10-Q 1 firstquartertenq.txt 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 3, 2005 or ( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the 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) Registrant's telephone number, including area code (732) 524-0400 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. (X) Yes ( )No Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). (X) Yes ( )No Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On May 1, 2005, 2,973,544,570 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. Financial Statements (unaudited) Consolidated Balance Sheets - April 3, 2005 and January 2, 2005 3 Consolidated Statements of Earnings for the Fiscal First Quarters Ended April 3, 2005 and March 28, 2004 6 Consolidated Statements of Cash Flows for the Fiscal First Quarters Ended April 3, 2005 and March 28, 2004 7 Notes to Consolidated Financial Statements 9 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 25 Item 3. Quantitative and Qualitative Disclosures About Market Risk 34 Item 4. Controls and Procedures 34 Part II - Other Information Item 1 - Legal Proceedings 35 Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds 35 Item 6 - Exhibits 35 Signatures 36 2 Part I - FINANCIAL INFORMATION Item 1 - Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) ASSETS April 3, January 2, 2005 2005 Current Assets: Cash and cash equivalents $ 8,539 9,203 Marketable securities 5,111 3,681 Accounts receivable, trade, less allowances for doubtful accounts $224(2004,$206) 7,336 6,831 Inventories (Note 4) 3,814 3,744 Deferred taxes on income 1,792 1,737 Prepaid expenses and other receivables 2,174 2,124 Total current assets 28,766 27,320 Marketable securities, non-current 48 46 Property, plant and equipment, at cost 18,666 18,664 Less accumulated depreciation 8,429 8,228 Property, plant and equipment, net 10,237 10,436 Intangible assets (Note 5) 15,179 15,105 Less accumulated amortization 3,361 3,263 Intangible assets, net 11,818 11,842 Deferred taxes on income 355 551 Other assets 3,222 3,122 Total assets $54,446 53,317 See Notes to Consolidated Financial Statements 3 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) LIABILITIES AND SHAREHOLDERS' EQUITY April 3, January 2, 2005 2005 Current Liabilities: Loans and notes payable $ 319 280 Accounts payable 4,038 5,227 Accrued liabilities 3,115 3,523 Accrued rebates, returns and promotions 2,492 2,297 Accrued salaries, wages and commissions 891 1,094 Taxes on income 2,126 1,506 Total current liabilities 12,981 13,927 Long-term debt 2,459 2,565 Deferred tax liability 389 403 Employee related obligations 2,902 2,631 Other liabilities 2,061 1,978 Total liabilities 20,792 21,504 Shareholders' equity: Preferred stock - without par value (authorized and unissued 2,000,000 shares) - - Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,000 shares) 3,120 3,120 Note receivable from employee stock ownership plan - (11) Accumulated other comprehensive income (Note 8) (648) (515) Retained earnings 37,300 35,223 4 Less common stock held in treasury, at cost (147,456,000 & 148,819,000 shares) 6,118 6,004 Total shareholders' equity 33,654 31,813 Total liabilities and shareholders' equity $54,446 53,317 See Notes to Consolidated Financial Statements 5 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Quarters Ended April 3, Percent March 28, Percent 2005 to Sales 2004 to Sales Sales to customers $12,832 100.0% $11,559 100.0% (note 6) Cost of products sold 3,482 27.1 3,367 29.1 Gross profit 9,350 72.9 8,192 70.9 Selling, marketing and administrative expenses 4,043 31.5 3,640 31.5 Research expense 1,347 10.5 1,095 9.5 Interest income (84) (.6) (39) (.3) Interest expense, net of portion capitalized 15 .1 45 .4 Other (income)expense, net (33) (.3) (53) (.5) Earnings before provision for taxes on income 4,062 31.7 3,504 30.3 Provision for taxes on income (Note 3) 1,135 8.9 1,011 8.7 NET EARNINGS $2,927 22.8% $2,493 21.6% NET EARNINGS PER SHARE (Note 7) Basic $ .98 .84 Diluted $ .97 .83 CASH DIVIDENDS PER SHARE $ .285 .24 AVG. SHARES OUTSTANDING Basic 2,972.1 2,967.8 Diluted 3,023.7 3,004.6 See Notes to Consolidated Financial Statements 6 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Quarters Ended April 3, March 28, 2005 2004 CASH FLOWS FROM OPERATING ACTIVITIES Net earnings $ 2,927 2,493 Adjustment to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 515 502 Deferred tax provision 100 (191) Accounts receivable allowances 22 20 Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (639) (271) (Increase)decrease in inventories (140) 38 Decrease in accounts payable and accrued liabilities (1,509) (1,350) Decrease in other current and non-current assets 235 368 Increase in other current and non-current liabilities 1,143 1,046 NET CASH FLOWS FROM OPERATING ACTIVITIES 2,654 2,655 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (397) (292) Proceeds from the disposal of assets 77 49 Purchases of investments (3,824) (3,103) Sales of investments 2,340 2,512 Other (210) (16) NET CASH USED BY INVESTING ACTIVITIES (2,014) (850) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareholders (847) (713) Repurchase of common stock (654) (407) Proceeds from short-term debt 173 147 Retirement of short-term debt (144) (675) Proceeds from long-term debt 4 19 Retirement of long-term debt (17) 1 Proceeds from the exercise of stock options 266 125 NET CASH USED BY FINANCING ACTIVITIES (1,219) (1,503) 7 Effect of exchange rate changes on cash and cash equivalents (85) (42) (Decrease)increase in cash and cash equivalents (664) 260 Cash and cash equivalents, beginning of period 9,203 5,377 CASH AND CASH EQUIVALENTS, END OF PERIOD $ 8,539 5,637 See Notes to Consolidated Financial Statements 8 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 Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2005. 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 statement of the results for the periods presented. NOTE 2 - FINANCIAL INSTRUMENTS The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) 133, SFAS 138 and SFAS 149 requiring that all derivative instruments be recorded on the balance sheet at fair value. As of April 3, 2005, the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $114 million after-tax. For additional information, see Note 8. The Company expects that substantially all of this amount

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. Transactions with third parties will cause the amount in accumulated other comprehensive income to affect net earnings. The maximum length of time over which the Company is hedging is 18 months. The Company also uses currency swaps to manage currency risk primarily related to borrowings, which may exceed 18 months. For the fiscal first quarter ended April 3, 2005, the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the fiscal first quarter ended April 3, 2005, the Company recorded a net loss of $1 million after tax in other (income) expense, representing the impact of discontinuance of cash flow hedges because it is probable that the forecasted transactions will not occur by the end of the originally specified time period. Refer to Note 8 for disclosures of movements in Accumulated Other Comprehensive Income. NOTE 3 - INCOME TAXES The worldwide effective income tax rates for the fiscal first quarters of 2005 and 2004 were 27.9% and 28.8%, respectively. The decrease in the effective tax rate of 0.9% was primarily due to increases in the taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions. 9 NOTE 4 - INVENTORIES (Dollars in Millions) April 3, 2005 January 2, 2005 Raw materials and supplies $ 1,267 964 Goods in process 1,051 1,113 Finished goods 1,496 1,667 $ 3,814 3,744 NOTE 5 - INTANGIBLE ASSETS Intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and indefinite lived intangible assets are assessed annually for impairment. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2004 and no impairment was determined. