
	50,000(1)			03/02/07	44.19	03/02/08	03/01/17				
	50,000(1)			02/29/08	44.30	02/28/09	02/28/18				
	43,556(1)	21,779(1)		05/07/10	33.49	05/07/11	05/06/20				
	87,064(1)	174,130(1)		05/04/11	36.56	05/04/12	05/03/21				
		277,879(1)		05/02/12	39.29	05/02/13	05/01/22				
								61,348(3)	$2,511,587		
										101,786(6)	$ 4,167,119
										94,999(7)	3,889,259
Bowles	45,629(2)			05/01/07	$34.60	05/01/08	05/01/14				
	19,207(1)	9,605(1)		05/07/10	33.49	05/07/11	06/24/17				
	14,925(1)	29,851(1)		05/04/11	36.56	05/04/12	06/24/17	20,202(3)	$ 827,070		
										8,239(6)	$ 337,305

(1) Stock options generally vest and become exercisable in equal installments on the first, second and third anniversary of grant, and expire on the day before the tenth anniversary of grant. Stock options also vest upon attainment of eligibility to retire, in which case they become exercisable in equal installments on the first, second and third anniversary of grant.

(2) Stock options granted under the Schering-Plough 2006 Stock Incentive Plan generally vest in three substantially equal installments, on the first three anniversaries of the grant date. Stock options granted prior to 2008 that remained unvested immediately prior to the Merger, became vested upon closing of the Merger.

(3) RSUs generally vest and become payable in shares of Merck common stock on the third anniversary of grant.

(4) Stock option grant vests and becomes exercisable in five equal annual installments on the first through fifth anniversaries of grant, and expires on the day before the tenth anniversary of grant.

(5) Fifty percent of the RSU award vested on the third anniversary of grant. The remaining 50% will vest on the sixth anniversary of grant.

(6) Maximum (240% of target) of PSUs granted during 2011 that may be earned based on Merck's performance, as determined by the Committee, following the completion of the three-year performance period ending December 31, 2013.

(7) Maximum (240% of target) of PSUs granted during 2012 that may be earned based on Merck's performance, as determined by the Committee, following the completion of the three-year performance period ending December 31, 2014.

(8) The market value of the units reported in this column was computed by multiplying the number of such units by $40.94, the closing price of Merck common stock on December 31, 2012.

The following table provides information about stock options that were exercised and stock units that vested during 2012.

Option Exercises and Stock Vested for Fiscal Year Ended December 31, 2012

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)(2)**	**Value Realized on Vesting ($)(3)**
Kenneth C. Frazier	—	—	40,107(a)	$1,705,350
Peter N. Kellogg	—	—	28,648(a)	1,218,113
			17,550(b)	671,639
Peter S. Kim	420,000	$7,305,232	28,648(a)	1,218,113
Bruce N. Kuhlik	61,380	921,432	20,626(a)	877,018
			13,650(b)	522,386
Adam H. Schechter	71,200(4)	1,510,252	11,694(a)	497,229
			11,475(b)	439,148
Richard S. Bowles, III	97,851	$1,430,704	5,538(a)	$ 235,476

(1) This column represents the values realized upon stock option exercises during 2012 which were calculated based on the difference between the market price of Merck common stock at the time of exercise and the exercise price of the option.

(2) This column represents the vesting during 2012 of the following:

(a) PSUs granted in 2010 that were paid on February 25, 2013; and
(b) RSUs granted in 2009.

(3) The value realized for RSUs was determined by multiplying the number of units that vested by the market price of Merck common stock on the respective vesting date. The value realized for PSUs was determined by multiplying the number of units that vested by the market price of Merck common stock on February 25, 2013.

(4) In accordance with our stock ownership requirements, Mr. Schechter retained 75% of the net, after-tax shares from this option exercise. The retained shares are included in Mr. Schechter's current holdings and he has fully satisfied his stock ownership goal. The Named Executive Officer stock ownership requirements are discussed in more detail on page 38.

The table below quantifies the benefits expected to be paid to the Named Executive Officers from two defined benefit pension plans—the Retirement Plan for the Salaried Employees of MSD (the "Qualified Plan") and the MSD Supplemental Retirement Plan (the "SRP"). It also shows additional benefits for Dr. Bowles under the Legacy Schering-Plough Retirement Plan (the "S-P Qualified Plan"), a tax qualified retirement plan for all eligible U.S. employees who were employees of Schering Corporation (which in 2012 merged with MSD), the Legacy Schering-Plough Retirement Benefits Equalization Plan (the "S-P BEP"), a non-qualified plan for all eligible U.S. employees of Schering Corporation subject to IRS limitations applicable to their retirement plan benefit and the Legacy Schering-Plough Supplemental Executive Retirement Plan (the "S-P SERP"), a supplemental plan provided to executives in order to provide competitive retirement benefits. The terms of the plans are described below the table.

