10-Q 1 secondquartertenq.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 June 27, 2004 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) 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. Yes (X) No Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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 July 25, 2004, 2,968,107,066 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 - June 27, 2004 and December 28, 2003 3 Consolidated Statements of Earnings for the Fiscal Quarters Ended June 27, 2004 and June 29, 2003 6 Consolidated Statements of Earnings for the Fiscal Six Months Ended June 27, 2004 and June 29, 2003 7 Consolidated Statements of Cash Flows for the Fiscal Six Months Ended June 27, 2004 and June 29, 2003 8 Notes to Consolidated Financial Statements 10 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 29 Item 3. Quantitative and Qualitative Disclosures About Market Risk 40 Item 4. Controls and Procedures 40 Part II - Other Information Item 1 - Legal Proceedings 41 Item 4 - Submission of Matters to a Vote of Security Holders 41 Item 5 - Exhibits and Reports on Form 8-K 42 Signatures 43 2 Part I - FINANCIAL INFORMATION Item 1 - Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) ASSETS June 27, December 28, 2004 2003 Current Assets: Cash and cash equivalents $ 5,681 5,377 Marketable securities 5,105 4,146 Accounts receivable, trade, less allowances for doubtful accounts $192(2003, $192) 7,142 6,574 Inventories (Note 4) 3,528 3,588 Deferred taxes on income 1,599 1,526 Prepaid expenses and other receivables 1,602 1,784 Total current assets 24,657 22,995 Marketable securities, non-current 62 84 Property, plant and equipment, at cost 17,257 17,052 Less accumulated depreciation 7,700 7,206 Property, plant and equipment, net 9,557 9,846 Intangible assets (Note 5) 14,715 14,168 Less accumulated amortization 2,910 2,629 Intangible assets, net 11,805 11,539 Deferred taxes on income 995 692 Other assets 3,095 3,107 Total assets $50,171 48,263 See Notes to Consolidated Financial Statements 3 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) LIABILITIES AND SHAREHOLDERS' EQUITY June 27, December 28, 2004 2003 Current Liabilities: Loans and notes payable $ 491 1,139 Accounts payable 3,829 4,966 Accrued liabilities 2,740 2,639 Accrued rebates, returns and promotions 2,743 2,308 Accrued salaries, wages and commissions 929 1,452 Accrued Taxes on income 1,330 944 Total current liabilities 12,062 13,448 Long-term debt 2,962 2,955 Deferred tax liability 769 780 Employee related obligations 2,328 2,262 Other liabilities 1,998 1,949 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) (18) Accumulated other comprehensive income (Note 8) (526) (590) Retained earnings 33,627 30,503 4 Less common stock held in treasury, at cost (152,076,000 & 151,869,000 shares) 6,158 6,146 Total shareholders' equity 30,052 26,869 Total liabilities and shareholders' equity $50,171 48,263 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 Second Quarter Ended June 27, Percent June 29, Percent 2004 to Sales 2003 to Sales Sales to customers (Note 6) $11,484 100.0 10,332 100.0 Cost of products sold 3,162 27.5 2,966 28.7 Gross Profit 8,322 72.5 7,366 71.3 Selling, marketing and administrative expenses 3,711 32.3 3,396 32.9 Research expense 1,182 10.3 1,082 10.5 Purchased in-process research and development - - 900 8.7 Interest income (35) (.3) (43) (.4) Interest expense, net of portion capitalized 52 .4 50 .4 Other (income)expense, net (23) (.1) (75) (.7) Earnings before provision for taxes on income 3,435 29.9 2,056 19.9 Provision for taxes on income (Note 3) 977 8.5 846 8.2 NET EARNINGS $2,458 21.4 1,210 11.7 NET EARNINGS PER SHARE (Note 7) Basic $ .83 .41 Diluted $ .82 .40 CASH DIVIDENDS PER SHARE $ .285 .24 AVG. SHARES OUTSTANDING Basic 2,968.2 2,967.7 Diluted 3,005.3 3,015.9 See Notes to Consolidated Financial Statements 6 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Six Months Ended June 27, Percent June 29, Percent 2004 to Sales 2003 to Sales Sales to customers (Note 6) $23,043 100.0 20,154 100.0 Cost of products sold 6,529 28.3 5,688 28.2 Gross Profit 16,514 71.7 14,466 71.8 Selling, marketing and administrative expenses 7,351 31.9 6,649 33.0 Research expense 2,278 9.9 2,018 10.0 Purchased in-process research and development - - 918 4.6 Interest income (74) (.3) (81) (.4) Interest expense, net of portion capitalized 97 .4 88 .4 Other (income)expense, net (77) (.3) (112) (.5) Earnings before provision for taxes on income 6,939 30.1 4,986 24.7 Provision for taxes on income (Note 3) 1,988 8.6 1,705 8.4 NET EARNINGS $4,951 21.5 3,281 16.3 NET EARNINGS PER SHARE (Note 7) Basic $ 1.67 1.11 Diluted $ 1.65 1.09 CASH DIVIDENDS PER SHARE $ .525 .445 AVG. SHARES OUTSTANDING Basic 2,968.1 2,967.9 Diluted 3,004.4 3,015.2 See Notes to Consolidated Financial Statements 7 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Six Months Ended June 27, June 29, 2004 2003 CASH FLOWS FROM OPERATIONS Net earnings $ 4,951 3,281 Adj. to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 1,027 868 Purchased in-process research and development - 918 Increase in deferred taxes (429) (138) Accounts receivable provisions 2 (9) Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (624) (756) Decrease (increase) in inventories 23 (186) (Decrease) increase in accounts payable and accrued liabilities (1,146) 101 Decrease (increase) in other current and non-current assets 248 (570) Increase in other current and non-current liabilities 729 184 NET CASH FLOWS FROM OPERATING ACTIVITIES 4,781 3,693 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (714) (914) Proceeds from the disposal of assets 233 333 Acquisition of businesses, net of cash acquired (300) (2,781) Purchases of investments (5,654) (2,868) Sales of investments 4,684 2,580 Other (113) (96) NET CASH USED BY INVESTING ACTIVITIES (1,864) (3,746) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareholders (1,559) (1,321) Repurchase of common stock (760) (842) Proceeds from short-term debt 332 1,441 Retirement of short-term debt (911) (436) Proceeds from long-term debt 16 1,009 Retirement of long-term debt (1) (43) Proceeds from the exercise of stock options 311 195 NET CASH

PROVIDED/(USED)BY FINANCING ACTIVITIES (2,572) 3 8 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (41) 124 INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS 304 74 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 5,377 2,894 CASH AND CASH EQUIVALENTS, END OF PERIOD $ 5,681 2,968 ACQUISITION OF BUSINESSES Fair value of assets acquired 339 3,096 Fair value of liabilities assumed (39) (315) Net cash paid for acquisitions $ 300 2,781 See Notes to Consolidated Financial Statements 9 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 28, 2003. 