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if warranted by economic conditions. (Dollars in Millions) April 3, 2005 January 2, 2005 Goodwill $ 6,545 6,597 Less accumulated amortization 726 734 Goodwill - net 5,819 5,863 Trademarks (non-amortizable) 1,216 1,232 Less accumulated amortization 137 142 Trademarks (non-amortizable)- net 1,079 1,090 Patents and trademarks 3,971 3,974 Less accumulated amortization 1,187 1,125 Patents and trademarks - net 2,784 2,849 Other amortizable intangibles 3,447 3,302 Less accumulated amortization 1,311 1,262 Other intangibles - net 2,136 2,040 Total intangible assets 15,179 15,105 Less accumulated amortization 3,361 3,263 Total intangibles - net $11,818 11,842 Goodwill as of April 3, 2005 as allocated by segment of business is as follows: (Dollars in Millions) Med. Dev Consumer Pharm & Diag Total Goodwill, net of accumulated amortization at January 2, 2005 $1,160 832 3,871 5,863 Acquisitions - - - - Translation & Other (25) (10) (9) (44) 10 Goodwill as of April 3, 2005 $1,135 822 3,862 5,819 The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 17 years, respectively. The amortization expense of amortizable intangible assets for the fiscal first quarter ended April 3, 2005 was $116 million and the estimated amortization expense for the five succeeding years approximates $550 million, per year. NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS(1) Fiscal First Quarter Percent 2005 2004 Change Consumer U.S. $ 1,114 1,081 3.1% International 1,166 966 20.7 2,280 2,047 11.4 Pharmaceutical U.S. $ 3,783 3,643 3.8% International 1,972 1,733 13.8 5,755 5,376 7.0 Med Devices and Diagnostics U.S. $ 2,361 2,194 7.6% International 2,436 1,942 25.4 4,797 4,136 16.0 U.S. $ 7,258 6,918 4.9% International 5,574 4,641 20.1 Worldwide $ 12,832 11,559 11.0 (1) Export and intersegment sales are not significant. OPERATING PROFIT BY SEGMENT OF BUSINESS Fiscal First Quarter Percent 2005 2004 Change Consumer $ 457 440 3.9% Pharmaceutical 2,137 2,085 2.5 Med. Dev. & Diag. 1,493 1,067 39.9 Segments total 4,087 3,592 13.8 Expenses not allocated to segments (25) (88) Worldwide total $ 4,062 3,504 15.9% 11 SALES BY GEOGRAPHIC AREA Fiscal First Quarter Percent 2005 2004 Change U.S. $ 7,258 6,918 4.9 Europe 3,176 2,708 17.3 Western Hemisphere, excluding U.S. 725 597 21.4 Asia-Pacific, Africa 1,673 1,336 25.2 Total $ 12,832 11,559 11.0% NOTE 7 - EARNINGS PER SHARE The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal first quarters ended April 3, 2005 and March 28, 2004. (Shares in Millions) Fiscal Quarter Ended April 3, March 28, 2005 2004 Basic net earnings per share $ .98 .84 Average shares outstanding - basic 2,972.1 2,967.8 Potential shares exercisable under stock option plans 219.8 119.4 Less: shares which could be repurchased under treasury stock method (178.3) (97.4) Convertible debt shares 10.1 14.8 Adjusted average shares outstanding - diluted 3,023.7 3,004.6 Diluted earnings per share $ .97 .83 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $4 million for each of the fiscal first quarters ended April 3, 2005 and March 28, 2004. The diluted earnings per share calculation excluded 46 million and 135 million shares related to options for the fiscal first quarters ended April 3, 2005 and March 28, 2004, respectively, as the exercise price per share of these options was greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share. NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the fiscal first quarter ended April 3, 2005 was $2.8 billion, compared with $2.5 billion for the same period a year ago. Total comprehensive income included net earnings, net unrealized currency gains and losses on translation, net unrealized gains and losses on available for sale securities and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The 12 following table sets 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) January 2, 2005 $ (105) 86 (346) (150) (515) 2005 Three Months changes Net change associated with current period hedging transactions - - - 181 Net amount reclassed to net earnings - - - (145)* Net three months changes (154) (15) - 36 (133) April 3, 2005 $ (259) 71 (346) (114) (648) Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in international subsidiaries. *Primarily offset in net earnings by changes in value of the underlying transactions. NOTE 9 - MERGERS, ACQUISITIONS AND DIVESTITURES On December 15, 2004, Johnson & Johnson announced the signing of a definitive agreement to acquire Guidant Corporation (Guidant), a world leader in the treatment of cardiac and vascular disease, for $25.4 billion in fully diluted equity value. The Boards of Directors of Johnson & Johnson and Guidant, as well as the shareholders of Guidant have given their respective approvals for the transaction. The transaction is subject to clearance under the Hart-Scott-Rodino Antitrust Improvements Act, the European Union merger control regulation, and other customary closing conditions. The Company is currently in the process of responding to an information and materials request from the U.S. Federal Trade Commission and has entered into a second phase review with the European Union. Subject to the aforementioned approvals, the acquisition is expected to close in the third quarter of 2005. The Company's 2004 acquisitions included: Merck's 50% interest in the Johnson & Johnson-Merck Consumer Pharmaceuticals Co. European non-prescription pharmaceutical joint venture including all of the infrastructure and brand assets managed by the European joint venture; Egea Biosciences, Inc., which has developed a proprietary technology platform called Gene Writer, that allows for the rapid and highly accurate synthesis of DNA sequences, gene assembly, and construction of large synthetic gene libraries, through the exercise of the option to acquire the 13 remaining outstanding stock not owned

by Johnson & Johnson; Artemis Medical, Inc. a privately held company with ultrasound and x-ray visible biopsy site breast markers as well as hybrid markers; U.S. commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc.; Biapharm SAS, a privately held French producer and marketer of skin care products centered around the leading brand BIAFINE(R); the assets of Micomed, a privately owned manufacturer of spinal implants primarily focused on supplying the German market; and the acquisition of the AMBI(R) skin care brand for women of color. NOTE 10 - PRO FORMA STOCK BASED COMPENSATION At April 3, 2005 the Company had 19 stock-based employee compensation plans. The Company accounted for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and its related Interpretations. Compensation costs were not recorded in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," the following table shows the estimated effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. (Dollars in Millions Except Per Share Data) April 3, 2005 March 28, 2004 Net income, as reported $ 2,927 2,493 Less: Compensation expense(1) 88 80 Net income, pro forma $ 2,839 2,413 Earnings per share: Basic - as reported $.98 $.84 - pro forma .96 .81 Diluted - as reported $.97 $.83 - pro forma .94 .81 (1) Determined under fair value based method for all awards, net of tax. NOTE 11 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS Components of Net Periodic Benefit Cost Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the fiscal first quarters of 2005 and 2004 included the following components: 14 (Dollars in Millions) Retirement Plans Other Benefit Plans April 3, March 28, April 3, March 28, 2005 2004 2005 2004 Service cost $ 110 108 $ 13 13 Interest cost 118 119 26 26 Expected return on plan assets (132) (131) (1) (1) Amortization of prior service cost 3 4 (1) (1) Amortization of net transition asset (1) (1) - - Recognized actuarial losses 57 44 11 11 Net periodic benefit cost $ 155 143 $ 48 48 Company Contributions The Company contributed $18 million during the fiscal first quarter of 2005 to its retirement plans. The Company does not expect a minimum statutory funding requirement for its U.S. retirement plans in 2005. International plans will be funded in accordance with local regulations. NOTE 12 - LEGAL PROCEEDINGS Product Liability 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 existing amounts accrued in the Company's balance sheet under its self-insurance program and by third party product liability insurance. One group of cases against the Company concerns the Janssen Pharmaceutica Inc. (Janssen) product PROPULSID (cisapride), which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, numerous lawsuits were filed against Janssen, which is a wholly owned subsidiary of the Company, and the Company regarding PROPULSID in state and federal courts across the country. These actions seek substantial compensatory and punitive damages and accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of over promotion. In addition, Janssen and the Company have entered into tolling agreements with various plaintiffs' counsel halting the running of the statutes of limitations with respect to the potential claims of a significant number of individuals while those attorneys evaluate whether or not to sue Janssen and the Company on their behalf. 