Pension Benefits
for Fiscal Year Ended
December 31, 2012

Name	Plan Name	Number of Years Credited/Benefit Service (#)(3)	Present Value of Accumulated Benefit ($)(4)	Payments During Last Fiscal Year ($)(5)
Kenneth C. Frazier(1)	Qualified Plan	20.5	$ 915,498	$ 0
	SRP	20.5	12,050,833	0
Peter N. Kellogg	Qualified Plan	5.0	204,205	0
	SRP	5.0	1,522,910	0
Peter S. Kim	Qualified Plan	11.5	432,802	0
	SRP	11.5	4,106,621	0
Bruce N. Kuhlik	Qualified Plan	7.5	300,216	0
	SRP	7.5	1,824,129	0
Adam H. Schechter	Qualified Plan	24.5	784,681	0
	SRP	24.5	6,047,404	0
Richard S. Bowles, III(2)	Qualified Plan	26.0	$ 964,379	$ 0
	SRP	26.0	733,608	0
	S-P Qualified Plan	11.5	416,727	0
	S-P BEP	11.5	0	1,723,073
	S-P SERP	11.5	0	2,581,595

(1) As of December 31, 2012, only Mr. Frazier was eligible for early retirement subsidies under the Qualified Plan and SRP.

(2) Dr. Bowles' S-P BEP and S-P SERP benefits were distributed to him in a lump sum immediately following his separation pursuant to the terms of those plans.

(3) This column shows (i) the number of years of credited service for the Qualified Plan and SRP and (ii) the number of years of benefit service for the S-P Qualified Plan, S-P BEP and S-P SERP as of December 31, 2012.

Credited service begins with the January or July coincident with or next following a participant's hire date and ends with his last full month of employment. A maximum of 35 years of credited service may be earned.

For Dr. Bowles, the number of years of benefit service is the same as actual years of service with Schering-Plough Corporation, beginning with date of hire.

(4) For the Qualified Plan and SRP, the actuarial present value is calculated using the same assumptions used for financial statement reporting purposes as set forth in the footnotes to our financial statements:

- Discount rate equals 4.1% for the Qualified Plan and 3.9% for the SRP;
- RP2000 Mortality Table, sex based; the mortality table in accordance with Sec. 417(c)(3)(A)(ii)(I) of the Internal Revenue Code for lump sums;
- Assumes that 80% of retirees elect a lump sum and the remaining 20% elect an annuity; and
- Assumes commencement at the later of (1) current age or (2) age 62 discounted to current age.

(5) For Dr. Bowles, the amounts shown in this column represent the actual value of the final benefit he received under the S-P BEP and S-P SERP defined benefit pension plans.

The Named Executive Officers (other than Dr. Bowles) participate in two defined benefit plans as do other Merck Sharp & Dohme Corp. salaried employees. Benefits payable under the Qualified Plan and the SRP (collectively, the "Retirement Plans") are based on a formula that yields an annual amount payable over the participant's life beginning at age 65.

Formula. The annual amount of benefit under the Retirement Plans is under a formula which:

Multiplies the participant's final average compensation by

- a multiplier of 2% for years of credited service earned prior to July 1, 1995 and
- a multiplier of 1.6% for years of credited service earned on or after July 1, 1995 (total credited service at 2% and 1.6% is limited to 35 years); and

Subtracts 1.6% of the participant's Social Security benefits multiplied by years of credited service, not to exceed 50% of the Social Security benefit

Final average compensation. The average of a participant's highest five consecutive calendar years of pay for the 10 calendar years before he or she terminates employment. Pay for this purpose means the greater of (a) or (b):

(a) Annual base pay for all full years of service completed. This annual base pay is determined as of December 31 of the current year (before any pre-tax contribution deductions for the savings plan or elective deferrals to our flexible spending accounts). Commissions, overtime pay, bonuses, other supplemental pay and all other amounts are excluded from this calculation.

(b) Actual cash earnings. Cash earnings are determined before any deduction for savings plan contributions or any elective deferrals to our flexible spending account plans. Also included are overtime, bonuses, commissions, special awards, shift differential, cost of living adjustments, pre-tax transportation fringe benefits, as well as incentive pay. The following amounts are excluded: grants under the ISP, any distribution of a previously deferred award under any of our incentive plans, and any other form of compensation.

Vesting. A participant vests in his or her benefit—that is, the benefit that is accrued will not be forfeited back to the plans—when his or her employment includes any portion of five calendar years.

A participant who is vested but terminates employment before being eligible for early retirement subsidies is referred to as a "terminated vested" participant and can commence receiving benefits from the Retirement Plans on the first day of any month between the month after attaining age 55 and the month after attaining age 65. However, with respect to benefits that accrued after 2004 under the SRP, payment will be made as of the first day of the month after the later of (a) the month in which the participant attains age 55 or (b) separates from service (as defined by the Internal Revenue Service). The amount of the benefit is reduced from the age 65 benefit on an actuarial basis, which takes into account the participant's life expectancy and expected plan returns and is substantial—for example, a participant's $100 accrued benefit (at age 65) would be reduced to about $34 if it began at age 55.

Early Retirement Subsidies. If a participant terminates employment at or after age 55 when he or she has at least 10 years of credited service, then he or she is entitled to "early retirement subsidies"—that is, a reduction for commencing before age 65 that is smaller than the actuarial reduction for terminated vested participants. For an early retiree, benefits are reduced by 3% per year that benefits begin before age 62. For example, an early retiree's $100 accrued benefit would be unreduced if he or she waited until age 62, or would be reduced to $79 if he or she commenced at age 55.