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. NOTE 2 - FINANCIAL INSTRUMENTS The Company follows the provisions of SFAS 133 requiring that all derivative instruments be recorded on the balance sheet at fair value. As of June 27, 2004, the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $101 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. For the first fiscal six months ended June 27, 2004, the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the first fiscal six months ended June 27, 2004, the Company has recorded a net loss of $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 originally forecasted transactions will not occur by the end of the originally specified time period. NOTE 3 - INCOME TAXES The worldwide effective income tax rates for the first fiscal six months of 2004 and 2003 were 28.6% and 34.2%. The decrease in the effective tax rate for the first fiscal six months of 2004 compared with the same period a year ago was due to acquisition-related In-process Research and Development (IPR&D) charges in the second quarter of 2003 that are non-deductible for tax purposes. The 2003 tax rate excluding the effect of IPR&D was 28.9% 10 NOTE 4 - INVENTORIES (Dollars in Millions) June 27, 2004 December 28, 2003 Raw materials and supplies $ 1,052 966 Goods in process 1,114 981 Finished goods 1,362 1,641 $ 3,528 3,588 NOTE 5 - INTANGIBLE ASSETS Intangible assets that have definite useful lives are amortized over their useful lives. Goodwill and non- amortizable intangible assets are assessed annually for impairment. The impairment assessment was completed in the fiscal fourth quarter of 2003 and no impairment was determined. Future impairment tests will be performed in the fiscal fourth quarter, annually. (Dollars in Millions) June 27, 2004 December 28, 2003 Goodwill $ 6,288 6,085 Less accumulated amortization 718 695 Goodwill - net 5,570 5,390 Trademarks (non-amortizable) 1,129 1,098 Less accumulated amortization 136 136 Trademarks (non-amortizable)- net 993 962 Patents and trademarks 4,005 3,798 Less accumulated amortization 966 818 Patents and trademarks - net 3,039 2,980 Other amortizable intangibles 3,293 3,187 Less accumulated amortization 1,090 980 Other intangibles - net 2,203 2,207 Total intangible assets 14,715 14,168 Less accumulated amortization 2,910 2,629 Total intangibles - net $11,805 11,539 11 Goodwill as of June 27, 2004 as allocated by segment of business is as follows: (Dollars in Millions) Med. Dev Consumer Pharm & Diag Total Goodwill, net of accumulated amortization at December 28, 2003 $882 781 3,727 5,390 Acquisitions 175 21 6 202 Translation & other 1 (5) (18) (22) Goodwill as of June 27, 2004 $1,058 797 3,715 5,570 The weighted average amortization periods for patents and trademarks and other intangible assets were 16 years and 18 years, respectively. The amortization expense of amortizable intangible assets for the first fiscal six months ended June 27, 2004 was $258 million before tax and the estimated amortization expense for each of the five succeeding years approximates $500 million before tax. NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Fiscal Second Quarter Percent 2004 2003 Change Consumer U.S. $ 987 931 6.0 International 1,013 888 14.1 2,000 1,819 10.0% Pharmaceutical U.S. $ 3,643 3,278 11.1 International 1,784 1,606 11.1 5,427 4,884 11.1% Med Devices and Diagnostics U.S. $ 2,038 1,903 7.1 International 2,019 1,726 17.0 4,057 3,629 11.8% U.S. $ 6,668 6,112 9.1 International 4,816 4,220 14.1 Worldwide $ 11,484 10,332 11.1% 12 Fiscal Six Months Percent 2004 2003 Change Consumer U.S. $ 2,067 1,931 7.0 International 1,980 1,679 17.9 4,047 3,610 12.1% Pharmaceutical U.S. $ 7,286 6,541 11.4 International 3,517 3,009 16.9 10,803 9,550 13.1% Med Devices and Diagnostics U.S. $ 4,233 3,652 15.9 International 3,960 3,342 18.5 8,193 6,994 17.1% U.S. $ 13,586 12,124 12.1 International 9,457 8,030 17.8 Worldwide $ 23,043 20,154 14.3% OPERATING PROFIT BY SEGMENT OF BUSINESS Fiscal Second Quarter Percent 2004 2003 Change Consumer $ 382 372 2.7 Pharmaceutical(1) 2,108 1,091 93.2 Med. Dev. & Diag.(2) 1,055 671 57.2 Segments total 3,545 2,134 66.1 Expenses not allocated to segments (110) (78) Worldwide total $ 3,435 2,056 67.1% Fiscal Six Months Percent 2004 2003 Change Consumer $ 829 784 5.7 Pharmaceutical(3) 4,194 2,951 42.1 Med. Dev. & Diag.(4) 2,118 1,401 51.2 Segments total 7,141 5,136 39.0 Expenses not allocated to segments (202) (150) Worldwide total $ 6,939 4,986 39.2% 13 (1) Includes $730 million of In-process Research and Development (IPR&D) charges related to acquisitions for the fiscal second quarter of 2003. (2) Includes $170 million of IPR&D charges related to acquisitions for the fiscal second quarter of 2003. (3) Includes $737 million of IPR&D charges related to acquisitions for the first fiscal six months of 2003. (4) Includes $181 million of IPR&D charges related to acquisitions for the first fiscal six months of 2003. SALES BY GEOGRAPHIC AREA Fiscal Second Quarter Percent 2004 2003 Change U.S. $ 6,668 6,112 9.1 Europe 2,779 2,451 13.4 Western Hemisphere, excluding U.S. 622 555 12.1 Asia-Pacific, Africa 1,415 1,214 16.6 Total $ 11,484 10,332 11.1% Fiscal Six Months Percent 2004 2003 Change U.S. $ 13,586 12,124 12.1 Europe 5,486 4,669 17.5 Western Hemisphere, excluding U.S. 1,219 1,027 18.7 Asia-Pacific, Africa 2,752 2,334 17.9 Total $ 23,043 20,154 14.3% 14 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 second quarters ended June 27, 2004 and June 29, 2003. (Shares in Millions) Fiscal Second Quarter Ended June 27, June 29, 2004 2003 Basic net earnings per share $ .83 .41 Average shares outstanding - basic 2,968.2 2,967.7 Potential shares exercisable under stock option plans 152.8 177.9 Less: shares which could be repurchased under treasury stock method (130.5) (144.6) Convertible debt shares 14.8 14.9 Adjusted average shares outstanding - diluted 3,005.3 3,015.9 Diluted earnings per share $ .82 .40 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related decrease in interest expense of $3 million each for the fiscal second quarters ended June 27, 2004 and June 29, 2003, respectively. The diluted earnings per share excluded 91 million and 46 million shares related to options for the fiscal second quarters ended June 27, 2004 and June 29, 2003, 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. The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal six months ended June 27, 2004 and June 29, 2003. (Shares in Millions) Fiscal Six Months Ended June 27, June 29, 2004 2003 Basic net earnings per share $ 1.67 1.11 Average shares outstanding - basic 2,968.1 2,967.9 Potential shares exercisable under stock option plans 152.7 177.9 Less: shares which could be repurchased under treasury stock method (131.2) (145.5) Convertible debt shares 14.8 14.9 Adjusted average shares outstanding - diluted 3,004.4 3,015.2 Diluted earnings per share $ 1.65 1.09 15 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related decrease in interest expense of $7 million each for the first fiscal six months ended June 27, 2004 and June 29, 2003, respectively. The diluted earnings per share excluded 92 million and 46 million shares related to options for the first fiscal six months ended June 27, 2004 and June 29, 2003, 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 first fiscal six months ended June 27, 2004 was $5.0 billion, compared with $3.4 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 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) December 28, 2003 $ (373) 27 (64) (180) (590) 2004 six months changes: Net change associated with current period hedging transactions - - - 248 Net amount reclassed to net earnings - - - (169)* Net six months changes (75) 60 - 79 64 June 27, 2004 $ (448) 87 (64) (101) (526) Note: All amounts, other than foreign currency translation, are net of tax. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in non-US subsidiaries. *Primarily offset in net earnings by changes in value of the underlying transactions. NOTE 9 - MERGERS, ACQUISITIONS AND DIVESTITURES There were no acquisitions in the fiscal first quarter of 2004. DePuy's Castings business was divested in the fiscal first quarter of 2004 and did not have a material effect on the Company's results of operations, cash flows or financial position. 