10-Q 1 jnj10q2001q1b.txt 10Q UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended April 1, 2001 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 number 1-3215 JOHNSON & JOHNSON (Exact name of registrant as specified in its charter) NEW JERSEY 22-1024240 (State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.) One Johnson & Johnson Plaza New Brunswick, New Jersey 08933 (Address of principal executive offices) (Zip code) 732-524-0400 Registrant's telephone number, including area code 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 X No Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On April 27, 2001, 1,396,971,060 shares of Common Stock, $1.00 par value, were outstanding. - 1 - JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS Part I - Financial Information Page No. Item 1. 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Quantitative and Qualitative Disclosures About Market Risk 18 Part II - Other Information Item 1 - Legal Proceedings 18 Item 6 - Exhibits and Reports on Form 8-K 20 Signatures 21 - 2 - Part I - FINANCIAL INFORMATION Item 1 - Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) ASSETS April 1, December 31, 2001 2000 Current Assets: Cash and cash equivalents $ 3,647 3,411 Marketable securities, at cost 2,253 2,333 Accounts receivable, trade, less allowances $398 (2000 - $411) 4,606 4,464 Inventories (Note 4) 2,810 2,842 Deferred taxes on income 1,110 1,151 Prepaid expenses and other receivables 1,995 1,249 Total current assets 16,421 15,450 Marketable securities, non-current 243 269 Property, plant and equipment, at cost 11,134 11,248 Less accumulated depreciation and amortization 4,376 4,277 6,758 6,971 Intangible assets, net (Note 5) 7,164 7,256 Deferred taxes on income 37 54 Other assets 1,252 1,321 Total assets $31,875 31,321 See Notes to Consolidated Financial Statements - 3 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) LIABILITIES AND SHAREOWNERS' EQUITY April 1, December 31, 2001 2000 Current Liabilities: Loans and notes payable $ 901 1,479 Accounts payable 1,928 2,083 Accrued liabilities 2,753 2,776 Accrued salaries, wages and commissions 502 488 Taxes on income 736 314 Total current liabilities 6,820 7,140 Long-term debt 1,571 2,037 Deferred tax liability 246 255 Employee related obligations 1,860 1,753 Other liabilities 1,286 1,328 Shareowners' equity: Preferred stock - without par value (authorized and unissued 2,000,000 shares) - - Common stock - par value $1.00 per share (authorized 2,160,000,000 shares; issued 1,534,921,000 shares) 1,535 1,535 Note receivable from employee stock ownership plan (30) (35) Accumulated other comprehensive income (564) (470) (Note 9) Retained earnings 20,067 18,812 21,008 19,842 Less common stock held in treasury, at cost (137,982,000 & 143,984,000 shares) 916 1,034 Total shareowners' equity 20,092 18,808 Total liabilities and shareowners' equity $31,875 31,321 See Notes to Consolidated Financial Statements - 4 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Quarter Ended April 1, Percent April 2, Percent 2001 to Sales 2000 to Sales Sales to customers (Note 6) $7,791 100.0 7,319 100.0 Cost of products sold 2,279 29.2 2,241 30.6 Gross Profit 5,512 70.8 5,078 69.4 Selling, marketing and administrative expenses 2,721 34.9 2,609 35.6 Research expense 701 9.0 637 8.7 Interest income (105) (1.3) (77) (1.0) Interest expense, net of portion capitalized 19 .2 46 .6 Other (income)expense, net 36 .5 (29) (.4) 3,372 43.3 3,186 43.5 Earnings before provision for taxes on income 2,140 27.5 1,892 25.9 Provision for taxes on income (Note 3) 640 8.2 578 7.9 NET EARNINGS $1,500 19.3 1,314 18.0 NET EARNINGS PER SHARE (Note 8) Basic $ 1.08 .95 Diluted $ 1.06 .93 CASH DIVIDENDS PER SHARE $ .32 .28 AVG. SHARES OUTSTANDING Basic 1,393.7 1,389.7 Diluted 1,414.7 1,411.0 See Notes to Consolidated Financial Statements - 5 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Quarter Ended April 1, April 2, 2001 2000 CASH FLOWS FROM OPERATING ACTIVITIES Net earnings $1,500 1,314 Adjustments to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 391 431 Accounts receivable reserves (6) (10) Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (254) (190) Increase in inventories (54) (6) Changes in other assets and liabilities 51 237 NET CASH FLOWS FROM OPERATING ACTIVITIES 1,628 1,776 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (257) (310) Proceeds from the disposal of assets 19 18 Acquisition of businesses, net of cash acquired (17) (7) Purchases of investments (1,331) (817) Sales of investments 1,409 765 Other (22) 16 NET CASH USED BY INVESTING ACTIVITIES (199) (335) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareowners (447) (381) Repurchase of common stock (257) (208) Proceeds from short-term debt 116 280 Retirement of short-term debt (645) (865) Proceeds from long-term debt 4 8 Retirement of long-term debt (10) (15) Proceeds from the exercise of stock options 78 60 NET CASH USED BY FINANCING ACTIVITIES (1,161) (1,121) EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (32) (20) INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS 236 300 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 3,411 2,363 CASH AND CASH EQUIVALENTS, END OF PERIOD 3,647 2,663 ACQUISITION OF BUSINESSES Fair value of assets acquired 22 83 Fair value of liabilities assumed (5) (1) 17 82 Treasury stock issued at fair value - (75) Net cash payments $ 17 7 See Notes to Consolidated Financial Statements - 6 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - The accompanying unaudited interim financial statements and related notes should be read in conjunction with the Consolidated Financial Statements of Johnson & Johnson and Subsidiaries (the "Company") and related notes as contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2000. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair presentation of such statements. Certain prior year amounts have been reclassified to conform with current year presentation. NOTE 2 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES Effective January 1, 2001, the Company adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No 133", collectively referred to as SFAS 133. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (OCI), depending on whether the derivative is designated as part of a hedge transaction, and, if it is depending on the type of hedge transaction. The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future product purchases designated in foreign currency. The Company also uses currency swaps to manage currency risk primarily related to borrowings. Both of these types of derivatives are designated as cash flow hedges. Additionally, the Company uses forward exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward exchange contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities. The designation as a cash flow hedge is made at the later of the date of entering into the derivative contract or January 1, 2001. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and that is highly effective, are recorded in OCI, until the underlying transaction affects earnings. Fair value of a forward exchange contract represents the present value of the change in forward exchange rates times the notional amount of the derivative. The fair value of a currency swap contract is determined by discounting to the present all future cash flows of the currencies to be exchanged at interest rates prevailing in the market for the periods the currency exchanges are due, and expressing the result in U.S. Dollars at the current spot foreign currency exchange rate. - 7 - At inception, and on an ongoing basis, the Company assesses whether each derivative is expected to be highly effective in offsetting changes in the cash flows of hedged items. When a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings. The Company documents all relationships between hedged items and derivatives. The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are: (1) minimize foreign currency exposure's impact on the Company's financial performance; (2) protect the Company's cash flow from adverse movements in foreign exchange rates; (3) ensure the appropriateness of financial instruments; (4) manage the enterprise risk associated with financial institutions. On January 1, 2001 the Company recorded a $17 million net-of-tax cumulative effect transition adjustment gain in OCI to recognize at fair value all derivative instruments designated as cash flow hedges. The adjustment to net earnings was immaterial. 380: As of April 1, 2001 the balance of deferred net gains on derivatives accumulated in OCI was $105 million (after tax). Of this amount, the Company expects that $102 million, which includes the transition adjustment, will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. The underlying transactions which will occur and cause the amount deferred in OCI to affect earnings primarily represent sales to third parties and purchases of inventory. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 15 months. For the quarter ended April 1, 2001 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. 382: For the quarter ended April 1, 2001 the Company has recorded a net gain of less than $1 million (after tax) in the 'Other (income) expense, net' category of the consolidated statement of earnings, representing the impact of discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period. 383: Refer to Note 9 - Accumulated Other Comprehensive Income for disclosure of movements in OCI. - 8 - NOTE 3 - INCOME TAXES The effective income tax rates for the first three months of 2001 and 2000 are 29.9% and 30.5%, respectively, as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate is primarily the result of domestic subsidiaries operating in Puerto Rico under a grant for tax relief expiring on December 31, 2007 and the result of subsidiaries manufacturing in Ireland under an incentive tax rate expiring on December 21, 2010. NOTE 4 - INVENTORIES (Dollars in Millions) April 1, 2001 December 31, 2000 Raw materials and supplies $ 726 702 Goods in process 478 458 Finished goods 1,606 1,682 $ 2,810 2,842 NOTE 5 - INTANGIBLE ASSETS (Dollars in Millions) April 1, 2001 December 31, 2000 Intangible assets $ 8,713 8,726 Less accumulated amortization 1,549 1,470 $ 7,164 7,256 The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis over periods of up to 40 years. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives. - 9 - NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS First Quarter Percent 2001 2000 Increase Consumer Domestic $ 980 943 3.9 International 805 809 (.4) 1,785 1,752 1.9% Pharmaceutical Domestic $ 2,126 1,949 9.1 International 1,134 1,093 3.7 3,260 3,042 7.2% Med Dev & Diag Domestic $ 1,474 1,311 12.4 International 1,272 1,214 4.8 2,746 2,525 8.8% Domestic $ 4,580 4,203 9.0 International 3,211 3,116 3.0 Worldwide $ 7,791 7,319 6.5% OPERATING PROFIT BY SEGMENT OF BUSINESS First Quarter Percent 2001 2000 Change Consumer $ 289 231 25.1 Pharmaceutical 1,350 1,277 5.7 Med. Dev. & Diag. 572 472 21.2 Segments total 2,211 1,980 11.7 Expenses not allocated to segments (71) (88) Worldwide total $ 2,140 1,892 13.1% Note: Prior year amounts have been reclassified to conform with current year presentation. SALES BY GEOGRAPHIC AREA First Quarter Percent 2001 2000 Increase U.S. $ 4,580 4,203 9.0 Europe 1,736 1,678 3.4 Western Hemisphere Excluding U.S. 523 516 1.5 Asia-Pacific, Africa 952 922 3.3 Total $ 7,791 7,319 6.5% - 10 - NOTE 7 - ACCOUNTING FOR SALES INCENTIVES The Company currently recognizes the expense related to coupons and certain sales incentives upon issuance and classifies these expenses as selling, marketing and administrative expense. The amount of such sales incentives were $31 million for the first quarter of 2001 and 2000. EITF 00-14 is expected to take effect in the first quarter of 2002 and the impact on the Company will be the reclassification of the above mentioned amounts from expense to a reduction of sales. NOTE 8 - EARNINGS PER SHARE The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the three months ended April 1, 2001 and April 2, 2000: (Shares in Millions) April 1, April 2, 2001 2000 Basic net earnings per share $ 1.08 .95 Average shares outstanding - basic 1,393.7 1,389.7 Potential shares exercisable under stock option plans 54.7 55.2 Less: shares which could be repurchased under treasury stock method (33.7) (33.9) Adjusted average shares outstanding - diluted 1,414.7 1,411.0 Diluted earnings per share $ 1.06 .93 NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the three months ended April 1, 2001 is $1,404 million, compared with $1,337 million for the same period a year ago. Total comprehensive income includes net earnings, net unrealized currency gains and losses on translation, net unrealized gains and losses on available for sale securities, pension liability adjustments and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The following table set forth the components of accumulated other comprehensive income. Total Unrld Gains/ Accum For. Gains/ Pens (Losses) Other Cur. (Losses) Liab on Deriv Comp Trans. on Sec Adj. & Hedg Inc/(Loss) December 31, 2000 $ (522) 67 (15) - (470) 2001 First Qtr changes Transition Adj. - - - 17 Net change associated to current period hedging transactions - - - 249 Net amount reclassed to net earnings - - - (161)* Net First Qtr changes (160) (38) (1) 105 (94) April 1, 2001 $ (682) 29 (16) 105 (564) Note: All amounts, other than foreign currency translation, are net of tax. currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in non US subsidiaries. *Primarily offset by changes in value of the underlying transactions. - 11 - NOTE 10 - MERGERS & ACQUISITIONS On March 2, 2001, Johnson & Johnson acquired BabyCenter, Inc. from eToys, Inc. The purchase was an all cash transaction valued at approximately $10 million. BabyCenter.com is the largest and best-known online parenting resource serving expectant and new mothers and fathers. The BabyCenter family of websites also includes ParentCenter.com and BabyCentre.co.uk. On March 27, 2001, Johnson & Johnson and ALZA Corporation (ALZA) announced that they have entered into a merger agreement under which Johnson & Johnson will merge with ALZA in a stock-for-stock exchange. ALZA shareholders will receive a fixed exchange ratio of .49 shares of Johnson & Johnson common stock for each share of ALZA in a tax-free transaction (or .98 shares of Johnson & Johnson common stock after giving effect to the two-for-one stock split discussed in Note 12). Johnson & Johnson intends to account for the transaction as a pooling of interests. The boards of directors of Johnson & Johnson and ALZA have given approvals to the merger, which is subject to customary closing conditions, including the approval of ALZA's shareholders. The transaction is expected to close by the early part of the third quarter of 2001. ALZA Corporation is a research-based pharmaceutical company and a leader in drug delivery technologies. ALZA applies its delivery technologies to develop pharmaceutical products with enhanced therapeutic value for its own portfolio and for many of the world's leading pharmaceutical companies. ALZA's sales and marketing efforts have been focused in oncology and urology. NOTE 11 - LEGAL PROCEEDINGS The information called for by this footnote is incorporated herein by reference to Item 1 ("Legal Proceedings") included in Part II of this Report on Form 10-Q. - 12 - NOTE 12 - SUBSEQUENT EVENTS On April 18, 2001, Johnson & Johnson