However, under the "Rule of 85," a participant who retired from active service when his or her age plus years of Credited Service totaled at least 85 (e.g., age 55 with 30 years of credited service) could receive an unreduced immediate benefit. In addition, a Social Security Bridge Benefit represented an additional benefit for eligible early retirees by providing a temporary monthly supplement prior to age 62 to avoid the Social Security offset described above in the benefit formula, so the offset would not apply until a participant attained age 62. Both of these benefits were eliminated from the Retirement Plans on July 1, 1995. However, transition benefits were added to replace all or part of the benefit for participants who were participating in the Retirement Plans on July 1, 1995, and were then at least age 40. Mr. Frazier's transition percentage is 5.39—that is, 5.39% of the enhancement continues to apply. Other Named Executive Officers do not have any transition benefit.

In addition, a participant who terminates employment due to a disability that can reasonably be expected to permanently disable him or her from any job anywhere may be approved for a disability retirement. In such a case, the participant's benefit which has then accrued is not reduced for early commencement.

SRP Benefits. The Qualified Plan benefits are limited by the Internal Revenue Code ("IRC"). The SRP is an unfunded plan maintained to provide benefits to highly compensated employees impacted by the IRC limits and provides benefits according to the formula described above which exceed those limits, as well as benefits:

- That are payable because compensation deferred into the Merck Deferral Program is excluded from the definition of final average compensation in the Qualified Plan (and so are payable solely from the SRP); and
- That provide a minimum annual aggregate benefit under this plan and the Qualified Plan of $50,000 on a straight-life annuity basis for the incumbents at time of actual retirement in positions designated as *bona fide* executive or high policymaking position under the Company's Corporate Policy on Executive Retirement, reduced in the event of retirement or death prior to normal retirement date.

In addition, for employees who were, prior to January 1, 1995, subject to the Company's mandatory age 65 retirement policy due to their exemption from the Age Discrimination in Employment Act, an additional benefit is payable upon retirement from active service at age 65. The additional benefit is an amount calculated under the benefit formula in the Qualified Plan using one additional month of credited service for each month of credited service accrued prior to January 1, 1995, during, or prior to attainment of, the designated position (up to the 35-year total) minus: (i) the minimum benefit, where applicable, or the supplemental benefit; (ii) the Qualified Plan benefit; and (iii) any retirement benefit payable from a plan not sponsored by the Company.

The SRP was amended as of January 1, 1995, to prospectively eliminate this additional benefit. Further, in 2009, the Company revised its mandatory retirement policy to cover only the CEO. As a result of his appointment to CEO, Mr. Frazier is eligible to receive this benefit provided that he remains subject to the mandatory retirement policy at least until age 64 (i.e., until December 17, 2018) and retires from the Company once he reaches age 65. If those requirements are met, Mr. Frazier will have 30 years of credited service (as compared to 27.5, without benefit of this provision). The provision does not affect any other Named Executive Officer.

Forms of Benefit. Participants in the Qualified Plan generally can choose among single, joint and term certain annuities and a lump sum. All forms of benefit are actuarially equivalent to the single life annuity. All forms use a 9% interest rate except for the lump sum which uses interest rates based on a blend of long term

U.S. Treasury interest rates and an interest rate yield curve based on corporate debt instruments, as provided by the Internal Revenue Code. The interest rate changes quarterly: during 2012, the blended 3 tiered interest rates ranged between 1.47% and 5.77%.

SRP Payments. Payments under the SRP of benefits accrued and vested prior to 2005 generally follow the timing and form of benefit that applies to the Qualified Plan. However, a participant who elects a lump sum under the Qualified Plan, or one who cannot satisfy the spousal consent requirements applicable to the Qualified Plan, may choose any other form of benefit described above for his or her pre-2005 SRP benefit. Post-2004 SRP balances are payable as a lump sum. A participant may elect this benefit to be paid in 5 or 10 annual installments. This election must be made at least 12 months prior to the later of termination or age 55 and payment generally is subject to a five year delay. For top-50 compensated employees of the Company, payments of the post-2004 SRP benefit generally are made at the later of age 55 or 6 months after separation from service.

Nonqualified Deferred Compensation

The following table shows the executive contributions, earnings and account balances for the Named Executive Officers in the Merck Deferral Program, an unfunded, unsecured deferred compensation plan. The Merck Deferral Plan allows participants who are executive officers to defer the following:

- All or a portion of their annual bonuses (but not less than $3,000); and/or
- Up to 50% of base salary, subject to certain limitations.

