10-Q 1 tenq.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 July 1, 2007 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. (X) Yes ( )No Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( ) Indicate by check mark whether the registrant is a shell company (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 29, 2007 2,894,509,495 shares of Common Stock, $1.00 par value, were outstanding. JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS Part I - FINANCIAL INFORMATION Item 1 - FINANCIAL STATEMENTS JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) ASSETS July 1, 2007 December 31, 2006 Current Assets: Cash & cash equivalents $5,571 $4,083 Marketable securities 400 1 Accounts receivable, trade, less allowances for doubtful accounts $163 (2006,$164) 9,470 8,712 Inventories (note 4) 5,155 4,889 Deferred taxes on income 2,194 2,094 Prepaid expenses and other receivables 3,014 3,196 Total current assets 25,804 22,975 Marketable securities, non- current 17 16 Property, plant and equipment at cost 24,930 24,028 Less: accumulated depreciation (11,545) (10,984) Property, plant and equipment, net 13,385 13,044 Intangible assets, net (note 5) 15,412 15,348 Goodwill, net (note 5) 13,754 13,340 Deferred taxes on income 3,575 3,210 Other assets 2,736 2,623 Total Assets $74,683 $70,556 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) LIABILITIES AND SHAREHOLDERS' EQUITY July 1, 2007 December 31, 2006 Current Liabilities: Loans and notes payable $4,470 $4,579 Accounts payable 5,458 5,691 Accrued liabilities 4,585 4,587 Accrued rebates, returns and promotions 2,447 2,189 Accrued salaries, wages and commissions 1,140 1,391 Accrued taxes on income 883 724 Total current liabilities 18,983 19,161 Long-term debt 2,013 2,014 Deferred taxes on income 1,361 1,319 Employee related obligations 5,654 5,584 Other liabilities 3,550 3,160 Total liabilities 31,561 31,238 Shareholders' Equity: Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,000 shares) 3,120 3,120 Accumulated other comprehensive income (note 8) (1,898) (2,118) Retained earnings 52,819 49,290 Less: common stock held in treasury, at cost (226,020,000 and 226,612,000 shares) 10,919 10,974 Total shareholders' equity 43,122 39,318 Total liabilities and shareholders' equity $74,683 $70,556 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; dollars & shares in millions except per share amounts) Fiscal Quarters Ended July 1, Percent July 2, Percent 2007 to 2006 to Sales Sales Sales to customers (Note 6) $15,131 100.0% $13,363 100.0% Cost of products sold 4,358 28.8 3,788 28.3 Gross profit 10,773 71.2 9,575 71.7 Selling, marketing and administrative expenses 5,029 33.3 4,351 32.6 Research expense 1,866 12.3 1,828 13.7 In-process research & development (IPR&D) - - 87 0.6 Interest income (95) (.6) (209) (1.6) Interest expense, net of portion capitalized 59 0.4 13 0.1 Other income, net (117) (0.8) (98) (0.7) Earnings before provision for taxes on income 4,031 26.6 3,603 27.0 Provision for taxes on income (Note 3) 950 6.2 783 5.9 NET EARNINGS $3,081 20.4% $2,820 21.1% ` NET EARNINGS PER SHARE Basic $1.06 $0.96 Diluted $1.05 $0.95 CASH DIVIDENDS PER SHARE $0.415 $0.375 AVG. SHARES OUTSTANDING Basic 2,895.1 2,954.0 Diluted 2,922.5 2,974.4 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; dollars & shares in millions except per share amounts) Fiscal Six Months Ended July 1, Percent July 2, Percent 2007 to 2006 to Sales Sales Sales to customers (Note 6) $30,168 100.0% $26,355 100.0% Cost of products sold 8,743 29.0 7,400 28.1 Gross profit 21,425 71.0 18,955 71.9 Selling, marketing and administrative expenses 9,831 32.5 8,446 32.0 Research expense 3,518 11.7 3,360 12.7 In-process research & development 807 2.7 124 0.5 Interest income (190) (.6) (406) (1.5) Interest expense, net of portion capitalized 121 0.4 29 0.1 Other income, net (345) (1.1) (816) (3.1) Earnings before provision for taxes on income 7,683 25.4 8,218 31.2 Provision for taxes on income (Note 3) 2,029 6.7 2,093 8.0 NET EARNINGS $5,654 18.7% $6,125 23.2% ` NET EARNINGS PER SHARE Basic $1.95 $2.07 Diluted $1.93 $2.05 CASH DIVIDENDS PER SHARE $0.790 $0.705 AVG. SHARES OUTSTANDING Basic 2,894.8 2,963.0 Diluted 2,924.9 2,982.5 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Six