15 On February 5, 2004, Janssen announced that it had reached an agreement in principle with the Plaintiffs Steering Committee (PSC), of the PROPULSID Federal Multi-District Litigation (MDL), to resolve federal lawsuits related to PROPULSID. The agreement was to become effective once 85% of the death claims, and 75% of the remainder, agreed to the terms of the settlement. In addition, 12,000 individuals who had not filed lawsuits, but whose claims were the subject of tolling agreements suspending the running of the statutes of limitations against those claims, also had to agree to participate in the settlement before it could become effective. On March 24, 2005, it was confirmed that the PSC of the MDL had enrolled enough plaintiffs and claimants in the settlement program to make the agreement effective. Of the 282 death plaintiffs subject to the program, 247 (88%) were confirmed enrolled. Of the 3,537 other plaintiffs subject to the program, 3,088 (87%) were confirmed enrolled. In addition, 20,596 "tolled" claimants have been confirmed as enrolled. Those participating in the settlement will submit medical records to an independent panel of physicians who will determine whether the claimed injuries were caused by PROPULSID and otherwise meet the standards for compensation. If those standards are met, a court- appointed special master will determine compensatory damages. Janssen will pay as compensation a minimum of $69.5 million and a maximum of $90 million depending on the number of plaintiffs that enroll in the program. Enrollment will remain open until October 1, 2005. Janssen will also establish an administrative fund not to exceed $15 million, and will pay legal fees to the PSC up to $22.5 million subject to court approval. Not participating in the settlement program are 2,527 plaintiffs and 7,757 tolled claimants. Of those, 447 plaintiffs were potentially subject to the MDL settlement but have not to date enrolled in it; 1,527 plaintiffs filed cases in federal court subsequent to February 1, 2004, and thus were not subject to the MDL settlement; and 558 have state court actions and thus were not subject to the settlement. Of those not participating in or subject to the MDL settlement, 159 plaintiffs are alleged to have died from use of the drug and 2,368 assert other personal injury claims. The nature of the claims of the tolled claimants are unknown. Of the remaining federal and state plaintiffs, the cases of 2,253 (89%) are venued in Mississippi. With respect to all the various PROPULSID actions against them, Janssen and the Company dispute the claims in those lawsuits and are vigorously defending against them except where, in their judgment, settlement is appropriate. Janssen and the Company believe they have adequate self-insurance accruals and third party product liability insurance with respect to these cases. In communications to the Company, the excess insurance carriers have raised certain defenses to their liability under the policies and to date have declined to reimburse Janssen and the Company for PROPULSID-related costs despite demand for payment. However, in the opinion of the Company, those defenses are pro forma and lack substance and the carriers will honor their obligations under the policies either voluntarily or after litigation. In March 2004, the Company commenced arbitration against Allianz Underwriters 16 Insurance Company, which issued the first layer of applicable excess insurance coverage, to obtain reimbursement of PROPULSID- related costs. The arbitration hearings are currently scheduled to begin mid-May 2005 and last several weeks. In May 2005, the Company commenced arbitration against Lexington Insurance Company, which issued the second layer of excess insurance coverage. The Company's Ethicon, Inc. (Ethicon) subsidiary has over the last several years had a number of claims and lawsuits filed against it relating to VICRYL sutures. The actions allege that the sterility of VICRYL sutures was compromised by inadequacies in Ethicon's systems and controls, causing patients who were exposed to these sutures to incur infections which would not otherwise have occurred. Ethicon on several occasions recalled batches of VICRYL sutures in light of questions raised about sterility but does not believe any contamination of

suture products in fact occurred. In November 2003, a state court judge in West Virginia certified for class treatment all West Virginia residents who had VICRYL sutures implanted during Class I or II surgeries from May 1, 1994 to December 31, 1997. A motion to decertify the class is pending. A previous trial date was adjourned and not reset. Ethicon has been and intends to continue vigorously defending against the claims. Affirmative Stent Patent Litigation In patent infringement actions tried in Delaware Federal Court in late 2000, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards against Boston Scientific Corporation and Medtronic AVE, Inc. based on a number of Cordis vascular 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 were unenforceable owing to alleged inequitable conduct before the patent office. In March and May 2002, the district judge issued post trial rulings that confirmed the validity and enforceability of the main Cordis stent patent claims but found certain other Cordis patents unenforceable. Further, the district judge granted Boston Scientific a new trial on liability and damages and vacated the verdict against Medtronic AVE on legal grounds. On August 12, 2003, the Court of Appeals for the Federal Circuit found the trial judge erred in vacating the verdict against Medtronic AVE and remanded the case to the trial judge for further proceedings. In March 2005, the remaining issues were tried in the remanded case against Medtronic AVE and the retrial proceeded against Boston Scientific. Juries returned verdicts of infringement and patent validity in favor of Cordis in both retrials. Cordis has requested the trial court to reinstate with interest the verdicts obtained against those entities in 2000. Cordis also has pending in Delaware Federal Court a second action against Medtronic AVE 17 accusing Medtronic AVE of infringement by sale of stent products introduced by Medtronic AVE subsequent to its GFX and MicroStent products, the subject of the earlier action referenced above. That second action was referenced in April 2005 to arbitration with respect to Medtronic's license defense. In January 2003, Cordis filed an additional patent infringement action against Boston Scientific in Delaware Federal Court accusing its Express2, TAXUS and Liberte stents of infringing several Cordis patents, including one involved in the earlier actions against Boston Scientific and Medtronic AVE. Trial of that case is set to begin in June 2005. Patent Litigation Against Various Johnson & Johnson Subsidiaries The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties. The following chart summarizes various patent lawsuits concerning important products of Johnson & Johnson subsidiaries. With respect to all of these matters, the Johnson & Johnson subsidiary involved is vigorously