Nonqualified Deferred Compensation for Fiscal Year Ended December 31, 2012

Name	Executive Contributions in 2012 ($)(1)	Registrant Contributions in 2012 ($)(2)	Aggregate Earnings in 2012 ($)(3)	Aggregate Withdrawals/ Distributions in 2012 ($)	Aggregate Balance at 12/31/12 ($)(4)
Kenneth C. Frazier	$675,000	$ 0	$775,183	$ 0	$7,229,538
Peter N. Kellogg	0	0	172,580	0	1,405,616
Peter S. Kim	0	0	200,980	0	1,735,624
Bruce N. Kuhlik	0	0	0	0	0
Adam H. Schechter	0	0	26,352	0	255,951
Richard S. Bowles, III	$ 0	$14,803	$ 7,475	$2,241,251	$ 0

(1) The amounts disclosed in this column consist of $675,000 of base salary deferral by Mr. Frazier in 2012 (this amount is included in the "Salary" column of the *Summary Compensation Table* for 2012).

(2) The amount disclosed in this column represents the Company's annual 5% credit of pay in excess of the IRS limit to Dr. Bowles' account under the Merck Deferral Plan. This amount is included with the amount disclosed in the "All Other Compensation" column of the *Summary Compensation Table* for 2012.

(3) This column represents dividends earned plus changes in account value (investment earnings or losses) for the period of January 1, 2012 to December 31, 2012.

(4) This column includes deferred compensation earned in earlier years which was disclosed as either "Salary" or "Non-Equity Incentive Plan Awards" in the *Summary Compensation Table* of prior proxy statements as follows: Frazier, $510,000 for 2011.

Deferral Program Investments: The aggregate balances shown above represent amounts that the Named Executive Officers earned but elected to defer, plus earnings (or losses). Account balances may be invested in phantom investments selected by the executive from an array of investment options that mirrors the funds in the

Merck U.S. Savings Plan. Prior to 2011, RSUs and PSUs could be deferred into the Merck Deferral Program instead of being paid upon vesting. Deferrals of RSUs and PSUs were required to be made to the Merck common stock fund and may not be reallocated into any other investment alternative.

Distributions: When participants elect to defer amounts into the Merck Deferral Program, they also elect when the amounts ultimately will be distributed to them. Distributions may either be made in a specific year, whether or not employment has then ended, or at a time that begins at or after the executive's employment has ended. Distributions can be made in a lump sum or up to 15 annual installments. Distributions from the Merck common stock fund are made in shares, with cash payable for any partial share.

Potential Payments Upon Termination or a Change in Control

The section below describes the payments that may be made to the Named Executive Officers upon separation, pursuant to individual agreements, or in connection with a change in control (as defined below). For payments made to a participant upon a retirement other than in connection with a separation or change in control, see *Pension Benefits* table and related narrative beginning at page 49.

Separation

The Company provides separation pay and benefits to all of its most senior executives who are employees of Merck Sharp & Dohme Corp., including the Named Executive Officers, pursuant to the Merck & Co., Inc. U.S. Separation Benefits Plan (the "Separation Plan"). An amount related to the executive's target annual incentive award is provided under certain circumstances. To be eligible for all of the benefits described below, a general release of claims is required, as well as nondisparagement, cooperation with litigation and, in some cases, noncompetition and nonsolicitation agreements in connection with, and at the time of, the separation.

Severance Pay. The Separation Plan provides severance pay to employees whose employment is terminated due to organizational changes including discontinuance of operations, location closings or corporate restructuring or a general reduction in work force. For eligible separations during 2012, certain management level employees, including the Named Executive Officers, were eligible to receive the following severance pay:

- 26 weeks of base pay, if completed years of continuous service as of the date employment ends is less than one year;
- 41 weeks of base pay, if completed years of continuous service is at least one but less than two; or
- 41 weeks of base pay plus two weeks of pay for each completed year of continuous service, if completed years of service is two or more, up to 78 weeks of base pay.

Severance pay is payable in a lump sum. However, for the Named Executive Officers and other of our highest paid employees, amounts are payable at such time as is permitted under Section 409A of the Internal Revenue Code. These employees are eligible for continued participation in the medical, dental and basic life insurance plans for 26 to 78 weeks depending on their years of continuous service, by paying contributions at the same rate as paid by active employees from time to time.

Outplacement Assistance. Under the Separation Plan, certain management level employees, including the Named Executive Officers, are eligible for up to 12 months of Company-provided executive outplacement services from our outplacement vendor.

EIP Awards

As part of our standard practice for separated employees, we may pay an amount in lieu of a bonus payout under the EIP, depending on the date of separation.

- If employment terminates following the end of the performance year, the executive will be considered for a bonus on the same terms and conditions as other employees with respect to the previous year's performance.

- If employment terminates between January 1 and June 30 of the performance year, the employee is not eligible for payment of a bonus for the year in which separated, unless the employee is retirement eligible. Retirement eligible employees may receive a special payment in lieu of any award under the EIP. The amount of the special payment is based on his or her target award and the number of months worked in the current year.
- If employment terminates after June 30 and on or before December 31 of the performance year, a special payment is made in lieu of any award under the EIP. The amount of the special payment is based on the employee's target award and the number of months worked in the current year. This amount is payable in a lump sum at a time that complies with Section 409A, as described above.

Effects Under Other Benefit Plans

All separated employees are entitled to certain benefits under other plans as described below. In general, the benefits depend upon whether an employee is "retirement eligible," "bridged," or "other separated," as the terms are defined below.