Months Ended July 1, 2007 July 2, 2006 CASH FLOW FROM OPERATING ACTIVITIES Net earnings $5,654 $6,125 Adjustment to reconcile net earnings to cash flow: Depreciation and amortization of property and intangibles 1,305 1,067 Stock based compensation 360 340 Purchased in-process research and development 807 124 Changes in assets and liabilities, net of effects from acquisitions: Deferred tax provision (405) (628) Accounts receivable allowances 1 (5) Increase in accounts receivable (659) (949) Increase in inventories (190) (229) Decrease in accounts payable and accrued liabilities (306) (794) (Increase)/Decrease in other current and non-current assets (424) 83 Increase in other current and non-current liabilities 591 696 NET CASH FLOWS FROM OPERATING ACTIVITIES 6,734 5,830 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (1,045) (1,034) Proceeds from the disposal of assets 214 1 Acquisitions, net of cash acquired (1,368) (1,218) Purchases of investments (566) (396) Sales of investments 103 322 Other (primarily intangibles) (49) (37) NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES (2,711) (2,362) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareholders (2,287) (2,089) Repurchase of common stock (739) (2,968) Proceeds from short-term debt 15,296 500 Retirement of short-term debt (15,449) (723) Proceeds from long-term debt 1 - Retirement of long-term debt (6) (10) Proceeds from the exercise of stock options/excess tax benefits 564 332 NET CASH USED BY FINANCING ACTIVITIES (2,620) (4,958) Effect of exchange rate changes on cash and cash equivalents 85 82 Increase/ (decrease) in cash and cash equivalents 1,488 (1,408) Cash and Cash equivalents, beginning of period 4,083 16,055 CASH AND CASH EQUIVALENTS, END OF PERIOD $5,571 $14,647 Acquisitions Fair value of assets acquired $1,599 $1,392 Fair value of liabilities assumed (231) (174) Net cash paid for acquisitions $1,368 $1,218 See Notes to Consolidated Financial Statements 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 December 31, 2006. 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. During the fiscal first quarter of 2007, the Company adopted FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification and other matters. See note 3 for more details. 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 July 1, 2007, the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $18 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 second quarters ended July 1, 2007 and July 2, 2006, the net impact of the hedges' ineffectiveness, transactions not qualifying for hedge accounting and discontinuance of hedges, to the Company's financial statements was insignificant. 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 first fiscal six months of 2007 and 2006 were 26.4% and 25.5%, respectively, an increase of 0.9%. This was primarily due to the IPR&D charge of $807 million recorded in the fiscal first quarter of 2007, which was non-deductible for tax purposes. This was partially offset by increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions along with the Research and Development (R&D) tax credit, which was not in effect in the first fiscal nine months of 2006. The tax rate for the first fiscal six months of 2006 benefited from a reversal of deferred tax valuation allowances of $134 million associated with the Tibotec business. This benefit was offset by acquisition- related IPR&D charges of $124 million, for which there was a minimal tax benefit. The Company adopted FIN No 48, "Accounting for Uncertainty in Income Taxes" effective January 1, 2007 which resulted in the recognition of an additional $19 million of previously unrecognized tax benefits, with the corresponding adjustment to retained earnings. The Company had $1.1 billion of unrecognized tax benefits as of January 1, 2007 including the previous adjustment mentioned above. The Company classifies interest expense and penalties related to unrecognized tax benefits as income tax expense. The total amount of accrued interest on January 1, 2007 was $0.2 billion. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The U.S. Internal Revenue Service (IRS)has completed their audit for tax years through 1999; however, the years 1996 through 1999 remain open while a limited number of issues are being considered at the IRS appeals level. In other major jurisdictions where the Company conducts business, the tax years remain open generally back to the year 2000 with some jurisdictions remaining open back to 1995. NOTE 4 - INVENTORIES (Dollars in Millions) July 1, 2007 December 31, 2006 Raw materials and supplies $1,073 $980 Goods in process 1,296 1,253 Finished goods 2,786 2,656 Total $5,155 $4,889 NOTE 5 - INTANGIBLE ASSETS AND GOODWILL 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 2006 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) July 1, 2007 December 31, 2006 Trademarks (non-amortizable) $6,648 $6,609 Less accumulated amortization 142 134 Trademarks (non-amortizable)- net 6,506 6,475 Patents and trademarks 5,353 5,282 Less accumulated amortization 1,863 1,695 Patents and trademarks - net 3,490 3,587 Other amortizable intangibles 7,219 6,923 Less accumulated amortization 1,803 1,637 Other intangibles - net 5,416 5,286 Total intangible assets - gross 19,220 18,814 Less accumulated amortization 3,808 3,466 Total intangible assets - net 15,412 15,348 Goodwill - gross 14,490 14,075 Less accumulated amortization 736 735 Goodwill - net $13,754 $13,340 Goodwill as of July 1, 2007 as allocated by segment of business is as follows: (Dollars in Millions) Consumer Pharm Med Dev Total & Diag Goodwill, net of accumulated amortization at December 31, 2006 $7,866 $902 $4,572 $13,340 Acquisitions - - 439 439 Translation & Other (31) 4 2 (25) Goodwill as of July 1, 2007 $7,835 $906 $5,013 $13,754 The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 27 years, respectively. The amortization expense of amortizable intangible assets for the fiscal six months ended July 1, 2007 was $383 million and the estimated amortization expense for the five succeeding years approximates $740 million, per year. NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS (1) Fiscal Quarters Ended July 1, July 2, Percent 2007 2006 Change Consumer U.S. $1,562 $1,103 41.6% International 2,002 1,295 54.6 3,564 2,398 48.6 Pharmaceutical U.S. 3,860 3,682 4.8 International 2,289 2,128 7.6 6,149 5,810 5.8 Medical Devices & Diagnostics U.S. 2,619 2,590 1.1 International 2,799 2,565 9.1 5,418 5,155 5.1 U.S. 8,041 7,375 9.0 International 7,090 5,988 18.4 Worldwide $15,131 $13,363 13.2% Fiscal Six Months Ended July 1, July 2, Percent 2007 2006 Change Consumer U.S. $3,191 $2,253 41.6% International 3,869 2,500 54.8 7,060 4,753 48.5 Pharmaceutical U.S. 7,894 7,383 6.9 International 4,476 4,053 10.4 12,370 11,436 8.2 Medical Devices & Diagnostics U.S. 5,203 5,110 1.8 International 5,535 5,056 9.5 10,738 10,166 5.6 U.S. 16,288 14,746 10.5 International 13,880 11,609 19.6 Worldwide $30,168 $26,355 14.5% (1) Export and intersegment sales are not significant. OPERATING PROFIT BY SEGMENT OF BUSINESS (Dollars in Millions) Fiscal Quarters Ended July 1, July 2, Percent 2007 2006 Change Consumer $482 $439 9.8% Pharmaceutical 2,131 1,697 25.6 Medical Devices & Diagnostics (1) 1,523 1,435 6.1 Segments total 4,136 3,571 15.8 Income/(expense) not allocated to segments (105) 32 Worldwide total $4,031 $3,603 11.9% Fiscal Six Months Ended July 1, July 2, Percent 2007 2006 Change Consumer $1,242 $904 37.4% Pharmaceutical 4,412 3,624 21.7 Medical

Devices & Diagnostics(2) 2,238 3,595 (37.7) Segments total 7,892 8,123 (2.8) Income/(expense) not allocated to segments (209) 95 Worldwide total $7,683 $8,218 (6.5)% (1)Includes $87 million of IPR&D charges related to acquisitions completed in the fiscal second quarter of 2006. (2)Includes $807 million and $124 million of IPR&D charges related to acquisitions completed in the first fiscal six months of 2007 and first fiscal six months of 2006, respectively. The first fiscal six months of 2006 also includes the gain associated with the Guidant acquisition agreement termination fee, less associated expenses, of $622 million before tax. SALES BY GEOGRAPHIC AREA (Dollars in Millions) Fiscal Quarters Ended July 1, July 2, Percent 2007 2006 Change U.S. $8,041 $7,375 9.0% Europe 3,907 3,295 18.6 Western Hemisphere, excluding U.S. 1,131 876 29.1 Asia-Pacific, Africa 2,052 1,817 12.9 Total $15,131 $13,363 13.2% Fiscal Six Months Ended July 1, July 2, Percent 2007 