defending against the claims of infringement and disputing where appropriate the validity and enforceability of the patent claims asserted against it. Trial of Boston Scientific's patent case alleging infringement by the Cordis Cypher stent of Boston Scientific's Ding patent, as referenced in the chart below, will be held in June 2005 in Delaware federal court following trial of Cordis' case against Boston Scientific accusing the Express2, TAXUS and Liberte stents of infringing various Cordis patents. Boston Scientific is seeking to enjoin sales of the Cypher stent, as well as substantial damages. In November 2005, Boston Scientific's case asserting infringement by the Cypher stent of other Boston Scientific patents is scheduled for trial. In that case as well, Boston Scientific seeks an injunction and substantial damages. Product J&J Patents Plaintiff/Patent Court Trial Date Company Holder Date Filed Stents Cordis Jang Boston Scientific D.Del. 06/05 03/03 Corp. Drug Cordis Ding Boston Scientific D.Del. 06/05 04/03 Eluting Corp. Germany 04/05 02/04 Stents (Schneider) Drug Cordis Kunz Boston Scientific D.Del. 10/05 12/03 Eluting Graing Corp. Stents er Stents Cordis Rockey Arlaine and S.D.Fla. TBD 7/02 Gena Rockey Inc. Stents Cordis Boneau Medtronic Inc. Arbitration TBD 4/02 18 Two-layer Cordis Kasten-Boston Scientific N.D.Cal. TBD 2/02 Catheters hofer Corp. Netherlands 04/05 05/04 Forman (Schneider) Belgium 10/05 12/03 Remicade Centocor Cerami Rockefeller E.D.Tex. 2/06 4/04 University and Chiron Corporation Stents Cordis Israel Medinol Multiple TBD 05/03 E.U. Jurisdictions Contact Vision Nicolson CIBA Vision M.D. Fla. 2/06 09/03 Lenses Care Litigation Against Filers of Abbreviated New Drug Applications (ANDAs) The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event the subsidiary of the Company involved is not successful in these actions, the firms involved will then introduce generic versions of the product at issue resulting in very substantial market share and revenue losses for the product of the Company's subsidiary. Brand Name Patent/NDA Generic Court Trial Date 30- Product Holder Challenger Date Filed Month Stay Expires Aciphex 20 mg Eisai Teva S.D.N.Y. TBD 11/03 04/06 delay release tablet (for Dr. Reddy's S.D.N.Y. TBD 11/03 04/06 Janssen) Mylan S.D.N.Y. TBD 01/04 06/06 Ditropan XL 5, Ortho- Mylan D.W.V. 2/05 05/03 09/05 10, 15 mg McNeil, controlled ALZA Impax N.D.Cal. 12/05 09/03 01/06 release tablet Levaquin Daiichi, Mylan D.W.V. 05/04 02/02 07/04 Tablets 250, 500, 750 JJPRD mg tablets Ortho- Teva D.N.J. TBD 06/02 11/04 McNeil Levaquin Daiichi, Sicor (Teva) D.N.J. TBD 12/03 05/06 Injectable JJPRD Single use Ortho- vials and 5 McNeil mg/ml premix Levaquin Daiichi, American D.N.J. TBD 12/03 05/06 Injectable JJPRD Pharmaceutical Single use Ortho- Partners vials McNeil 19 Quixin Daiichi, Hi-Tech D.N.J. TBD 12/03 05/06 Ophthalmic Pharmacal Solution (Levofloxacin) Ortho- Ophthalmic McNeil solution Ortho Tri- Ortho- Barr D.N.J. TBD 10/03 02/06 cyclen LO McNeil 0.18 mg/0.025 mg, 0.215 mg/0.025 mg and 0.25 mg/0.025 mg Risperdal Janssen Mylan D.N.J. TBD 12/03 05/06 Tablets .25, 0.5, 1, 2, Dr. Reddy's D.N.J. TBD 12/03 06/06 3, 4 mg tablets Risperdal M-Tab Janssen Dr. Reddy's D.N.J. TBD 02/05 07/07 0.5, 1, 2 mg Sporanox Janssen Eon Labs E.D.N.Y. 5/04 04/01 03/04 100 mg capsule Topamax Ortho- Mylan D.N.J. TBD 04/04 09/06 McNeil 25, 100, 200 mg tablet Ultracet 37.5 Ortho- Kali (Par) D.N.J. TBD 11/02 04/05 tram/ McNeil 325 apap tablet Teva D.N.J. TBD 02/04 07/06 Caraco E.D. Mich. 03/06 09/04 02/07 PEPCID Complete McNeil-PPC Perrigo S.D.N.Y. TBD 02/05 06/07 In the action against Mylan Pharmaceuticals USA (Mylan) involving Ortho-McNeil Pharmaceutical, Inc. (Ortho-McNeil) for LEVAQUIN (levofloxacin), the trial judge on December 23, 2004 found the patent at issue valid, enforceable and infringed by Mylan's contemplated ANDA product and issued an injunction precluding sale of the product until patent expiration in late 2010. Mylan has appealed to the Court of Appeals for the Federal Circuit. In the action against Eon Labs involving SPORANOX (itraconazole), the district court ruled on July 28, 2004 that Janssen's patent was valid but not infringed by Eon's generic. Janssen has appealed this ruling to the Court of Appeals for the Federal Circuit. Eon launched its generic version of SPORANOX "at risk" on February 9, 2005. The Federal Circuit heard argument on the appeal on May 5, 2005. In the action against Kali involving Ortho-McNeil's ULTRACET (tramadol hydrochloride/ acetaminophen), Kali moved for summary judgment on the issues of infringement and invalidity. The 20 briefing on that motion was completed in October 2004 and a decision is expected anytime. With respect to claims other than that at issue in the litigation against Kali, Ortho-McNeil has filed a reissue application in the U.S. Patent and Trademark Office seeking

to narrow the scope of the claims. Kali received final approval of its ANDA at expiration of the 30-month stay on April 21, 2005, and launched its generic product "at-risk" the same day. In the action against Teva Pharmaceuticals USA (Teva) involving Ortho-McNeil's ULTRACET (tramadol hydrocholoride/acetaminophen), Teva has moved for summary judgment on the issues of infringement and validity. The briefing on that motion was completed in March 2005. In the action against Mylan involving DITROPAN XL (oxybutynin chloride), the court held a ten-day bench trial which concluded on April 18, 2005. Post trial briefing will be completed on June 1, 2005 and a decision is expected in the third or fourth quarter of 2005. In the action against Mylan relating to Ortho-McNeil's TOPAMAX (topiramate), Mylan on October 8, 2004 filed a motion for summary judgment of non-infringement of Ortho-McNeil's patent. The court heard argument on the motion on April 18, 2005 and held a further hearing on the motion on May 6, 2005. A decision is expected in the third or fourth quarter of 2005. In late April and early May 2005 Janssen received Paragraph IV certifications with respect to RAZADYNE(R), formerly REMINYL(R), from Teva, Mylan, Dr. Reddy's Laboratories, Inc., Purepac Pharmaceutical Co., Roxane Laboratories, Inc. and Mutual Pharmaceutical Company, which Janssen is in the process of evaluating. With respect to all of the above matters, the Johnson & Johnson subsidiary involved is vigorously defending the validity and enforceability and asserting the infringement of its own or its licensor's patents. Average Wholesale Price (AWP) Litigation Johnson & Johnson and its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price for the drugs at issue. Most of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in federal court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. In the MDL proceeding in 21 Boston, plaintiffs have moved for class certification of all or some portion of their claims. A decision is expected on that motion in the third or fourth quarter of 2005. Ethicon Endo-Surgery, Inc. (Ethicon Endo), a Johnson & Johnson subsidiary which markets endoscopic surgical instruments, and the Company, are named defendants in a North Carolina state court class action lawsuit alleging AWP inflation and improper marketing activities against TAP Pharmaceuticals. Ethicon Endo is a defendant based on claims that several of its former sales representatives are alleged to have been involved in arbitrage of a TAP drug. The allegation is that these sales representatives persuaded certain physicians in states where the drug's price was low to purchase from TAP excess quantities of the drug and then resell it in states where its price was higher. Ethicon Endo and the Company deny any liability for the claims made against them in this case and are vigorously defending against it. On April 24, 2003, the trial judge certified a national class of purchasers of the TAP product at issue. On July 6, 2004, that class was decertified by the North Carolina Court of Appeals and the matter remanded to the trial court for additional consideration. On January 5, 2005, the trial judge certified a North Carolina