16 On March 30, 2004, Johnson & Johnson acquired Merck's 50% interest in the Johnson & Johnson-Merck Consumer Pharmaceuticals Co. European non-prescription pharmaceutical joint venture for a net purchase price of $230 million. This resulted in Johnson & Johnson acquiring all the infrastructure and brand assets currently managed by the European JV including brands contributed by Merck (DOLORMIN (r), PEPCID (r), FRENADOL (r) and DACRYYO(r)) and those acquired by both companies (through the acquisition of Woelm Pharma and Laboratoires Martin). On May 18, 2004, Johnson & Johnson completed the acquisition of EGEA Biosciences, Inc. through the exercise of the option to acquire the remaining outstanding stock not owned by Johnson & Johnson. EGEA Biosciences 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. On June 18, 2004, Johnson & Johnson acquired the stock of Artemis Medical, Inc. Artemis was a privately held company founded in 1999. Its products include ultrasound and x-ray visible biopsy site breast markers as well as hybrid markers. The total net cash paid for acquisitions in the first fiscal six months of 2004 was $300 million. On January 29, 2003, Johnson & Johnson acquired certain assets of Orquest, Inc., a privately held biotechnology company focused on developing biologically based implants for orthopaedic and spine surgery. Orquest's principal product, HEALOS Bone Graft Substitute, is designed to reduce the time and pain associated with standard bone graft harvesting and represents a therapeutic advance for patients requiring bone graft material for spine fusion. The Company incurred a charge for IPR&D of approximately $11 million before tax and $8 million after tax. On February 10, 2003, Johnson & Johnson acquired OraPharma, Inc., a specialty pharmaceutical company focused on the development and commercialization of unique therapeutics. Orapharma's initial product, ARESTIN, is the first locally administered, time-released antibiotic encapsulated in microspheres that control the germs that can cause periodontal disease. The transaction was valued at approximately $85 million, net of cash. On March 28, 2003, Johnson & Johnson acquired 3- Dimensional Pharmaceuticals, Inc., a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for the treatment of cardiovascular disorders, oncology and inflammation. The transaction was valued at approximately $88 million, net of cash. The Company incurred a before and after tax charge for IPR&D of approximately $7 million. On April 17, 2003, Johnson & Johnson acquired the CORTAID(r) brand business, the #3 brand in the anti- itch treatment segment of the first aid category. The transaction was valued at approximately $37 million. On May 9, 2003, Johnson & Johnson acquired Inscope, an intraluminal multiple clip applier technology. This transaction was valued at $26 million. 17 On April 29, 2003, Johnson & Johnson acquired Scios Inc., a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto-immune diseases. Scios was acquired to strengthen the Company's business in key therapeutic areas and technology platforms. Scios' product NATRECOR(r) is a novel agent approved for congestive heart failure and has several significant advantages over existing therapies. The transaction was valued at approximately $2.1 billion, net of cash, and the Company incurred a charge for IPR&D of $730 million before and after tax. The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $440 million and was allocated to goodwill. Goodwill associated with this deal will not be deductible for tax purposes. On June 3, 2003, Johnson & Johnson acquired Link Spine Group, Inc., a privately owned corporation that will provide the Company with exclusive worldwide rights to the SB Charite (tm) Artificial Disc for the treatment of spine disorders. Under the terms of the agreement, the Company paid a $325 million upfront payment with further contingent payments due upon achievement of regulatory and other milestones, and the Company incurred a charge for IPR&D of $170 million before and after tax. The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $84 million and was allocated to goodwill. Goodwill associated with this deal will not be deductible for tax purposes. The supplemental pro forma information for the current interim period and the preceeding year per SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" are not provided as the impact of these aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position. NOTE 10 - PRO FORMA STOCK BASED COMPENSATION At June 27, 2004, the Company had 21 stock-based employee compensation plans. The Company accounted for those plans under the recognition and measurement principles of Accounting Principle 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. 18 (Dollars in Millions Except Per Share Data) Fiscal Second Quarter Ended June 27, 2004 June 29, 2003 Net income, as reported $ 2,458 1,210 Less: Compensation expense(1) 88 90 Pro forma $ 2,370 1,120 Earnings per share: Basic - as reported $.83 $.41 - pro forma .80 .38 Diluted - as reported $.82 $.40 - pro forma .79 .37 (1) Determined under fair value based method for all awards, net of tax. (Dollars in Millions Except Per Share Data) Fiscal Six Months ended June 27, 2004 June 29, 2003 Net income, as reported $ 4,951 3,281 Less: Compensation expense(1) 166 174 Pro forma $ 4,785 3,107 Earnings per share: Basic - as reported $1.67 $1.11 - pro forma 1.61 1.05 Diluted - as reported $1.65 $1.09 - pro forma 1.59 1.04 (1) Determined under fair value based method for all awards, net of tax. 19 NOTE 11 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS Components of Net Periodic Benefit Cost Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for the fiscal second quarter of 2004 and 2003 include the following components: (Dollars in Millions) Retirement Plans Other Benefit Plans Fiscal Second Quarter ended June 27, June 29, June 27, June 29, 2004 2003 2004 2003 Service cost $ 104 82 11 7 Interest cost 106 98 25 17 Expected return on plan assets (127) (124) - (1) Amortization of prior service cost 3 4 - (1) Amortization of net transition asset - (1) - - Recognized actuarial losses (gains) 59 17 11 1 Curtailments and settlements - 1 - - Net periodic benefit cost $ 145 77 47 23 Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for the first fiscal six months of 2004 and 2003 include the following components: (Dollars in Millions) Retirement Plans Other Benefit Plans Fiscal Six Months ended June 27, June 29, June 27, June 29, 2004 2003 2004 2003 Service cost $ 212 163 24 14 Interest cost 225 196 51 35 Expected return on plan assets (258) (248) (1) (2) Amortization of prior service cost 7 9 (1) (2) Amortization of net transition asset (1) (2) - - Recognized actuarial losses (gains) 103 33 22 2 Curtailments and settlements - 1 - - Net periodic benefit cost $ 288 152 95 47 Company Contributions As of June 27, 2004, the Company has contributed $155 million to its U.S. retirement plans in 2004. The Company has no statutory 20 requirements to further fund U.S. retirement plans in 2004 and does not anticipate any further funding in 2004. NOTE 12 - 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 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 product PROPULSID, which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, numerous lawsuits have been 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. There are approximately 430 such cases currently pending, including the claims of approximately 5,900 plaintiffs. In the active cases, 418 individuals are alleged to have died from the use of PROPULSID. 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 agreements (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. In September 2001, the first ten plaintiffs in the Rankin case, which comprises the claims of 155 PROPULSID plaintiffs, went to trial in state court in Claiborne County, Mississippi. The jury returned compensatory damage verdicts for each plaintiff in the amount of $10 million, for a total of $100 million. The trial judge thereafter dismissed the claims of punitive damages. On March 4, 2002, the trial judge reduced these verdicts to a total of $48 million, and denied the motions of Janssen and the Company for a new trial. On May 13, 2004, the Supreme Court of Mississippi reversed the verdicts against Janssen and the Company, and remanded the case to the trial court. The Supreme Court found the joint trial of multiple plaintiffs' cases against Janssen was prejudicial and directed the trial court to return the cases of the individual plaintiffs for separate trials to their home counties. A motion for rehearing filed by the plaintiffs is pending. In April 2002, a state court judge in New Jersey denied plaintiffs' motion to certify a national class of PROPULSID users 21 for purposes of medical monitoring and refund of the costs of purchasing PROPULSID. An effort to appeal that ruling has been denied. In June 2002, the federal judge presiding over the PROPULSID Multi-District Litigation in New Orleans, Louisiana similarly denied plaintiffs' motion there to certify a national class of PROPULSID users. Plaintiffs in the Multi-District Litigation have said they are preserving their right to appeal that ruling, and other complaints filed against Janssen and the Company include class action allegations, which could be the basis for future attempts to have classes certified. 