2006 Change U.S. $16,288 $14,746 10.5% Europe 7,720 6,366 21.3 Western Hemisphere, excluding U.S. 2,177 1,698 28.2 Asia-Pacific, Africa 3,983 3,545 12.4 Total $30,168 $26,355 14.5% 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 July 1, 2007 and July 2, 2006. (Shares in Millions) Fiscal Quarters Ended July 1, July 2, 2007 2006 Basic net earnings per share $1.06 $0.96 Average shares outstanding - basic 2,895.1 2,954.0 Potential shares exercisable under stock option plans 201.2 227.5 Less: shares which could be repurchased under treasury stock method (177.7) (211.0) Convertible debt shares 3.9 3.9 Adjusted average shares outstanding - diluted 2,922.5 2,974.4 Diluted earnings per share $1.05 $0.95 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $1 million and $1 million for the fiscal second quarters ended July 1, 2007 and July 2, 2006, respectively. The diluted earnings per share calculation excluded 67 million and 45 million shares related to options and restricted stock units for the fiscal second quarters ended July 1, 2007 and July 2, 2006, respectively, due to their 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 July 1, 2007 and July 2, 2006. (Shares in Millions) Fiscal Six Months Ended July 1, July 2, 2007 2006 Basic net earnings per share $1.95 $2.07 Average shares outstanding - basic 2,894.8 2,963.0 Potential shares exercisable under stock option plans 201.4 227.4 Less: shares which could be repurchased under treasury stock method (175.2) (211.8) Convertible debt shares 3.9 3.9 Average shares outstanding - diluted 2,924.9 2,982.5 Diluted earnings per share $1.93 $2.05 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $2 million and $2 million for the first fiscal six months ended July 1, 2007 and July 2, 2006, respectively. The diluted earnings per share calculation excluded 66 million and 45 million shares related to options and restricted stock units for the first fiscal six months ended July 1, 2007 and July 2, 2006, respectively, due to their 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 July 1, 2007 was $5.9 billion, compared with $6.3 billion for the same period a year ago. The total comprehensive income for the fiscal second quarter ended July 1, 2007 was $3.3 billion, compared with $2.9 billion for the same period a year ago. Total comprehensive income included net earnings, net unrealized currency gains and losses on translation, adjustments related to Employee Benefit Plans, net unrealized gains and losses on securities available for sale 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. (Dollars in Millions) Total Unrld Gains/ Accum For. Gains/ Employ (Losses) Other Cur. (Losses) Benefit on Deriv Comp Trans. on Sec Plans & Hedg Inc/ (Loss) December 31, 2006 $ (158) 61 (2,030) 9 (2,118) 2007 Six Months changes: Net change associated with current period hedging transactions (23) Net amount reclassed to net earnings (4)* Net six months changes 144 23 80 (27) 220 July 1, 2007 $(14) 84 (1,950) (18) (1,898) 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 There were no acquisitions completed during the fiscal second quarter of 2007. During the fiscal first quarter of 2007, the Company acquired Conor Medsystems, Inc. for a purchase price of $1.4 billion in cash. Conor Medsystems, Inc., is a cardiovascular device company, with new drug delivery technology. During the fiscal first quarter of 2007, the Company completed the divestiture of the KAOPECTATE(R), UNISOM(R), CORTIZONE(R), BALMEX(R) and ACT(R) consumer products to Chattem, Inc. for $410 million in cash. The 2006 acquisitions included Animas Corporation, a leading maker of insulin infusion pumps and related products; Hand Innovations LLC, a privately held manufacturer of fracture fixation products for the upper extremities; Future Medical Systems S.A., a company that primarily develops, manufactures and markets arthroscopic fluid management systems; Vascular Control Systems, Inc., a company focused on developing medical devices to treat fibroids and to control bleeding in obstetric and gynecologic applications; Groupe Vendome S.A., a French marketer of adult and baby skin care products; ColBar LifeScience Ltd., a company specializing in reconstructive medicine and tissue engineering; Ensure