State class of purchasers of the TAP product in question. No trial date has been set in this matter. Other The New York State Attorney General's office (N.Y. AG) and the Federal Trade Commission issued subpoenas in January and February 2003 seeking documents relating to the marketing of sutures and endoscopic instruments by the Company's Ethicon and Ethicon Endo subsidiaries. The Connecticut State Attorney General's office also issued a subpoena for the same documents. These subpoenas focus on the bundling of sutures and endoscopic instruments in contracts offered to Group Purchasing Organizations and individual hospitals in which discounts are predicated on the hospital achieving specified market share targets for both categories of products. The operating companies involved have responded to the subpoenas. In February 2005, the N.Y. AG advised that it had closed its investigation. On June 26, 2003, the Company received a request for records and information from the U.S. House of Representatives' Committee on Energy and Commerce in connection with its investigation into pharmaceutical reimbursements and rebates under Medicaid. The Committee's request focuses on the drug REMICADE (infliximab), marketed by the Company's Centocor, Inc. (Centocor) subsidiary. On July 2, 2003, Centocor received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Subsequent requests for documents have been received from the U.S. Attorney's Office. Both the Company and Centocor responded, or are in the process of responding, to these requests for documents and information. 22 On August 1, 2003, the Securities and Exchange Commission (SEC) advised the Company of its informal investigation under the Foreign Corrupt Practices Act of allegations of payments to Polish governmental officials by U.S. pharmaceutical companies. On November 21, 2003, the SEC advised the Company that the investigation had become formal and issued a subpoena for the information previously requested in an informal fashion, in addition to other background documents. The Company and its operating units in Poland have responded to these requests. On December 8, 2003, Ortho-McNeil, a subsidiary of Johnson & Johnson, received a subpoena from the United States Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX (topiramate). Ortho-McNeil is cooperating in responding to the subpoena. In October 2004, the U.S. Attorney's Office in Boston asked attorneys for Ortho-McNeil to cooperate in facilitating the subpoenaed testimony of several present and former Ortho-McNeil witnesses before a grand jury in Boston. Cooperation in securing the testimony of additional witnesses before the grand jury has been requested and is being provided. On January 20, 2004, the Company's subsidiary, Janssen, received a subpoena from the Office of the Inspector General of the United States Office of Personnel Management seeking documents concerning sales and marketing of, any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. Janssen is cooperating in responding to the subpoena. In April 2004, the Company's pharmaceutical companies were requested to submit information to the U.S. Senate Finance Committee on their use of the "nominal pricing exception" in calculating Best Price under the Medicaid Rebate Program. This request was sent to manufacturers for the top twenty drugs reimbursed under the Medicaid Program. The Company's pharmaceutical companies have responded to the request. In February 2005 a request for supplemental information was received from the Senate Finance Committee, which has been responded to by the Company's pharmaceutical companies. On July 27, 2004, the Company received a letter request from the New York State Attorney General's Office for documents pertaining to marketing, off-label sales and clinical trials for TOPAMAX (topiramate), RISPERDAL (risperidone), PROCRIT (Epoetin alfa), REMINYL (galantamine HBr), REMICADE (infliximab) and ACIPHEX (rabeprazole sodium). The Company is responding to the request. On August 9, 2004, Johnson & Johnson Health Care Systems, Inc. (HCS), a Johnson & Johnson subsidiary, received a subpoena from the Dallas, Texas U. S. Attorney's Office seeking documents relating to the relationships between the group purchasing organization Novation and HCS and other Johnson & Johnson subsidiaries. The Company's subsidiaries involved are responding to the subpoena. 23 On September 30, 2004, Ortho Biotech Inc. (Ortho Biotech), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Office of Inspector

General's Denver, Colorado field office seeking documents directed to sales and marketing of PROCRIT (Epoetin alfa) from 1997 to the present. Ortho Biotech is responding to the subpoena. In March 2005, DePuy Orthopaedics, Inc. (Depuy), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of New Jersey, seeking records concerning contractual relationships between DePuy and surgeons or surgeons in training involved in hip and knee replacement and reconstructive surgery. Other leading orthopaedic companies are known to have received the same subpoena. Depuy is responding to the subpoena. In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in federal district court in New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the United States, who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Company is expected to file its response to plaintiffs' class certification motion in June 2005. A decision by the district court is not expected before late 2005. The Company disputes the allegations in the lawsuit and is vigorously defending against them. After a remand from the Federal Circuit Court of Appeals in January 2003, a partial retrial was commenced in October and concluded in November 2003 in federal district court in Boston, Massachusetts in the action Amgen v. Transkaryotic Therapies, Inc. (TKT) and Aventis Pharmaceutical, Inc. The matter is a patent infringement action brought by Amgen against TKT, the developer of a gene-activated EPO product, and Aventis, which held marketing rights to the TKT product, asserting that TKT's product infringes various Amgen patent claims. TKT and Aventis dispute infringement and are seeking to invalidate the Amgen patents asserted against them. On October 15, 2004, the district court issued rulings that upheld its initial findings in 2001 that Amgen's patent claims were valid and infringed. Further proceedings and an appeal will follow. The Amgen patents at issue in the case are exclusively licensed to Ortho Biotech Inc., a subsidiary of the Company, in the U.S. for non-dialysis indications. Ortho Biotech Inc. is not a party to the action. On October 21, 2004, in a companion action brought by TKT and Aventis against Amgen and Ortho Biotech's U.K. affiliate in the United Kingdom, the House of Lords, acting as the highest court in the U.K., invalidated the pertinent claims of Amgen's U.K. patent on EPO which expired in December 2004. The Company is also involved in a number of other patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the Company's 24 opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities already accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations and cash flows for that period. NOTE 13 - Subsequent Events On April 4, 2005 the Company completed its acquisition of TransForm Pharmaceuticals, Inc., a company specializing in the discovery of superior formulations and novel crystalline forms of drug molecules, for $230 million. The Company is expected to incur an estimated one-time after-tax charge of approximately $50 million reflecting the expensing of in-process research and development (IPR&D) charges. On April 28, 2005, the shareholders of Johnson & Johnson approved a new long-term incentive compensation plan. The Plan allows the Company to continue to use equity to attract, retain and motivate employees and will give the Company greater flexibility to respond to changes in executive compensation practices. The Plan allows the Company to grant stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted shares, restricted share units, stock awards and performance shares. In the past, stock options have been the principal form of long-term equity incentive used by the Company. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Results of Operations Analysis of Consolidated Sales For the fiscal first quarter of 2005, worldwide sales were $12.8 billion, an increase of 11.0% over 2004 fiscal first quarter sales of $11.6 billion. The impact of foreign currencies accounted for 2.2% of the total reported fiscal first quarter 2005 increase. Sales by U.S. companies were $7.2 billion in the fiscal first quarter of 2005, which represented an increase of 4.9%. Sales by international companies were $5.6 billion, which represented an increase of 20.1%, of which 5.4% was due to currency fluctuations. All international regions posted double digit sales increases during the fiscal first quarter of 2005, as sales increased 17.3% in Europe, 21.4% in the Western Hemisphere (excluding the U.S.) and 25.2% in the Asia-Pacific, Africa regions. These sales gains include the positive impact of currency fluctuations between the U.S. dollar and foreign currencies in Europe of 6.1%, in the Western Hemisphere (excluding the U.S.) of 6.0% and in the Asia- Pacific, Africa region of 3.7%. 25 Analysis of Sales by Business Segments Consumer Consumer segment sales in the fiscal first quarter of 2005 were $2.3 billion, an increase of 11.4% over the same period a year ago with 8.9% of operational growth and a positive currency impact of 2.5%. U.S. consumer segment sales increased by 3.1% while international sales increased 20.7%, including a positive currency impact of 5.3%. Major Consumer Franchise Sales (Dollars in Millions) Total Operations Currency 2005 2004 %Change %Change %Change OTC Pharm & Nutr. $ 685 $ 563 21.7% 20.8% 0.9% Skin Care 620 562 10.3 7.3 3.0 Baby & Kids Care 379 343 10.6 7.5 3.1 Women's Health 377 348 8.0 5.1 2.9 Other 219 231 (5.2) (8.9) 3.7 Total $ 2,280 $2,047 11.4% 8.9% 2.5% Consumer segment sales growth was attributable to strong sales performance in the major franchises in this segment including OTC Pharmaceutical & Nutritionals, Skin Care, Baby & Kids Care and Women's Health franchise. The OTC Pharmaceutical & Nutritionals franchise operational sales growth of 20.8% was attributable to the SPLENDA(R) No Calorie Sweetener and the introduction of TYLENOL(R) Rapid Release Gels. In the first quarter of 2004, the Company acquired Merck's equity stake in the European nonprescription pharmaceutical business and also divested the U.S. SPLENDA(R) ingredient business. The net effect of this acquisition and divestiture has had a minimal impact on the segment as a whole. The Skin Care franchise operational growth of 7.3% was driven by strong performances from AVEENO(R) and RoC(R) in the U.S., and Neutrogenar, RoC(R), and CLEAN & CLEAR(R) outside the U.S. Solid operational growth was related to new products introduced in 2004, as well as a number of new products introduced during the first quarter of 2005. The Baby & Kids Care franchise operational growth of 7.5% was the result of continued success with JOHNSON'S(R) SOFTWASH(R) and SOFTLOTION(TM) product lines, baby gift sets and the launch of a new line of JOHNSON'S(R) BUDDIES(TM) Bathtime Products. Women's health franchise achieved operational growth of 5.1% with the successful launch of STAYFREE(R) Dry Maxi, coupled with strong contributions from MONISTAT(R). Pharmaceutical Pharmaceutical segment sales in the fiscal first quarter of 2005 were $5.8 billion, an increase of 7.0% over the same period a year ago with 5.3% of this change due to operational increases and the remaining 1.7% increase related to the positive impact of currency. The U.S. Pharmaceutical sales increase was 3.8% and the growth in international Pharmaceutical sales was 13.8%, which included 5.3% related to the positive impact of currency. 26 Major Pharmaceutical Product Revenues (Dollars in Millions) Total Operations Currency 2005 2004 %Change %Change %Change RISPERDAL(R) $ 844 $ 731 15.5% 13.0% 2.5% PROCRIT(R)/EPREX(R) 836 977 (14.4) (15.9) 1.5 REMICADE(R) 577 464 24.4 24.4 0.0 DURAGESIC(R) 450 455 (1.1) (3.9) 2.8 LEVAQUIN(R)/FLOXIN(R) 440 383 14.9 14.9 0.0 TOPAMAX(R) 406 328 23.8 22.0 1.8 Hormonal Contraceptives 302 305

(1.0) (1.5) 0.5 Aciphex(R)/Pariet(TM) 278 247 12.6 9.2 3.4 Other 1,622 1,486 9.2 7.2 2.0 Total $5,755 $5,376 7.0% 5.3% 1.7% Pharmaceutical segment sales growth in the first quarter of 2005 was led by strong performances from various products. Growth was fueled by the continued success of RISPERDAL(R) (risperidone), a medication that treats the symptoms of schizophrenia, and RIPSERDAL CONSTA(R) (risperidone) long acting injection, with operational growth of 13.0%. PROCRIT(R) (Epoetin alfa) and EPREX(R) (Epoetin alfa) combined continued to be negatively impacted by prior year competitive market pricing and share erosion, resulting in an operational decline of 15.9% as compared to the fiscal first quarter of 2004. REMICADE(R) (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, and use in the treatment of rheumatoid arthritis experienced strong operational growth of 24.4% over prior year fiscal first quarter. DURAGESIC(R) (fentanyl transdermal system) sales declined by 3.9% operationally, which was primarily driven by the negative impact of generic competition in the U.S. However, the launch of DURAGESIC(R) D-TRANS(R), a matrix patch, and DURAGESIC(R) 12, an additional strength matrix patch, have fueled strong operational growth outside the U.S. Additionally, an authorized generic version of DURAGESIC(R) being marketed for the Company in the U.S., has captured a significant portion of the generic market. LEVAQUIN(R) (levofloxacin) achieved operational sales growth of 14.9% over prior year benefiting from the late respiratory infection season. Sales of TOPAMAX(R) (topiramate), which has been approved for adjunctive use in epilepsy, as well as, for the prophylactic treatment of migraines, experienced strong operational growth in both the U.S. and international markets. The hormonal contraceptive franchise continues to be negatively impacted by generic competition, however this was offset by the strong growth in ORTHO EVRA(R), the first contraceptive patch approved by the FDA, and ORTHO TRI-CYCLEN(R) LO (norgestimate/ethinyl estradiol), a low dose oral contraceptive. CONCERTA(R) (methylphenidate HCL), a product for the treatment of attention deficit hyperactivity disorder, sales continued to grow despite the lack of patent exclusivity in the U.S. At present, the FDA has not approved any generic version that is substitutable for CONCERTA(R). Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA(R) are pending and may be approved at any time. 27 The Company has revised the labeling for NATRECOR(R) (nesiritide), used for the treatment of acute congestive heart failure, to include an expanded analysis of the mortality rates seen in the pivotal trials which supported the initial FDA approval for the drug. Management does not anticipate that this action will have a material effect on the Company's results of operations, cash flow or financial position. On April 21, 2005 Kali Laboratories, Inc., a unit of Par Pharmaceutical Co. Inc. received approval from the FDA to market a generic version of ULTRACET(TM) (tramadol hydrochloride/ acetaminophen), used for the treatment of short-term acute pain. (Please refer to Note 12, Legal Proceedings, for information around the Company's patent infringement suit against Kali.) An authorized generic version of ULTRACET(TM) is currently being marketed for the Company. Medical Devices and Diagnostics Medical Devices and Diagnostics segment sales in the fiscal first quarter of 2005 were $4.8 billion, an increase of 16.0% over the same period a year ago with 13.4% of this change due to operational growth and the remaining 2.6% increase related to the positive impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 7.6% while the growth in international Medical Devices and Diagnostics sales was 25.4%, which included 5.5% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales (Dollars in Millions) Total Operations Currency 2005 2004 %Change %Change %Change DEPUY(R) $ 993 $ 839 18.3% 16.2% 2.1% CORDIS(R) 969 877 10.5 8.2 2.3 ETHICON(R) 789 681 15.8 12.2 3.6 ETHICON ENDO-SURGERY(R) 765 665 15.0 12.3 2.7 LIFESCAN(R) 501 400 25.2 22.6 2.6 Vision Care 407 354 14.9 12.5 2.4 ORTHO-CLINICAL DIAGNOSTICS(R) 355 303 17.2 15.2 2.0 Other 18 17 5.9 3.0 2.9 Total $4,797 $4,136 16.0% 13.4% 2.6% Sales growth in this segment was led by strong results experienced across the segment. The DePuy franchise's operational growth of 16.2% was primarily due to DePuy's orthopaedic joint reconstruction products including the hip and knee product lines. Strong performance was also reported in DePuy's spine unit and Mitek sports medicine products. The Cordis franchise was also a key contributor to the Medical Devices and Diagnostics segment results, with an operational growth of 8.2%. The primary driver of this sales growth was the CYPHER(R) Sirolimus-eluting Stent in international markets, with excellent growth in Japan. U.S. CYPHER(R) Sirolimus-eluting Stent sales decreased from the same period in the prior year, as a competitor has since entered the market. 