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. There are approximately 4,000 individuals included in the Federal MDL of whom approximately 300 are alleged to have died from use of the drug. The agreement becomes effective once 85 percent of the death claims, and 75 percent of the remainder, agree to the terms of the settlement. In addition, 12,000 individuals who have not filed lawsuits, but whose claims are the subject of tolling agreements suspending the running of the statutes of limitations against those claims, must also agree to participate in the settlement before it will become effective. Those agreeing to participate 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. If the agreement becomes effective, Janssen will pay as compensation a minimum of $69.5 million and a maximum of $90 million, depending upon the number of plaintiffs who enroll in the program. 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. 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 Insurance Company, which issued the first layer of applicable excess insurance coverage, to obtain reimbursement of PROPULSID-related costs. 22 The Company's Ethicon, Inc. 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 trial 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. The certification is subject to later challenge following the conclusion of discovery. An October 2004 trial date has been set in this matter and 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, 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. Cordis filed motions before the trial court on October 14, 2003 to reinstate the verdicts against both Medtronic AVE and Boston Scientific and to award interest and enter injunctions against the stent products at issue in those two cases (the GFX and MicroStent stents of Medtronic AVE and the NIR stent of Boston Scientific) and colorable variations thereof. Medtronic AVE and Boston Scientific are resisting reinstatement of these verdicts and will likely attempt to appeal to the Court of Appeals for the Federal Circuit once judgments are entered. 23 In January 2003, Cordis filed an additional patent infringement action against Boston Scientific in Delaware Federal Court accusing its Express2 and TAXUS stents of infringing one of the Cordis patents involved in the earlier actions against Boston Scientific and Medtronic AVE. In February 2003, Cordis moved in that action for a preliminary injunction seeking to bar the introduction of the TAXUS stent based on that patent. On November 21, 2003, the district judge denied that request for a preliminary injunction and that decision was affirmed by the Court of Appeals for the Federal Circuit in May 2004. Cordis also has pending in Delaware Federal Court another action against Medtronic AVE 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. In early June 2003, an arbitration panel in Chicago, in a preliminary ruling, found in favor of Cordis in its arbitration against ACS/Guidant involving infringement by ACS/Guidant of a Cordis stent patent. On August 19, 2003, the panel confirmed that ruling, rejecting the challenge of ACS/Guidant. Under the terms of an earlier agreement between Cordis and ACS/Guidant, the arbitration panel's ruling obligated ACS/Guidant to make a payment of $425 million to Cordis which was made in the fiscal fourth quarter of 2003. As a result of resolving this matter, in the fiscal fourth quarter, $230 million was recorded in other income and expense (approximately $142 million after tax) relating to past periods. The balance of the award, $195 million (approximately $120 million after tax), will be recognized in income in future periods over the estimated remaining life of the intellectual property. No additional royalties for ACS/Guidant's continued use of the technology and no injunction are involved. Patent Litigation Against Various Johnson & Johnson Operating Companies The products of various Johnson & Johnson operating companies are the subject of various patent lawsuits, which could potentially affect the ability of those operating companies 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 operating companies: 24 Product J&J Patents Plaintiff/ Court Trial Date Operat- Patent Date Filed ing Holder Company Stents Cordis Jang Boston D.Del. 6/13/05 3/03 Scientific Corporation Drug Cordis Ding Boston D.Del. 6/13/05 4/03 Eluting Scientific Stents Corporation Drug Cordis Kung Boston D.Del. 10/17/05 12/03 Eluting Grainger Scientific Stents Corporation Stents Cordis Rockey Arlaine S.D.Fla. TBD 7/02 and Gena Rockey Inc. Stents Cordis Boneau Medtronic D.Del. TBD 4/02 Inc. Two- Cordis Kastenh Boston N.D.Cal. TBD 2/02 layer ofer Scientific Catheters Forman Corporation Remicade Centocor Cerami Rockefeller E.D.Tex. TBD 4/04 University and Chiron Corporation Two- Cordis Kastenh Boston Belgium 9/7/04 12/03 layer (Belgium ofer Scientific Cath- (Schneider) ers Stents Cordis Israel Medinol Multiple 1st 5/2003 E.U. trial - juris- Netherl 5/2004 dictions ands Jan 2005 With respect to all of these matters, the Johnson & Johnson operating company involved is vigorously defending against the claims of infringement and disputing where appropriate the validity and enforceability of the patent claims asserted against it. Litigation Against Filers of Abbreviated New Drug Applications (ANDAs) The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications (ANDAs) 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. 25 Patent/ND Generic Trial Date Brand Name Product A Holder Challenger Court Date Filed Aciphex Eisai Teva SDNY TBD 11/20/03 20 mg delay release (for Dr. SDNY TBD 11/17/03 tablet Janssen) Reddy's Mylan SDNY TBD 01/28/04 Ditropan XL Ortho Mylan DWV 02/08/05 05/02/03 McNeil, 5, 10, 15 mg ALZA Impax NDCal TBD 09/04/03 controlled release tablet Duragesic Janssen, Mylan D Vt 08/25/03 01/25/02 25, 50, 75, 100 ALZA micrograms/hr patch Levaquin Tablets Daiichi, Mylan DWV 05/24/04 02/22/02 JJPRD, 250, 500, 750 mg Ortho Teva DNJ TBD 06/11/02 tablets McNeil Levaquin Injectable Daiichi, Bedford/ DNJ TBD 03/24/03 Single use vials and JJPRD, Ben 5 ml/mg premix Ortho Venue McNeil Sicor DNJ TBD 12/15/03 (Teva) Levaquin Injectable Daiichi, American DNJ TBD 12/19/03 Single use vials JJPRD, Pharmace Ortho uti-cal McNeil Partners Quixin Opthalmic Daiichi, Hi-Tech DNJ TBD 12/18/03 Solution Ortho Pharmacal (Levofloxacin) McNeil Opthalmic solution Ortho Tri-cyclen LO Ortho Barr DNJ TBD 10/01/03 0.18 mg/0.025 mg, McNeil 0.215 mg/0.025 mg and 0.25 mg/0.025 mg Risperdal Tablets Janssen Mylan DNJ TBD 12/29/03 .25, 0.5, 1, 2, 3, 4 Dr. DNJ TBD 12/29/03 mg tablets Reddy's Sporanox Janssen Eon Labs EDNY 05/17/04 04/15/01 100 mg capsule Topamax Ortho Mylan DNJ TBD 04/12/04 25, 100, 200 mg McNeil tablet Ultracet Ortho Kali DNJ TBD 11/25/02 37.5 tram/325 apap McNeil (Par) tablet Teva DNJ TBD 02/25/04 In the Duragesic matter referenced above, the district court in March 2004 found ALZA's patent valid, enforceable and infringed by Mylan's generic. Mylan is appealing that ruling. In June 2004, FDA ruled that Mylan's ANDA would be subject to ALZA's period of pediatric exclusivity ending in January 2005. In late June, Mylan filed actions against FDA seeking to require the agency to grant it