Retirement eligible employees are separated employees who, as of their separation date, are at least age 55 with at least 10 years of credited service under the Qualified Plan or are at least age 65 without regard to years of credited service. For retirement eligible employees, a transition Rule of 85 is provided if the employee is within two years of attaining eligibility for the benefit on his or her separation date. This transition benefit is described under the *Pension Benefits* table and related narrative beginning at page 49. Payments may be made from the Qualified Plan and SRP at the time and in the form described under the *Pension Benefits* table and related narrative.

Bridged employees generally are separated employees who are not retirement eligible but who, as of their separation date, are at least age 49 with at least nine years of credited service under the Qualified Plan. All separated bridged employees receive the following benefits:

- *Retirement Plans*. Bridged employees receive a portion of the benefit that would be payable if they were retirement eligible (that is, are at least 55 with at least 10 years of credited service, but who are younger than age 65) on their separation date. The Qualified Plan provides that the benefits for early retirees are reduced by 0.25% for each month that benefits commence before the employee attains age 62. This reduction is substantially less than the actuarial reduction that applies for early commencement for terminated vested employees. Bridged employees receive a pro-rata portion of the enhancement provided by these early retirement subsidies. This pro-rata portion equals the percentage of the employee's credited service on his/her separation date divided by the credited service that employee would have had if employment had continued until he/she was first eligible to be treated as an early retiree.
- *Medical, Dental and Life Insurance Plans and options, RSUs and PSUs*. All separated bridged employees are eligible to be treated in accordance with plan provisions applicable to retired employees as they may be amended from time to time.

Other separated employees are separated employees who are not retirement eligible or bridged employees. These employees are eligible for continued participation in the medical, dental and basic life insurance plans for 26 to 78 weeks depending on their years of continuous service, by paying contributions at the same rate as paid by active employees from time to time. In addition, these employees are also treated under the provisions applicable to separated employees with respect to their options, RSUs and PSUs.

Individual Agreements

In addition to the benefits and payments provided for separated employees and following a Change in Control, Mr. Kellogg has an agreement that may affect the amount paid or benefits provided following termination of his employment under certain conditions as described below.

If within two years after the appointment of a successor CEO to Mr. Richard T. Clark, the Company's former Chief Executive Officer who retired in December 2011, we terminate his employment for a reason other than gross misconduct, Mr. Kellogg will be eligible for the following, provided that upon the termination of his employment he signs and complies with noncompete, nonsolicitation and nondisclosure covenants and a waiver and release of claims:

- a lump sum payment equal to 18 months of base salary; and
- immediate vesting of his November 13, 2007, stock option and RSU grants.

Change in Control

Participants in the Change in Control Plan include the Named Executive Officers (other than Dr. Bowles) as well as certain other senior executives. With respect to the Named Executive Officers, the severance benefits described below would be provided upon qualifying terminations of employment in connection with or within two years following a change in control of Merck if the change in control occurs before November 26, 2013. However, the Compensation and Benefits Committee on November 26, 2012, adopted a number of changes to the Change in Control Plan that, among other things, (1) reduce the size of the participant population; (2) reduce the cash severance multiples for participants other than the CEO; (3) eliminate additional age and service credits under the supplemental pension plan; and (4) raise certain thresholds, thereby increasing the requirements that must be met to trigger the occurrence of a change in control. The changes are generally adverse to the participants and therefore will not be effective until November 26, 2013.

- Cash severance pay equal to three (or a lesser number equal to the number of full and fractional years between the date of the change in control and the Named Executive Officer's 65th birthday) times the sum of his or her base salary plus target bonus amount.
- Pro-rata annual cash incentive at target levels, paid in a lump sum at termination.
- Continued medical, dental and life insurance benefits at active-employee rates for a period of three years, but not beyond the Named Executive Officer's 65th birthday. These benefits are reduced by benefits obtained from a subsequent employer and are not available to the extent the Named Executive Officer is eligible for the same benefit as a retiree.
- Enhanced supplemental retirement benefits determined by increasing both the Named Executive Officer's age and credited service by three (but not more than he or she would have earned if employment continued until age 65) and then calculating benefits under the SRP.
- If the Named Executive Officer would attain specified age and service levels within two years following the change in control, then he or she is entitled to subsidized and/or unreduced pension benefits upon commencement of pension benefits in accordance with plan terms after his or her termination of employment. In addition, if the Named Executive Officer would attain specified age and service levels within two years following the change in control, then he or she is entitled to be treated as a retiree under our medical, dental and life insurance plans immediately upon his or her termination of employment.
- Continued financial planning benefits and outplacement assistance benefits for a limited period of time.

Terminations of employment that entitle a Named Executive Officer to receive severance benefits under the plan consist of (1) a termination without cause or (2) a resignation by the Named Executive Officer for good reason, in each case within two years following a change in control. A Named Executive Officer is not eligible for benefits under the plan if his or her termination is due to death or permanent disability.

A "change in control" for purposes of the plan generally consists of any of the following:

- an acquisition of more than 20% of the Company's voting securities (other than acquisitions directly from the Company); or

- the current Board (and their approved successors) ceasing to constitute a majority of the board of directors of a successor to the Company; or
- the consummation of a merger, consolidation or reorganization, unless
    - the shareholders of the Company prior to the transaction hold at least 60% of the voting securities of the successor;
    - the members of the Board prior to the transaction constitute at least a majority of the board of directors of the successor; and
    - no person owns 20% or more of the voting securities of the Company or the successor; or
- the liquidation or dissolution of the Company or the sale by the Company of all or substantially all of its assets.