Medical, Inc., a company that develops devices for post-catheterization closure of the femoral artery; and the Consumer Healthcare business of Pfizer Inc., which included brands such as LISTERINE(R), NICORETTE(R), NEOSPORIN(R), SUDAFED(R), BENADRYL(R) and VISINE(R). As a result of the Guidant acquisition termination the Company recorded the Guidant acquisition agreement termination fee, less associated expenses, of $622 million before tax in other income during the fiscal first quarter of 2006. NOTE 10 - 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 second quarters of 2007 and 2006 include the following components: (Dollars in Millions) Retirement Plans Other Benefit Plans Fiscal Quarters Ended July 1, July 2, July 1, July 2, 2007 2006 2007* 2006 Service cost $ 134 $136 $33 $19 Interest cost 160 144 37 26 Expected return on plan assets (198) (177) 0 (1) Amortization of prior service cost 3 3 (1) (1) Recognized actuarial losses 48 64 16 10 Net periodic benefit cost $ 147 $170 $85 $53 *Includes other post employment benefits as per the adoption of SFAS No. 158. Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the first fiscal six months of 2007 and 2006 include the following components: (Dollars in Millions) Retirement Plans Other Benefit Plans Fiscal Six Months Ended July 1, July 2, July 1, July 2, 2007 2006 2007 2006 Service cost $ 269 $262 $70 $37 Interest cost 320 284 74 52 Expected return on plan assets (395) (350) (1) (2) Amortization of prior service cost 5 6 (3) (3) Amortization of net transition asset - - - - Recognized actuarial losses 95 127 33 20 Net periodic benefit cost $ 294 $329 $173 $104 *Includes other post employment benefits as per the adoption of SFAS No. 158. Company Contributions For the fiscal six months ended July 1, 2007, the Company contributed $11 million and $10 million to its U.S. and international retirement plans, respectively. The Company does not anticipate a minimum statutory funding requirement for its U.S. retirement plans in 2007. International plans will be funded in accordance with local regulations. NOTE 11 - 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 that 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 and, where available, by third-party product liability insurance. Multiple products of Johnson & Johnson subsidiaries are subject to numerous product liability claims and lawsuits, including ORTHO EVRA(R), RISPERDAL(R), DURAGESIC(R) and the CHARITE(TM) Artificial Disc. There are approximately 2,400 claimants who have filed lawsuits or made claims regarding injuries allegedly due to ORTHO EVRA(R), 700 claimants with respect to RISPERDAL(R), 250 with respect to CHARITE(TM) and 100 with respect to DURAGESIC(R). These claimants seek substantial compensatory and, where available, punitive damages. With respect to RISPERDAL(R), the Attorneys General of three states and the Office of General Counsel of the Commonwealth of Pennsylvania have filed actions seeking reimbursement of Medicaid or other public funds for RISPERDAL(R) prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL(R), civil fines or penalties, punitive damages, or other relief. The Attorney General of Texas has joined a qui tam action in that state seeking similar relief. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL(R). In addition, there are six cases filed by union health plans seeking damages for alleged overpayments for RISPERDAL(R), several of which seek certification as class actions. Numerous claims and lawsuits in the United States relating to the drug PROPULSID(R), withdrawn from general sale by the Company's Janssen Pharmaceutica Inc. (Janssen) subsidiary in 2000, have been resolved or are currently enrolled in settlement programs with an aggregate cap below $100 million in payments by the Company. Litigation concerning PROPULSID(R) is pending in Canada, where a class action of persons alleging adverse reactions to the drug has been certified. AFFIRMATIVE STENT PATENT LITIGATION In patent infringement actions tried in Delaware Federal District 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 (Boston Scientific) and Medtronic AVE, Inc. (Medtronic) based on a number of Cordis vascular stent patents. In December 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and