approval to market on July 24, 2004, the day after the Duragesic patent expires, in both the federal district and circuit courts for the District of Columbia. ALZA and Janssen are seeking to intervene in Mylan's actions against the FDA, and to provide support for the agency's action. In the action against Mylan involving Levaquin, post- trial papers following the second phase of the trial were submitted to the district court in July and a decision is expected in the fourth quarter of this year. In the action against Eon Labs involving Sporanox, the district court ruled on July 28, 2004 that Janssen's patent was valid but not infringed by Eon's generic. Janssen will appeal this ruling to the Court of Appeals for the Federal Circuit. 26 In the action against Kali involving Ultracet, Kali has moved for summary judgment on the issues of infringement and invalidity. The briefing on that motion was completed in July 2004 and a decision is expected in the fourth quarter of this year. 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. In the action against Mylan involving Ditropan XL, Mylan recently moved for summary judgment on the issues of non-infringement and invalidity. With respect to all of the above matters, the Johnson & Johnson operating company 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 operating companies, 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 ("AWP") 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. Ethicon Endo-Surgery, Inc., a Johnson & Johnson operating company 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- Surgery, Inc. 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- Surgery, Inc. 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. 27 Other The New York State Attorney General's office 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, Inc. and Ethicon Endo-Surgery, Inc. subsidiaries. The Connecticut 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 are responding to the subpoenas. 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. 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. Both the Company and Centocor are responding to these requests for documents and information. 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 the investigation had become formal and issued a subpoena for the information previously requested in an informal fashion, plus other background documents. The Company and its operating units in Poland are responding to these requests. On December 8, 2003, the Company's Ortho-McNeil Pharmaceutical unit 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) which is approved for anti-epilepsy therapy. Ortho-McNeil is cooperating in responding to the subpoena. On January 20, 2004, the Company's Janssen unit received a subpoena from the Office of the Inspector General of the United States Office of Personnel Management seeking documents concerning any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL from 1997 to 2002. Janssen is cooperating in responding to the subpoena. 28 In April 2004, the Company's pharmaceutical units were requested to submit information to the 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. 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, Risperdal, Procrit, Reminyl, Remicade and Aciphex. The Company is responding to the request. 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 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 holds 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. The district court has issued preliminary rulings that upheld the district court's initial findings in 2001. Further proceedings and an appeal will follow. The Amgen patents at issue in the case are exclusively licensed to Ortho Biotech Inc., a Johnson & Johnson operating company, in the U.S. for non- dialysis indications. Ortho Biotech Inc. is not a party to the action. 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 opinion of management, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of these legal proceedings, net of liabilities already accrued in the Company's consolidated balance sheet, is not expected to have a material adverse effect on the Company's consolidated 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. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Results of Operations Analysis of Consolidated Sales For the first fiscal six

months of 2004, worldwide sales were $23.0 billion, an increase of 14.3% over 2003 first fiscal six month sales of $20.2 billion. The impact of foreign currencies accounted for 4.0% of the total reported fiscal six month increase. 29 Sales by U.S. companies were $13.6 billion in the first fiscal six months of 2004, which represented an increase of 12.1% over the same period last year. Sales by international companies were $9.4 billion, which represented an increase of 17.8%, of which 10.0% was due to currency fluctuations. All geographic areas throughout the world posted sales increases during the first fiscal six months of 2004 as sales increased 17.5% in Europe, 18.7% in the Western Hemisphere (excluding the U.S.) and 17.9% in the Asia-Pacific, Africa region. These sales gains include the positive impact of currency fluctuations between the U.S. dollar and foreign currencies in Europe of 11.6%, in the Western Hemisphere (excluding the U.S.) of 5.5% and in the Asia-Pacific, Africa region of 8.6%. For the fiscal second quarter of 2004, worldwide sales were $11.5 billion, an increase of 11.1% over 2003 fiscal second quarter sales of $10.3 billion. The impact of foreign currencies accounted for 2.6% of the total reported fiscal second quarter 2004 increase. Sales by U.S. companies were $6.7 billion in the fiscal second quarter of 2004, which represented an increase of 9.1%. Sales by international companies were $4.8 billion, which represented an increase of 14.1%, of which 6.3% was due to currency fluctuations. All geographic areas throughout the world posted sales increases during the fiscal second quarter of 2004 as sales increased 13.4% in Europe, 12.1% in the Western Hemisphere (excluding the U.S.) and 16.6% in the Asia-Pacific, Africa region. These sales gains include the positive impact of currency fluctuations between the U.S. dollar and foreign currencies in Europe of 7.4%, in the Western Hemisphere (excluding the U.S.) of 0.5% and in the Asia-Pacific, Africa region of 6.8%. Analysis of Sales by Business Segments Consumer Consumer segment sales in the first fiscal six months of 2004 were $4.0 billion, an increase of 12.1% over the same period a year ago with 8.1% of operational growth and a positive currency impact of 4.0%. U.S. Consumer segment sales increased by 7.0% while international sales gains of 17.9% included a positive currency impact of 8.6%. Major Consumer Franchise Sales - First Fiscal Six Months Total Operations Currency 2004 2003 %Change %Change %Change OTC & Nutritionals 1,096 $ 935 17.2% 14.8% 2.4% Skin Care 1,071 913 17.3 11.9 5.4 Women's Health 716 657 9.1 4.0 5.1 Baby & Kids Care 703 634 10.8 5.5 5.3 30 Consumer segment sales in the fiscal second quarter of 2004 were $2.0 billion, an increase of 10.0% over the same period a year ago with 7.5% of operational growth and a positive currency impact of 2.5%. U.S. Consumer segment sales increased by 6.0% while international sales gains of 14.1% included a positive currency impact of 5.1%. Major Consumer Franchise Sales - Fiscal Second Quarter Total Operations Currency 2004 2003 %Change %Change %Change OTC & Nutritionals $ 532 $ 448 18.9% 16.7% 2.2% Skin Care 509 448 13.6 10.2 3.4 Women's Health 368 344 7.0 4.1 2.9 Baby & Kids Care 360 331 8.8 5.2 3.6 Consumer segment sales growth in the fiscal second quarter was attributable to strong sales performance in the major franchises in this segment including McNeil Over-The-Counter and Nutritional products, Skin Care, Women's Health and Baby & Kids Care. McNeil Over-The- Counter and Nutritional products growth was driven