A "termination for good reason" for the Named Executive Officers generally includes any of the following actions without the executive's written consent following a change in control:

- Significantly and adversely changing the executive's authority, duties, responsibilities or position (including title, reporting level and status as an executive officer subject to Section 16(b) of the Exchange Act). Other than:
    - an isolated, insubstantial and inadvertent action not taken in bad faith which the Company remedies promptly after receiving notice; or
    - a change in the person to whom (but not the position to which) he or she reports;
- Reducing annual base salary or level of bonus opportunity;
- Changing the executive's office location so that he or she must commute more than the greater of (a) 50 more miles or (b) 120% more miles, as compared to his or her commute immediately prior to the change;
- Failing to pay base salary, bonus or deferred compensation under any Company deferred compensation program within seven days of its due date;
- Failing to continue any compensation plan or program in which the executive participates including bonus plans and the Incentive Stock Plan (or successors to those plans), or failing to continue his or her level of participation in those plans;
- Failing to continue to provide him or her with the pension and welfare benefits substantially similar to those in which he or she participates or materially reducing any of those benefits or depriving him or her of any material fringe benefit; and
- Failing to obtain a satisfactory agreement from any successor to Merck to assume and agree to perform the obligations under the change in control plan.

A termination by the Company for "cause" generally includes:

- Willful and continued failure by the executive to substantially perform his or her duties for the Company (other than any failure that results from his or her incapacity due to physical or mental illness) for at least 30 consecutive days after a written demand for substantial performance has been delivered to him or her;
- Willful misconduct or gross negligence by the executive which is injurious to the Company or any of its subsidiaries; and
- Conviction, or entry of a plea of *nolo contendere* to
    - a felony or
    - any crime (whether or not a felony) involving dishonesty, fraud, embezzlement or breach of trust.

To receive the severance benefits under the plan, a Named Executive Officer must execute a general release of claims against Merck (or its successor) and its affiliates, which includes certain restrictive covenants, including a commitment by the Named Executive Officer not to solicit employees for two years following the change in control. The severance benefits are in lieu of (or offset by) any other severance benefits to which a Named Executive Officer may be entitled under other arrangements. Cash severance is paid in the form of salary continuation, and it and the other benefits under the plan (other than the tax-qualified pension benefits) are generally subject to discontinuation in the event of breach by the Named Executive Officer of the restrictive covenants and other obligations under the release.

The Named Executive Officers are not entitled to any tax gross-up in the event they are subject to excise taxes payable under Section 4999 of the Internal Revenue Code of 1986, as amended, in connection with the change in control.

For stock options and RSUs granted prior to 2010:

- Upon a change in control, all outstanding stock options and RSUs will become fully vested.
- In general, vested stock options may be exercised for five years following termination of the option holder's employment following a change in control (but not beyond the original term of the stock option). This extended exercise period would not apply in the case of terminations by reasons of death or retirement or for gross misconduct.
- If stock options do not remain outstanding following the change in control and are not converted into successor stock options, then option holders will be entitled to receive cash for their options in an amount at least equal to the difference between the exercise price and the price paid to shareholders in the change in control.
- Upon a change in control, a portion of PSUs generally will become vested as determined by reference to the holder's period of employment during the performance cycle:
    - based on actual performance as to fiscal years that have been completed for at least 90 days as of the date of the change in control: or
    - otherwise, based on target performance.

For options, RSUs and PSUs granted in and after 2010, awards generally will vest upon an involuntary termination of employment within two years after a change in control.

In addition, our compensation and employee benefit plans, programs and arrangements generally provide that for two years following the change in control, the material terms of the plans, programs and arrangements (including terms relating to eligibility, benefit calculation, benefit accrual, cost to participants, subsidies and rates of employee contributions) may not be modified in a manner that is materially adverse to individuals who participated in them immediately before the change in control.

The following table estimates the dollar value of the additional payments and benefits the Named Executive Officers would have been entitled to receive under applicable plans and/or arrangements, assuming the applicable triggering event occurred on December 31, 2012. These amounts are in addition to what would otherwise be payable in the event the Named Executive Officer retired. As of December 31, 2012, Mr. Frazier is retirement eligible (i.e., he is at least age 55 and has completed at least 10 years of credited service). Dr. Bowles is not included in the table because his termination of employment actually occurred on June 24, 2012, and the amounts paid or payable to him in connection with his termination have been described and disclosed in the *Summary Compensation Table* and *Pension Benefits* table, and the related footnotes to each.