completed their previously announced merger with Heartport, valued at approximately $81 million. The transaction was completed after Heartport shareholders voted to approve the merger agreement with Johnson & Johnson. Holders of Heartport common stock will receive 0.0307 in Johnson & Johnson common stock for each outstanding share of Heartport. Johnson & Johnson intends to purchase the number of shares of Johnson & Johnson common stock equal to the number of such shares issued in connection with this merger. Johnson & Johnson intends to complete such purchases through open market transactions within 90 days. Heartport manufactures and markets less invasive cardiac surgery products that enable surgeons to perform a wide range of less invasive open-chest and minimally invasive heart operations, including stopped heart and beating heart procedures. On April 26, 2001, the Board of Directors of Johnson & Johnson approved an increase in the authorized common stock from 2.16 billion to 4.32 billion shares and a subsequent two-for-one split of its common stock. Par value will remain at $1.00 per common share. One new share of common stock will be issued on or about June 12, 2001 with respect to each existing share of common stock held of record as of the close of business on May 22, 2001. On May 9, 2001, the Company announced that it was in advanced discussions regarding a definitive agreement with Inverness Medical Technology, a developer of innovative products focused primarily on the self-management of diabetes, whereby Johnson & Johnson would acquire Inverness, excluding certain businesses not related to diabetes, in a stock-for-stock exchange Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SALES AND EARNINGS Consolidated sales for the first quarter of 2001 were $7.79 billion, an increase of 6.5% over 2000 first quarter sales of $7.32 billion. The effect of the stronger dollar relative to foreign currencies decreased first quarter sales by 3.6%. The operational sales increase of 10.1% included a positive price change effect of .9%. Consolidated net earnings for the first quarter of 2001 were $1.50 billion, compared with $1.31 billion for the same period a year ago, an increase of 14.2%. Worldwide basic net earnings per share for the period were $1.08, compared with $.95 for the same period in 2000, an increase of 13.7%. Worldwide diluted net earnings per share for the period were $1.06, compared with $.93 for the same period in 2000, an increase of 14.0%. - 13 - Domestic sales for the first three months of 2001 were $4.58 billion, an increase of 9.0% over 2000 domestic sales of $4.20 billion for the same period. Sales by international subsidiaries were $3.21 billion for the first quarter of 2001 compared with $3.12 billion for the same period a year ago, an increase of 3.0%. Excluding the impact of the higher value of the dollar, international sales increased by 11.5% for the quarter. Worldwide Consumer sales for the first quarter of 2001 were $1.8 billion, an increase of 1.9% versus the same period a year ago. Domestic sales increased by 3.9% while international sales gains in local currency of 7.4% were entirely offset by negative currency. Consumer sales were led by continued strength in the skin care franchise, which includes the NEUTROGENA, AVEENO and CLEAN & CLEAR product lines. During the quarter, Johnson & Johnson completed the acquisition of BabyCenter, Inc. from eToys, Inc. BabyCenter is the largest and best-known online parenting resource serving expectant and new mothers and fathers. Worldwide pharmaceutical sales of $3.3 billion for the quarter increased 7.2% over the same period in 2000. Domestic sales increased 9.1%. Operationally, international sales increased 10.9% but were offset by a negative currency impact of 7.2%. Worldwide sales gains in local currency of 9.8% were partially offset by a negative currency impact of 2.6%. Excluding the impact of negative currency and PROPULSID, a gastrointestinal drug which was transitioned to a limited-access program in the United States and Canada in March 2000, worldwide Pharmaceutical sales increased 15.1% versus the same period last year. Sales growth reflects the strong performance of PROCRIT/EPREX, for the treatment of anemia; RISPERDAL, an antipsychotic medication; DURAGESIC, a transdermal patch for chronic pain; REMICADE, a treatment for rheumatoid arthritis and Crohn's disease; TOPAMAX, an antiepileptic and ACIPHEX/PARIET, a proton pump inhibitor for gastrointestinal disorders. - 14 - During the quarter, the Company announced that it had entered into a definitive merger agreement with ALZA Corporation, a research-based pharmaceutical company and leader in drug delivery technology. While the transaction is expected to close by the early part of the third quarter of 2001, it is subject to customary closing conditions, including the approval of ALZA's shareholders. The Company also received U.S. Food and Drug Administration (FDA) approval for REMINYL (galantamine hydrobromide), a new treatment for mild to moderate Alzheimer's disease. It has been shown that REMINYL can have a beneficial effect on a patient's daily function and ability to think. Worldwide