by the acquisition of the remaining 50% stake in the Johnson & Johnson-Merck Consumer Pharmaceuticals Co. non-prescription pharmaceuticals joint venture, and the continued growth of SPLENDA(r) Tabletop brand no calorie sweetener, partially offset by the sale of the SPLENDA(r)ingredients business on April 2, 2004. The Skin Care franchise sales growth was attributed to NEUTROGENA(r),AVEENO(r), RoC(r) and CLEAN & CLEAR(r). New products launched in the first half of 2004 have continued to be the primary driver of growth. The Baby & Kids Care franchise growth was led by new products, the continued strength of BabyCenter and the sales growth of Balmex(r) Diaper Rash Ointment, which was acquired in 2003. In February 2004, the Company announced an agreement with Tate & Lyle related to the production of sucralose and the SPLENDA brand. This transaction was completed on April 2, 2004 and resulted in the Company being responsible for the worldwide sales and marketing of the tabletop category of SPLENDA(r), with Tate & Lyle responsible for the manufacturing of sucralose and the marketing of ingredient sales. This transaction had no significant impact on financial results. Pharmaceutical Pharmaceutical segment sales in the first fiscal six months of 2004 were $10.8 billion, an increase of 13.1% over the same period a year ago with 10.0% of this change due to operational increases and the remaining 3.1% increase related to the positive impact of currency. The U.S. Pharmaceutical sales increase was 11.4% and the growth in international Pharmaceutical sales was 16.9% which included 9.9% related to the positive impact of currency. 31 Major Pharmaceutical Product Sales - First Fiscal Six Months Total Operations Currency 2004 2003 %Change %Change %Change PROCRIT(r)/EPREX(r) $1,852 $2,012 (8.0%) (10.8%) 2.8% RISPERDAL(r) 1,458 1,256 16.1 11.4 4.7 DURAGESIC(r) 1,011 776 30.3 25.5 4.8 REMICADE(r) 1,003 830 20.9 20.9 0.0 Hormonal Contra- ceptives 671 555 20.8 19.6 1.2 TOPAMAX(r) 663 494 34.2 31.7 2.5 LEVAQUIN(r)/FLOXIN(r) 651 571 14.0 14.1 (0.1) Pharmaceutical segment sales in the fiscal second quarter of 2004 were $5.4 billion, an increase of 11.1% over the same period a year ago with 9.1% of this change due to operational increases and the remaining 2.0% increase related to the positive impact of currency. The U.S. Pharmaceutical sales increase was 11.1% and the growth in international Pharmaceutical sales was 11.1% which included 6.0% related to the positive impact of currency. Major Pharmaceutical Product Sales - Fiscal Second Quarter Total Operations Currency 2004 2003 %Change %Change %Change PROCRIT(r)/EPREX(r) $ 875 $1,015 (13.8%) (15.6%) 1.8% RISPERDAL(r) 727 655 10.9 7.9 3.0 DURAGESIC(r) 557 381 46.2 42.7 3.5 REMICADE(r) 539 421 28.2 28.2 0.0 Hormonal Contra- ceptives 366 287 27.6 26.9 0.7 TOPAMAX(r) 335 263 27.5 26.0 1.5 LEVAQUIN(r)/FLOXIN(r) 269 273 (1.5) (1.2) (0.3) Included in second quarter results was the benefit from adjustments related to previously estimated performance-based rebate allowances in managed care contracts. These adjustments were made based on a review of actual performance levels as achieved by customers compared to expected performance levels. These favorable adjustments added over 2.0% to pharmaceutical segment operational growth in the fiscal second quarter 2004. The vast majority of the impact of this adjustment was in the hormonal contraceptive franchise. Adjusting for the impact of this change, sales in this category declined by approximately 2.0%, which was consistent with the expected impact from generic competition. ORTHO EVRA(r) (norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, as well as ORTHO TRI-CYCLEN(r)LO (norgestimate/ethinyl estradiol), both had strong performance in the fiscal second quarter 2004. Pharmaceutical segment sales growth was adversely affected by the sales decline of PROCRIT(r) (Epoetin alfa) and EPREX(r) (Epoetin alfa) due to increased competition. Combined, PROCRIT (r)(sold in the U.S.) and EPREX(r)(sold internationally) sales declined 13.8% in the fiscal second quarter of 2004 versus the 32 same period a year ago. Sales of PROCRIT(r) in the fiscal second quarter were down 17.6% versus the same period last year. However, on a unit basis, PROCRIT(r) actually grew slightly when compared with the fiscal second quarter 2003. RISPERDAL(r) (risperidone), a medication that treats the symptoms of schizophrenia, fueled by RISPERDAL(r) CONSTA(tm) grew by 10.9% in the fiscal second quarter 2004. REMICADE(r) (infliximab), a novel monoclonal antibody therapy indicated to treat Crohn's disease and rheumatoid arthritis, continued to maintain its leadership position in the growing Anti-TNF-a (tumor necrosis factor alpha) market. TOPAMAX(r) (topiramate) had strong growth over the same period a year ago. Net sales for DURAGESIC(r) (fentanyl transdermal systems) in the U.S. were positively impacted by the filling of back orders that had adversely affected first quarter performance. On March 25, 2004 a U.S. District Court upheld the validity of the DURAGESIC(r) product patent

guaranteeing that generic competition could not occur prior to July 23, 2004. The Company submitted the judge's order to the U.S. Food and Drug Administration (FDA) with a request that the six-month pediatric extension granted in 2003 for DURAGESIC(r) be honored. In June 2004, the FDA ruled that the six- month extension is valid through January 2005. Mylan is challenging FDA's decision in both the federal district and circuit courts of the District of Columbia. Growth was also achieved in DOXIL(r) (doxorubicin), an anti-cancer treatment, REMINYL(r) (galantamine (HBr)), a treatment for patients with mild to moderate Alzheimer's disease, and NATRECOR(r) (nesiritide), to treat acute congestive heart failure. CONCERTA(r)(methylphenidate HCI) sales continued to grow despite the current absence of patent exclusivity in the U.S. At present, the FDA has not approved any generic that is substitutable for CONCERTA(r). Medical Devices and Diagnostics Medical Devices and Diagnostics segment sales in the first fiscal six months of 2004 were $8.2 billion, an increase of 17.1% over the same period a year ago with 12.0% of this change due to operational increases and the remaining 5.1% increase related to the positive impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 15.9% and the growth in international Medical Devices and Diagnostics sales was 18.5% which included 10.7% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales - First Fiscal Six Months Total Operations Currency 2004 2003 %Change %Change %Change DePuy $1,678 $1,487 12.8% 8.4% 4.4% Cordis 1,541 1,020 51.2 46.4 4.8 Ethicon 1,397 1,302 7.3 1.1 6.2 Ethicon Endo-Surgery 1,375 1,272 8.1 3.2 4.9 LifeScan 820 678 20.9 16.3 4.6 Vision Care 731 616 18.6 12.4 6.2 Ortho-Clinical Diagnostics 619 581 6.6 1.6 5.0 33 Medical Devices and Diagnostics segment sales in the fiscal second quarter of 2004 were $4.1 billion, an increase of 11.8% over the same period a year ago with 8.3% of this change due to operational increases and the remaining 3.5% increase related to the positive impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 7.1% and the growth in international Medical Devices and Diagnostics sales was 17.0% which included 7.3% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales - Fiscal Second Quarter Total Operations Currency 2004 2003 %Change %Change %Change DePuy $ 839 $ 748 12.2% 9.0% 3.2% Cordis 664 599 10.8 8.0 2.8 Ethicon 716 673 6.3 2.1 4.2 Ethicon Endo-Surgery 710 649 9.5 6.1 3.4 LifeScan 420 330 27.2 24.3 2.9 Vision Care 377 317 18.9 13.8 5.1 Ortho-Clinical Diagnostics 317 294 7.6 4.1 3.5 DePuy franchise growth in the fiscal second quarter was primarily due to DePuy's orthopaedic joint reconstruction products including the shoulder, ankle and knee product lines. Strong performance was also reported in the area of spine. The positive growth was negatively