28 In April and July of 2004, Cordis Cardiology Division of Cordis Corporation received warning letters from the FDA regarding Good Manufacturing Practice and Good Clinical Practice regulations. These observations followed post-approval site inspections completed in 2003 and early 2004 including sites involved in the production of the CYPHER(R) Sirolimus-eluting Stent. In response to the warning letters, Cordis has made several improvements to their quality system and is in the process of being reinspected by the FDA. Ethicon worldwide sales grew operationally by 12.2% from the same period in the prior year. Contributing to the strong results was the continued penetration of VICRYL(R) (polyglactin 910) Plus, the first product in a new anti-bacterial suture platform, expanded usage of MULTIPASS(TM) needles, growth of DERMABOND(R) and strong results in mesh sales. The Ethicon Endo-Surgery franchise experienced operational growth of 12.3% over prior year. This growth was mainly driven by endocutter sales that include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise. Strong sales in the Advanced Sterilization Products line were also a key contributor to the overall sales growth for this franchise. The LifeScan franchise operational growth of 22.6% was a result of strong U.S. sales, as well as, increased presence in international markets. ONETOUCH(R) HORIZON(R), a low cost meter and strip system for developing markets was launched in China, South Africa and Kazakhstan during the first quarter of 2005. LifeScan has initiated a worldwide notification to all users of its OneTouch(R) Ultra(R), InDuor and OneTouch(R) FastTaker Meters that it may be possible for users to misinterpret their blood glucose results. All three affected meter systems were originally designed to allow patients to select one of two units of measure to display their test results. This selection is typically determined by the standard used by the country in which they live. LifeScan found that it was possible for consumers, in the course of setting their meter's date and time, to accidentally change the unit of measure and thereby misinterpret their blood glucose results. In addition, very rarely, an event such as dropping a meter while in use can cause a brief power loss, which may also unexpectedly change the unit of measure and/or the code number used to program the meter to match a particular vial of test strips. As a result, LifeScan implemented a product modification that will prevent users from inadvertently switching their meter's unit of measure. The Company has accrued for the cost associated with this program, which is not significant, during the first quarter of 2005. Vision Care franchise operational sales growth of 12.5% was led by the continued success of ACUVUE(R) ADVANCE(TM) brand contact lenses with HYDRACLEAR(TM) and 1-DAY ACUVUE(R). During the first quarter of 2005, the franchise launched ACUVUE(R) ADVANCE(TM) the only lens for astigmatism with HYDRACLEAR(TM). The Ortho-Clinical Diagnostics franchise reported operational growth of 15.2% over prior year, which was driven by its market penetration of the automated blood typing products, coupled with continued growth of the ECI product line. 29 Cost of Products Sold and Selling, Marketing and Administrative Expenses Consolidated costs of goods sold decreased to 27.1% from 29.1% of sales over the same period a year ago. The decrease resulted from a favorable product mix, cost improvement initiatives and improved

gross margins in the Medical Devices & Diagnostics segment, primarily driven by lower manufacturing costs related to CYPHER(R) Sirolimus-eluting Stent. Consolidated selling, marketing and administrative expenses increased 11.1% over the same period a year ago. Selling, marketing and administrative expenses as a percent to sales were 31.5%, which reflects a consistent rate of spend as compared to the same period in 2004. Research & Development Research activities represent a significant part of the Company's business. These expenditures relate to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of the consumer. Worldwide costs of research activities for the fiscal first quarter of 2005 were $1.3 billion, an increase of 23.0% over the same period a year ago. The level of research and development spending increased to 10.5% from 9.5% as a percent to sales, as compared to the same period a year ago. This increase is a reflection of the solid progress achieved in products in late stage development. In-Process Research & Development In the fiscal first quarters of 2005 and 2004, the Company did not record any in-process research & development (IPR&D) charges. Other (Income) Expense, Net Other (income) expense included gains and losses related to the sale and write-down of certain equity securities of the Johnson & Johnson Development Corporation, losses on the disposal of fixed assets, currency gains & losses, minority interests, litigation settlement expense, as well as, royalty income. The unfavorable change in other (income) expense as compared to the same period a year ago was primarily due to a higher level of miscellaneous other expenses, as well as, a one time gain associated with business divestitures in the fiscal first quarter of 2004. OPERATING PROFIT BY SEGMENT Consumer Segment Operating profit for the Consumer segment as a percent to sales in the fiscal first quarter of 2005 was 20.0% versus 21.5% over the same period a year ago. This decrease was primarily due to additional investment in consumer promotions and advertising in the OTC Pharmaceutical and Nutritionals franchise. 30 Pharmaceutical Segment Operating profit for the Pharmaceutical segment as a percent to sales in the fiscal first quarter of 2005 was 37.1% versus 38.8% over the same period a year ago. Operating profit was negatively impacted by increased research and development spending. Medical Devices and Diagnostics Segment Operating profit for the Medical Devices and Diagnostics segment as a percent of sales in the fiscal first quarter of 2005 was 31.1% versus 25.8% over the same period a year ago. The driver of the improved operating profit in the Medical Devices and Diagnostics segment over prior year was improved gross profit, resulting from cost reduction programs, lower manufacturing costs related to CYPHER(R) Sirolimus-eluting Stent and favorable product mix. Interest (Income) Expense Interest income in the fiscal first quarter of 2005 increased by $45.6 million over the fiscal first quarter of 2004, due primarily to the improved cash position, as well as, the higher rates of interest earned on our cash holdings. The cash balance, which included marketable securities, was $13.7 billion at the end of the fiscal first quarter of 2005. This is $3.3 billion higher than the same period a year ago. Interest expense in the fiscal first quarter of 2005 decreased by $29.4 million over the same period a year ago primarily due to a decrease in the average debt balance. Provision For Taxes on Income The worldwide effective income tax rates for the fiscal first quarters of 2005 and 2004 were 27.9% and 28.8%, respectively. The decrease in the effective tax rate of 0.9% was due to increases in the taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions. LIQUIDITY AND CAPITAL RESOURCES Cash Flows Cash generated from operations provided the major sources of funds for the growth of the business, including working capital, capital expenditures, acquisitions, share repurchases, dividends and debt repayments. In the fiscal first quarter of 2005, cash flow from operations was $2.7 billion, which is consistent with the same period a year ago. Net cash used by investing activities more than doubled due to an increase in capital spending and an increase in the purchases of marketable securities in the fiscal first quarter of 2005. Net cash used by financing activities decreased by $0.3 billion primarily due to lower repayments of debt in 2005. Cash and current marketable securities were $13.7 billion at the end of the fiscal first quarter of 2005 as compared with $12.9 billion at fiscal year-end 2004. 