Name	Involuntary Termination Before Change in Control	Change in Control	Involuntary Termination After Change in Control
K.C. Frazier			
• Severance Pay(1)	$2,250,000	—	$11,250,000
• Supplemental Pension and Retiree Medical(2)	—	—	3,765,314
• Welfare Benefits Continuation	—	—	—
• Stock Option Accelerated Vesting	—	—	—
• PSU Accelerated Vesting(3)	—	—	5,433,222
• RSU Accelerated Vesting	—	—	—
• Outplacement, Financial Planning	45,000	—	50,000
Total	2,295,000	—	20,498,536
P. N. Kellogg			
• Severance Pay(1)	$ 959,345	—	$ 5,722,213
• Supplemental Pension and Retiree Medical(2)	—	—	827,169
• Welfare Benefits Continuation	15,682	—	47,970
• Stock Option Accelerated Vesting(4)	—	—	1,605,129
• PSU Accelerated Vesting(3)	2,813,703	—	4,417,249
• RSU Accelerated Vesting(5)	4,871,511	$3,275,200	2,911,612
• Outplacement, Financial Planning	45,000	—	50,000
Total	8,705,241	3,275,200	15,581,342
P. S. Kim			
• Severance Pay(1)	$1,384,003	—	$ 7,025,465
• Supplemental Pension and Retiree Medical(2)	1,979,716	—	4,346,141
• Welfare Benefits Continuation(6)	129,239	—	—
• Stock Option Accelerated Vesting(4)	—	—	1,462,885
• PSU Accelerated Vesting(3)	2,713,891	—	4,221,497
• RSU Accelerated Vesting(5)	1,528,843	—	2,519,529
• Outplacement, Financial Planning	45,000	—	50,000
Total	7,780,692	—	19,625,517
B. N. Kuhlik			
• Severance Pay(1)	$ 841,462	—	$ 4,654,049
• Supplemental Pension and Retiree Medical(2)	—	—	2,274,192
• Welfare Benefits Continuation	18,303	—	51,914
• Stock Option Accelerated Vesting(4)	—	—	1,107,998
• PSU Accelerated Vesting(3)	1,829,838	—	2,900,269
• RSU Accelerated Vesting(5)	1,474,423	—	2,239,377
• Outplacement, Financial Planning	45,000	—	50,000
Total	4,209,026	—	13,277,799

Name	Involuntary Termination Before Change in Control	Change in Control	Involuntary Termination After Change in Control
A. H. Schechter			
• Severance Pay(1)	$1,415,268	—	$ 5,802,599
• Supplemental Pension and Retiree Medical(2)	—	—	531,980
• Welfare Benefits Continuation	23,983	—	47,967
• Stock Option Accelerated Vesting(4)	—	—	1,383,443
• PSU Accelerated Vesting(3)	2,276,900	—	4,078,586
• RSU Accelerated Vesting(5)	1,409,930	—	2,511,587
• Outplacement, Financial Planning	45,000	—	50,000
Total	5,171,081	—	14,406,162

(1) Amounts shown are pursuant to the arrangements for employees eligible for benefits under the Merck & Co., Inc. U.S. Separation Benefits Plan as described on page 53.

(2) SRP enhancements include the incremental value of benefits provided upon a change in control. These amounts represent the present value of the enhanced benefit that would be received under the SRP and the cost to provide retiree medical coverage at December 31, 2012.

(3) Each PSU annual tranche that has been completed for 90 days pays out based on actual performance; otherwise, the payout is based on target performance. The value equals the total number of accelerated shares as of December 31, 2012, multiplied by the closing price of Merck common stock on December 31, 2012, which was $40.94.

(4) Unvested stock options granted prior to 2010 vest immediately upon a change of control. Unvested stock options granted in and after 2010 vest upon an involuntary termination occurring within two years immediately following a change in control. The value shown equals the total number of unvested stock option shares as of December 31, 2012, multiplied by the difference between the closing price of Merck common stock on December 31, 2012, of $40.94 and the exercise price of the option.

(5) The value related to these awards equals the total number of accelerated shares as of December 31, 2012, multiplied by the closing price of Merck common stock on December 31, 2012, of $40.94.

(6) As of December 31, 2012, Dr. Kim is bridge eligible under the terms of the Separation Plan if he is involuntarily separated and will be treated as a retiree for purposes of medical, dental benefits and his retiree healthcare benefits.

Director Compensation

As described more fully below, this chart summarizes the annual compensation for our non-employee directors during 2012.

Director Compensation for Fiscal Year Ended December 31, 2012

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(4)	All Other Compensation ($)(5)	Total ($)
Leslie A. Brun	$125,000	—	$165,000	$290,000
Thomas R. Cech	110,000	—	159,550	269,550
Thomas H. Glocer	110,000	—	150,000	260,000
Steven F. Goldstone(1)	45,834	—	10,000	55,834
William B. Harrison, Jr.	145,000	—	180,000	325,000
Harry R. Jacobson(1)	41,667	—	10,000	51,667
William N. Kelley(2)	47,917	—	10,000	57,917
C. Robert Kidder	110,000	—	150,500	260,500
Rochelle B. Lazarus	102,500	—	163,850	266,350
Carlos E. Represas	110,000	—	150,000	260,000
Patricia F. Russo	106,667	—	175,000	281,667
Thomas E. Shenk(3)	18,334	—	10,000	28,334
Anne M. Tatlock(2)	47,917	—	10,000	57,917
Craig B. Thompson	110,000	—	150,000	260,000
Wendell P. Weeks	104,167	—	180,000	284,167
Peter C. Wendell	100,000	—	180,000	280,000

(1) Did not stand for re-election to the Board at the Annual Meeting of Shareholders on May 22, 2012.