impacted by the sale of the Castings business in the first quarter of 2004. Cordis growth was achieved in the endovascular, Biosense Webster and cardiology businesses. The primary driver of the sales growth in the cardiology business was international sales of the CYPHER(r) Sirolimus-eluting Stent. This was the first full quarter with a competitive product in the U.S. marketplace, and U.S. sales of CYPHER(r) grew by 1.0% over the second quarter of 2003. On April 2, 2004, Cordis Cardiology Division of Cordis Corporation, a Johnson & Johnson Company, received a warning letter from the FDA regarding observations concerning Good Manufacturing Practice regulations. These observations followed standard post-approval site inspections completed in 2003, including sites involved in the production of the CYPHER stent. The company's management has submitted its response plan to the FDA. Ethicon franchise growth was related to strong sales of VICRYL (r)(polyglactin 910) PLUS antibacterial coated sutures, as well as new products such as the Multipass needle introduced in April 2004. Ethicon Endo-Surgery franchise experienced growth in Endocutter sales that include products used in performing bariatric procedures, an important focus for the franchise. This growth was negatively impacted by the sale of the vascular access business in the fiscal second quarter of 2003. 34 LifeScan franchise growth was due to increased sales of the OneTouch(r) Ultra(r) brand in both the U.S and international markets. Vision Care franchise growth was led by continued success in the Japanese market as well as strong growth in the U.S. market led by the introduction of Acuvue(r) Advance(tm) with HydraClear(tm), a silicone hydrogel material launched nationwide in January 2004. Cost of Goods Sold and Selling, General and Administrative Expenses Consolidated costs of goods sold for the first fiscal six months of 2004 increased to 28.3% from 28.2% of sales over the same period a year ago. The cost of goods sold for the fiscal second quarter of 2004 was 27.5% of sales. The cost of goods sold as a percentage of sales in the fiscal second quarter of 2003 was 28.7%. The favorable change in the second fiscal quarter of 2004 was primarily in the Medical Devices and Diagnostics segment, related to positive mix, divestiture of low gross margin businesses, and cost containment activities across all segments. Consolidated selling, general and administrative expenses for the first fiscal six months of 2004 increased 10.6% over the same period a year ago. Consolidated selling, general and administrative expenses as a percent to sales for the first fiscal six months of 2004 were 31.9% versus 33.0% for the same period a year ago, which represented an improvement of 1.1% as a percent of sales. This improvement was primarily due to the Company's focus on managing expenses. Consolidated selling, general and administrative expenses for the fiscal second quarter of 2004 increased 9.3% over the same period a year ago. As a percent to sales, selling, general and administrative expenses decreased from 32.9% in the second quarter of 2003 to 32.3% in the second quarter of 2004. This improvement was primarily attributable to the pharmaceutical segment and reflected ongoing efforts to control costs and leverage expenses. 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 first fiscal six months of 2004 were $2.3 billion, an increase of 12.9% over the same period a year ago. Research and development spending in the fiscal second quarter of 2004 was $1.2 billion, an increase of 9.2% over the fiscal second quarter of 2003. In-Process Research & Development In the fiscal second quarter of 2003, the Company recorded In-process Research & Development (IPR&D) charges of $900 million before and after tax related to acquisitions. These acquisitions included Scios Inc. and the Link Spine Group, Inc. Scios Inc. is a biopharmaceutical company with a marketed product for 35 cardiovascular disease and research projects focused on auto-immune diseases. Link Spine Group, Inc. was acquired to provide the Company with exclusive worldwide rights to the SB Charite Artificial Disc for the treatment of spine disorders. In the fiscal first quarter of 2003, the Company recorded IPR&D charges of $15 million after tax ($18 million before tax) related to acquisitions. These acquisitions included certain assets of Orquest, Inc., a privately-held biotechnology company focused on developing biologically-based implants for orthopaedics spine surgery and 3-Dimensional Pharmaceuticals, Inc., a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for the treatment of cardiovascular diseases, oncology and inflammation. 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 in both the first fiscal six months of 2004 and the fiscal second quarter of 2004 as compared to the same periods a year ago was due primarily to the gain associated with a business divestiture in the fiscal second quarter of 2003. OPERATING PROFIT BY SEGMENT Consumer Segment Operating profit for the Consumer segment as a percent to sales in the first fiscal six months of 2004 was

20.5% versus 21.7% over the same period a year ago. This decrease was primarily due to ongoing costs associated with a plant closure and investment spending in developing markets outside the U.S. Operating profit as a percent to sales in the fiscal second quarter of 2004 was 19.1% versus 20.5% over the same period a year ago. This decrease was due to increased investment spending related to OTC brands. Pharmaceutical Segment Operating profit for the Pharmaceutical segment as a percent to sales in the first fiscal six months of 2004 was 38.8% versus 30.9% over the same period a year ago. Excluding IPR&D charges, operating profit as a percent to sales in the first fiscal six months of 2003 was 38.6%. Operating profit as a percent to sales in the fiscal second quarter of 2004 was 38.8% versus 22.3% over the same period a year ago. Excluding IPR&D charges, operating profit as a percent to sales in the fiscal second quarter of 2003 was 37.3%. The increase in 2004 was due to cost containment activities. Medical Devices and Diagnostics Segment Operating profit for the Medical Devices and Diagnostics segment as a percent to sales in the first fiscal six months of 2004 was 25.9% versus 20.0% over the same period a year ago. Excluding 36 IPR&D charges, operating profit as a percent to sales in the first fiscal six months of 2003 was 22.6%. Operating profit as a percent to sales in the fiscal second quarter of 2004 was 26.0% versus 18.5% over the same period a year ago. Excluding IPR&D charges, operating profit as a percent to sales in the fiscal second quarter of 2003 was 23.2%. The increase in 2004 was due to favorable sales mix, the impact of divestitures of low gross margin businesses and cost containment activities. Interest (Income) Expense Interest income decreased in both the first fiscal six months and fiscal second quarter of 2004 as compared to the same periods a year ago. The decrease was due to a decline in the average rate on investments partially offset by a higher average cash balance. The cash balance including marketable securities at the end of the fiscal second quarter of 2004 was $10.8 billion, which was $2.9 billion higher than the same period a year ago. Interest expense increased in both the first fiscal six months and fiscal second quarter of 2004 as compared to the same periods a year ago. The increase was due to the conversion of short term loans and notes payable to ten and twenty year debentures at a higher rate of interest. Provision For Taxes on Income The worldwide effective income tax rates for the first fiscal six months of 2004 and 2003 were 28.6% and 34.2%. The decrease in the effective tax rate for the first fiscal six months of 2004 compared with the same period a year ago was due to acquisition related IPR&D charges that are non-deductible for tax purposes. 