31 Dividends On January 4, 2005, the Board of Directors declared a regular cash dividend of $0.285 per share, paid on March 8, 2005 to shareholders of record as of February 15, 2005. This represented an increase of 18.8% from the fiscal first quarter of 2004 dividend. On April 28, 2005, the Board of Directors declared a regular cash dividend of $0.33 per share, payable on June 7, 2005 to shareholders of record as of May 17, 2005. This represented an increase of 15.8% in the quarterly dividend rate and was the 43rd consecutive year of cash dividend increases. The Company expects to continue the practice of paying regular cash dividends. OTHER INFORMATION New Accounting Standards In December 2004, the FASB issued SFAS No. 123(R), Share Based Payment. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (such as employee stock options). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). On April 14, 2005 the SEC approved a new rule that delays the effective date of SFAS No. 123(R) for annual, rather than interim, periods that begin after June 15, 2005. As a result, the Company will adopt this statement in the first fiscal quarter of 2006. The Company will implement SFAS 151, Inventory Costs, an amendment of ARB No. 43 and SFAS 153, Exchanges of Non-monetary Assets, an amendment of APB 29 in the first quarter of 2006 and the third quarter of 2005 respectively, as allowed by the Standards. The Company believes the adoption of these statements will not have a material effect on its results of operations, cash flows or financial position. The following recent accounting pronouncements became effective in 2004 and did not have a material impact on the Company's results of operations, cash flows or financial position. *EITF Issue 02-14: Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock. *EITF Issue 04-1: Accounting for Preexisting Relationships between the Parties to a Business Combination. 32 Economic and Market Factors Johnson & Johnson is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concern about the rising cost of health care. Johnson & Johnson has a long-standing policy of pricing products responsibly. For the period 1994 through 2004 in the United States, the weighted average compound annual growth rate of Johnson & Johnson price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI). Inflation rates, even though moderate in many parts of the world during 2004, continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement. The Company also operates in an environment increasingly hostile to intellectual property rights. Generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending a lawsuit resulting from an Abbreviated New Drug Application filing, the generic firms will then introduce generic versions of

the product at issue, resulting in very substantial market share and revenue losses. For further information see the discussion on "Litigation Against Filers of Abbreviated New Drug Applications" in Note 12. 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 approval, 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 that unknown risks or uncertainties materialize, actual results could vary materially from the Company's 33 expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments. Risks and uncertainties include general industry conditions and competition; economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approvals; challenges to patents; U.S. and foreign health care reforms and governmental laws and regulations; trends toward health care cost containment; increased scrutiny of the health care industry by government agencies; product efficacy or safety concerns resulting in product recalls or regulatory action. The Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2005 contains, as an Exhibit, a discussion of additional factors that could cause actual results to differ from expectations. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. 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 January 2, 2005. Item 4 - CONTROLS AND PROCEDURES-EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES Disclosure controls and procedures. As of the end of the period covered by this report, management evaluated the effectiveness of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that the Company records, processes, summarizes and reports in a timely manner the information the Company is required to disclose in its reports filed under the Securities Exchange Act. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. William C. Weldon, Chairman and Chief Executive Officer, and Robert J. Darretta, Vice Chairman and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, 34 Messrs. Weldon and Darretta concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective. Internal control. During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Part II - Other Information Item 1 - Legal Proceedings The information called for by this item is incorporated herein by reference to Note 12 included in Part I, Notes to Consolidated Financial Statements. Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds (c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table provides information with respect to Common Stock purchases by the Company during the fiscal first quarter of 2005. Common Stock purchases on the open market are made as part of a systematic plan to meet the Company's compensation programs. Fiscal Month Total Number of Average Price Paid Shares Purchased Per Share Jan. 3 - Jan. 30, 2005 2,999,700 $62.85 Jan. 31 - Feb. 27, 2005 2,374,200 $65.52 Feb. 28 - April 3, 2005 4,617,900 $67.07 On February 28, 2005 the Company issued 10,624,449 shares of its Common Stock to a shareholder in exchange for 11,184,666 shares of Common Stock previously held by such shareholder. These securities were exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(9) of the Securities Act for securities exchanged by an issuer with its existing security holders exclusively. There were no underwriting discounts, commissions or other remuneration paid to any person, directly or indirectly, nor was there any underwriter used, in connection with this exchange. Item 6 - Exhibits Exhibit 10.1 Johnson & Johnson 2005 Long-Term Incentive Plan -Incorporated herein by reference to Exhibit 1 to the Registrant's Proxy Statement filed with the SEC on March 15, 2005.* Exhibit 31.1 Certifications under Rule 13a-14(a) of the Securities Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed with this document. 35 Exhibit 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Furnished with this document. *Management contract or compensatory plan. 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 10, 2005 By /s/ R. J. DARRETTA R. J. DARRETTA Vice Chairman, Board of Directors; Chief Financial Officer and Director (Principal Financial Officer) Date: May 10, 2005 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Principal Accounting Officer) 36