sales for the Medical Devices and Diagnostics segment were $2.7 billion in the first quarter which represented an increase of 8.8% over 2000. Domestic sales were up 12.4%, while international sales increased 14.0% on an operational basis. Worldwide sales gains in local currency of 13.3% were reduced by 4.5% due to the strength of the U.S. dollar. The primary contributors to the segment's growth were Cordis' coronary stents; DePuy's orthopaedic joint reconstruction and spinal products; Ethicon's hemostasis products, Mitek suture anchors and Gynecare's women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring products, and Vistakon's disposable contact lenses. In the first quarter, LifeScan announced the U.S. market launch of ONE TOUCH Ultra, a new electrochemical blood glucose meter and strip. The ONE TOUCH Ultra meter has a five second test time, a one microliter sample size, capillary fill and the option for forearm testing which has been shown to be a significantly less painful alternative to fingerstick testing. On April 2, 2001, the Company reported approval from the FDA to market its Bx VELOCITY Coronary Stent with a Rapid Exchange Delivery System. The Company originally received FDA approval of the Bx VELOCITY stent on its conventional over-the-wire delivery system in May 2000. The Bx VELOCITY Stent with Rapid Exchange Delivery

System is indicated for treatment of abrupt and threatened vessel closure in patients with failed interventional therapy in lesions (greater or equal to 30 mm in length) with reference diameters in the range of 2.25 mm to 4.00 mm. - 15 - On April 18, 2001, the Company announced the completion of the previously announced merger with Heartport, Inc. Heartport is a pioneer in developing, manufacturing and selling less invasive cardiac open-chest and minimally invasive heart operations, including stopped heart and beating heart procedures. On May 9, 2001, the Company announced that it was in advanced discussions regarding a definitive agreement with Inverness Medical Technology, a developer of innovative products focused primarily on the self-management of diabetes, whereby Johnson & Johnson would acquire Inverness, excluding certain businesses not related to diabetes, in a stock-for-stock exchange. LIQUIDITY AND CAPITAL RESOURCES Cash and current marketable securities increased $156 million during the first three months of 2001 to $5.90 billion at April 1, 2001. Total borrowings decreased $1.04 billion during the first three months of 2001 to $2.47 billion. Net cash (cash and current marketable securities net of debt) as of April 1, 2001 was $3.43 billion, compared with $2.23 billion at the end of 2000. Total debt represented 10.9% of total capital (shareowners' equity and total debt) at quarter end compared with 15.7% at the end of 2000. Johnson & Johnson exercised its option to redeem the $460 million convertible subordinated debentures of Centocor due 2005 at a price equal to 102.714% of the principal amount plus accrued interest. The debentures were subsequently converted by the holders into approximately 5,964,000 shares of Johnson & Johnson common stock. For the period ended April 1, 2001, there were no material cash commitments. Additions to property, plant and equipment were $257 million for the first three months of 2001, compared with $310 million for the same period in 2000. On April 26, 2001, the Board of Directors approved an increase in the authorized common stock from 2.16 billion to 4.32 billion shares and a subsequent two-for-one split of its common stock. Par value will remain at $1.00 per common share. One new share of common stock will be issued on or about June 12, 2001 with respect to each existing share of common stock held of record as of the close of business on May 22, 2001. In addition, the Board of Directors raised the quarterly dividend from 32 cents to 36 cents per share on a pre-split basis (or from 16 cents to 18 cents on a post-split basis), an increase of 12.5%. The dividend is payable on June 12, 2001 to shareowners of record as of May 22, 2001. - 16 - CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS This Form 10-Q contains "forward-looking statements." Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approvals, market position and expenditures. Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 contains, in Exhibit 99(b), a discussion of various factors that could cause actual results to differ from expectations. That Exhibit from the Form 10-K is incorporated in this filing by reference. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. - 17 - Item 3. Quantitative and Qualitative Disclosures About Market Risk There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in its Annual Report on Form 10-K for the fiscal year ended December 31, 2000. Part II - OTHER INFORMATION Item 1. Legal Proceedings The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use which accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by reserves established under its self-insurance program and by commercially available excess liability insurance. The Company's subsidiary, Johnson & Johnson Vision Care Inc. (Vision Care), together with a trade association and various individual defendants, is a defendant in several consumer class actions and an action brought by multiple State Attorneys General on behalf of consumers alleging violations of federal and state antitrust laws. These cases, which were filed between July 1994 and December 1996 and are consolidated before the United States District Court for the Middle District of Florida, assert that enforcement of Vision Care's long-standing policy of selling contact lenses only to licensed eye care professionals is a result of an unlawful conspiracy to eliminate alternative distribution channels from the disposable contact lens market. In April 2001, after five weeks of trial, these cases were concluded on terms which will be announced by the Court in late May 2001. - 18 - Johnson & Johnson Vision Care is also a defendant in a nationwide consumer class action brought on behalf of purchasers of its ACUVUE brand contact lenses. The plaintiffs in that action, which was filed in 1996 in New Jersey State Court, allege that Vision Care sold its 1-DAY ACUVUE lens at a substantially cheaper price than ACUVUE and misled consumers into believing these were different lenses when, in fact, they were allegedly "the same lenses." Plaintiffs are seeking substantial damages and an injunction against supposed improper conduct. The Company believes these claims are without merit and is defending the action vigorously. The Company's Ortho Biotech subsidiary is party to an arbitration proceeding filed against it in 1995 by Amgen, Ortho Biotech's licensor of U.S. non-dialysis rights to EPO, in which Amgen seeks to terminate Ortho Biotech's U.S. license rights and collect substantial damages based on alleged deliberate EPO sales by Ortho Biotech during the early 1990's into Amgen's reserved dialysis market. The Company believes no basis exists for terminating Ortho Biotech's U.S. license rights or for obtaining damages and is vigorously contesting Amgen's claims. However, Ortho Biotech's U.S. license rights to EPO are material to the Company; thus, an unfavorable outcome on the termination issue could have a material adverse effect on the Company's consolidated financial position, liquidity and results of operations. The arbitration is scheduled to begin in September of this year. The Company and its LifeScan subsidiary are defendants in several class actions filed in federal and state courts in California in 1998 in which it is alleged that purchasers of SureStep blood glucose meters and strips suffered economic harm because those products contained undisclosed defects. In late 2000, LifeScan pleaded guilty in federal court to three misdemeanors and paid a total of $60 million in fines and civil costs to resolve an investigation related to those same alleged defects. In one of the federal class actions, a nationwide class was certified by the district court last year and trial has been scheduled for September of this year. The Company and LifeScan believe these claims are without merit and are vigorously defending these actions. - 19 - In patent infringement actions tried in Delaware Federal Court late last year, Cordis, a Johnson & Johnson company, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis coronary stent patents. On December

15, 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and on December 21, 2000 the jury in the Medtronic AVE action returned a verdict of $271 million. These sums represent lost profit and reasonable royalty damages to compensate Cordis for infringement but do not include pre or post judgment interest. In February 2001 a hearing was held on the claims of Boston Scientific and Medtronic AVE that the patents at issue are unenforceable owing to alleged inequitable conduct before the patent office. Post trial motions and appeals to the Federal Circuit Court of Appeals will follow and no judgments are likely to be paid, if at all, until those proceedings have run their course. Furthermore, since the amount of damages, if any, which the Company may receive cannot be quantified until the legal process is complete, no gain has been recorded in the financial statements for either of these awards. The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business. The Company believes that the above proceedings, except as noted above, would not have a material adverse effect on its results of operations, cash flows or financial position. Item 6. Exhibits and Reports on Form 8-K (a) Exhibits None (b) Reports on Form 8-K A Report on Form 8-K was filed on March 14, 2001, which included Management's Discussion and Analysis of Results of Operations and Financial Condition, the consolidated balance sheets of Johnson & Johnson and subsidiaries as of December 31, 2000 and January 2, 2000 and the related consolidated statement of earnings, shareowners' equity and cash flows for each of the three years in the period ended December 31, 2000. - 20 - SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. JOHNSON & JOHNSON (Registrant) Date: May 14, 2001 By /s/ R. J. DARRETTA R. J. DARRETTA Vice President, Finance Date: May 14, 2001 By /s/ C. E. LOCKETT C. E. LOCKETT Controller (Chief Accounting Officer) - 21 - ??