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 first fiscal six months of 2004, cash flow from operations was $4.8 billion, an increase of $1.1 billion over the same period a year ago. The major factor contributing to the increase in cash generated from operations was from a net income increase of $0.8 billion, net of the non- cash impact of 2003 IPR&D charges. Net cash used by investing activities decreased by $1.9 billion versus the same period a year ago due to a decrease in acquisition activity offset by an increase in the purchase of investments. Net cash used by financing activities increased by $2.6 billion primarily due to a decrease in proceeds from short and long term debt. Dividends On April 22, 2004, the Board of Directors declared a regular cash dividend of $0.285 per share, payable on June 8, 2004 to shareholders of record as of May 18, 2004. This represented an increase of 18.8% and was the 42nd consecutive year of cash dividend increases. 37 On July 20, 2004, the Board of Directors declared a regular cash dividend of $0.285 per share, payable on September 7, 2004 to shareholders of record as of August 17, 2004. The Company expects to continue the practice of paying regular cash dividends. OTHER INFORMATION New Accounting Standards In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51", and in December 2003, issued a revised FIN 46(R), "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51", both of which address consolidation of variable interest entities. FIN 46 expanded the criteria for consideration in determining whether a variable interest entity should be consolidated by a business entity, and requires existing unconsolidated variable interest entities (which include, but are not limited to, Special Purpose Entities, or SPEs) to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation was immediately applicable to variable interest entities created after January 31, 2003. The adoption of this portion of FIN 46 did not have a material effect on the Company's results of operations, cash flows or financial position. FIN 46 is applicable in 2004 to variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003. The adoption of this portion of FIN 46 did not have a material effect on the results of operations, cash flows and financial position of the Company. In December 2003, the FASB issued FASB Staff Position (FSP) FAS No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. The Company elected to defer adoption of FSP FAS No. 106-1 until authoritative guidance was issued, as allowed by the Standard. This guidance was issued by the FASB in May 2004 via FSP FAS No. 106-2. The Company will adopt FSP FAS No. 106-1 and 106-2 in the fiscal third quarter of 2004, as allowed by the Standards. This adoption is not expected to have a material effect on the Company's results of operations, cash flows or financial position. In July 2004 the FASB ratified the EITF consensus on Issue 02-14, "Whether an Investor should Apply the Equity Method of Accounting to Investments Other Than Common Stock". The Company will adopt EITF Issue 02-14 in the fourth quarter of 2004, as prescribed by the Standard. This adoption is not expected to have a material effect on the Company's results of operations, cash flows and financial position. 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 1993 - 2003, in the 38 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 2003, 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. On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted that introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care benefit plans. The Company elected to defer the recognition of the Act until such time when the authoritative guidance is issued. This guidance was issued by the FASB in May 2004. The Company will adopt the recognition of the Act in the fiscal third quarter of 2004. Any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the Company's financial statements do not reflect the effect of the Act. The Company also operates in an environment which is becoming 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 competition typically results in creating a loss of market exclusivity and may result in a significant reduction in sales. 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. 39 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 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 report on Form 10-K for the year ended December 28, 2003 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 December 28, 2003. 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, the Company evaluated the effectiveness of the design and operation of its 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 must disclose in its reports filed under the Securities Exchange Act. 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 40 evaluation, Messrs. Weldon and Darretta concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective. Internal control. Since the date of the evaluation described above, there have not been any significant 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. 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 4. Submission of Matters to a Vote of Security Holders (a) The annual meeting of the shareholders of the Company was held on April 22, 2004. (b) The shareholders elected all the Company's nominees for director and ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year 2004. The shareholders also defeated a shareholder proposal on charitable contributions. 1. Election of Directors: Shares For Shares Withheld G.N. Burrow 2,337,993,118 57,807,976 M.S. Coleman 2,245,130,888 150,670,206 J.G. Cullen 2,240,879,422 154,921,672 R.J. Darretta 2,314,938,677 80,862,417 M.J. Folkman 2,331,547,839 64,253,255 A.D. Jordan 2,337,314,437 58,486,657 A.G. Langbo 2,339,857,511 55,943,583 S.L. Lindquist 2,352,643,948 43,157,146 L.F. Mullin 2,253,229,819 142,571,275 S.S. Reinemund 2,353,428,660 42,372,434 D. Satcher 2,342,337,045 53,464,049 H.B. Schacht 2,251,514,998 144,286,096 W.C. Weldon 2,336,379,709 59,421,385 41 2. Approval for Appointment of PricewaterhouseCoopers LLP: For 2,170,795,855 Against 199,392,147 Abstain 25,613,092 3. The shareholder proposal for charitable contributions was defeated by over 97% of the shares voting. For 49,533,915 Against 1,689,367,258 Abstain 160,449,129 Item 5. Exhibits and Reports on Form 8-K (a) Exhibit Exhibit 99.3 Certifications Under Rule 13a-14(a) of the Securities Exchange Act Pursuant to Section 302 of the Sarbanes-Oxley Act. Exhibit 99.15 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act. (b) Reports on Form 8-K A Report on Form 8-K was furnished on July 15, 2004, which included the press release for the period ended June 27, 2004. Also included in this filing are the unaudited comparative supplementary sales data and condensed consolidated statement of earnings for this fiscal second quarter and six month period ended June 27, 2004. A Report on Form 8-K was filed on April 5, 2004, which included a press release dated April 2, 2004 reporting that Cordis had received a warning letter from the U.S. Food and Drug Administration (FDA) regarding FDA's observations concerning the Good Manufacturing Practice (GMP) regulations. A report on Form 8-K was furnished on April 13, 2004, which included the Press Release for the period ended March 28, 2004. Also included in this filing are the unaudited comparative supplementary sales data and condensed consolidated statement of earnings for the fiscal first quarter of 2004. A report on Form 8-K was furnished on April 26, 2004, which included a Press Release announcing an increase in the Company's quarterly dividend. 42 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: August 2, 2004 By /s/ R. J. DARRETTA R. J. DARRETTA Vice Chairman (Chief Financial Officer) Date: August 2, 2004 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Chief Accounting Officer) 43