(2) Retired from the Board effective May 22, 2012.

(3) Retired from the Board effective February 8, 2012.

(4) Beginning in 2011, no further grants will be made under the 2010 Non-Employee Directors Stock Option Plan, subject to the Board's right to further amend the Plan. Stock options previously issued to directors under the 2010 Non-Employee Directors Stock Option Plan and any predecessor plans become exercisable in substantially equal installments on the first, second and third anniversaries of the grant date. All options expire on the day before the tenth anniversary of their grant. The exercise price of the options is the closing price of our common stock on the grant date as quoted on the New York Stock Exchange.

On December 31, 2012, the aggregate number of option awards outstanding for Directors who served during 2012 was: Mr. Brun—10,000 shares; Dr. Cech—5,000 shares; Mr. Glocer—15,000 shares; Mr. Goldstone—0 shares; Mr. Harrison—40,275 shares; Dr. Jacobson—0 shares; Dr. Kelley—40,275 shares; Mr. Kidder—5,000 shares; Ms. Lazarus—30,000 shares; Mr. Represas—8,334 shares; Ms. Russo—5,000 shares; Dr. Shenk—40,275 shares; Ms. Tatlock—40,275 shares; Dr. Thompson—5,000 shares; Mr. Weeks—35,000 shares; and Mr. Wendell—35,000 shares.

(5) Represents Company credits to the Plan for Deferred Payment of Directors' Compensation. Mr. Goldstone, Drs. Jacobson, Kelley and Shenk, and Ms. Tatlock did not receive a Company credit to the Plan for Deferred Payments of Directors' Compensation because they either retired from the Board or did not stand for re-election at the 2012 Annual Meeting of Shareholders, as applicable, prior to the award date.

Also includes charitable contributions made by the Merck Foundation under its matching gift program on behalf of the following Directors: Mr. Brun, $15,000; Dr. Cech, $9,550; Mr. Harrison, $30,000; Mr. Kidder, $500; Ms. Lazarus, $13,850; Ms. Russo, $25,000; Mr. Weeks, $30,000; and Mr. Wendell, $30,000. For Mr. Brun, Dr. Cech, Mr. Harrison, Mr. Kidder, Ms. Lazarus and Mr. Weeks, contributions include 2011 contributions that were made in calendar year 2012. In addition, continuing the Company's tradition of making a charitable contribution in honor of a retiring director, the Company made one-time contributions aggregating $50,000 in honor of Mr. Goldstone, Drs. Jacobson, Kelley and Shenk, and Ms. Tatlock as follows: Mr. Goldstone—The Taft School; Dr. Jacobson—Shoot for the Future and The Family Foundation Fund; Dr. Kelley—Predictive Health Institute, Emory University; Dr. Shenk—Hepatitis B Foundation; and Ms. Tatlock—Theatre for a New Audience.

Directors who are not Merck employees are compensated for their service as a director as shown in the chart below:

Schedule of Director Fees
As of January 1, 2011

Compensation Item	Amount
Annual Retainers	
Board	$100,000
Lead Director	30,000
Audit Committee Chair	25,000
Governance, Public Policy and Corporate Responsibility Committee Chair	15,000
Compensation and Benefits Committee Chair	15,000
Research Committee Chair	15,000
Audit Committee Members	10,000
Company credit to the Plan for Deferred Payment of Directors' Compensation	150,000

All annual retainers are paid in quarterly installments.

Directors' Deferral Plan. Under the Merck & Co., Inc. Plan for Deferred Payment of Directors' Compensation ("Directors' Deferral Plan") each director may elect to defer all or a portion of cash compensation from retainers. Any amount so deferred is, at the director's election, valued as if invested in any of the investment measures offered under the Merck U.S. Savings Plan (formerly known as the MSD Employee Savings and Security Plan), including our common stock, and is payable in cash in installments or as a lump sum beginning with the year after termination of service as a director.

In addition to the annual retainer, on the first Friday following the Annual Meeting of Shareholders, each director receives a credit to his/her Merck common stock account under the Directors' Deferral Plan of $150,000. Directors who join the Board after that date are credited with a pro-rata portion.

Other. We reimburse all directors for travel and other necessary business expenses incurred in the performance of their services for us and extend coverage to them under our travel accident and directors' and officers' indemnity insurance policies. Directors are also eligible to participate in the Merck Foundation Matching Gift Program. The maximum gift total for a director participant in the Program is $30,000 in any calendar year.

Director Stock Ownership Guidelines. On joining the Board, each director must own at least one share of stock, with a target Merck Common Stock ownership level equal to five times the annual cash retainer to be achieved by each director within five years of joining the Board or as soon thereafter as practicable. Shares held in the Merck Common Stock account under the Plan for Deferred Payment of Directors' Compensation will be included in the target goal. Upon the request of a director, the Governance, Public Policy and Corporate Responsibility Committee will consider if modification of the target ownership level is appropriate in view of a director's personal circumstances.