the jury in the Medtronic action returned a verdict of $271 million. Multiple post-trial proceedings and appeals have ensued with respect to these verdicts, with the ultimate outcome still subject to uncertainty. Cordis also has an arbitration claim against Medtronic accusing Medtronic of infringement by sale of stent products introduced by Medtronic subsequent to its products subject to the earlier action referenced above. Those subsequent products were found to have been licensed to Medtronic pursuant to a 1997 license by an arbitration panel in March 2005. Further arbitration proceedings will determine whether royalties are owed for those products. In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2(TM), Taxus(R) and Liberte(R) stents of infringing the Palmaz patent that expired in November 2005. The Liberte(R) stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2(TM), Taxus(R) and Liberte(R) stents infringed the Palmaz patent and that the Liberte(R) stent also infringed the Gray patent. Motions filed by Boston Scientific seeking to vacate the verdict or obtain a new trial were denied in June 2006. Cordis expects Boston Scientific will appeal to the U.S. Court of Appeals for the Federal Circuit. 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. In July 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER(R) stent infringed Boston Scientific's Ding '536 patent and that the Cordis CYPHER(R) and BX VELOCITY(R) stents also infringed Boston Scientific's Jang '021 patent. The jury also found both of those patents valid. Boston Scientific seeks substantial damages and an injunction in that action. In June 2006, the District Court denied motions by Cordis to overturn the jury verdicts or grant a new trial. Cordis has moved for re-consideration of those decisions. If reconsideration is denied, Cordis will appeal to the Court of Appeals for the Federal Circuit. The District Court indicated it will consider damages, willfulness and injunctive relief after the appeals have been decided. Boston Scientific has brought actions in Belgium and the Netherlands under its Kastenhofer patent to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. The hearing in the Belgian case is set for September 2007. A decision by the lower court in the Netherlands in Boston Scientific's favor was reversed on appeal in April 2007. Boston Scientific has filed an appeal to the Dutch Supreme Court. In Germany, Boston Scientific has several actions based on its Ding patents pending against the Cordis CYPHER(R) stent. Cordis was successful in these actions at the trial level, but Boston Scientific has appealed. The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries that have yet to proceed to trial: J&J Plaintiff/ Product Company Patents Patent Holder Court Trial Date Filed Two-layer Cordis Kasten- Boston Scientific N.D. Cal 10/07 02/02 Catheters hofer Corp. Belgium 09/07 12/03 Forman Catheters Cordis Fitzmau- Medtronic AVE E.D. Tex 09/07 06/03 stent delivery rice systems Contact Lenses Vision Nicolson CIBA Vision M.D. Fla. * 09/03 Care Stents Cordis Ricci Medtronic and E.D. Tex * 03/07 Evysio * Trial date to be established. 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, or the statutory 30-month stay expires before a ruling from the district court is obtained, the firms involved will have the ability, upon FDA approval, to 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. As noted in the following chart, 30-month stays expired during 2006 and will expire in 2007 or 2008 with respect to ANDA challenges regarding various products: Brand Name Patent/NDA Generic Trial Date 30-Month Product Holder Challenger Court Date Filed Stay Expires ACIPHEX(R) 20 Eisai Teva S.D.N.Y. 03/07 11/03 02/07 mg delay (for Janssen) Dr. Reddy's S.D.N.Y. 03/07 11/03 02/07 release Mylan S.D.N.Y. 03/07 01/04 02/07 tablet AXERT(R) 6.25 Almirall Teva S.D.N.Y. * 03/06 11/08 and 12.5 mg Ortho-McNeil Neurologics CONCERTA(R) McNeil-PPC Andrx D.Del. * 09/05 None 18,27,36 and 54 mg ALZA controlled release tablet ORTHO TRI CYCLEN(R) LO Ortho-McNeil Barr D.N.J. * 10/03 02/06 0.18 mg/ 0.025 mg 0.215 mg/ 0.025 mg and 0.25 mg/ 0.025 mg PEPCID COMPLETE(R) McNeil-PPC Perrigo S.D.N.Y. 02/07 02/05 06/07 RAZADYNE(TM) Janssen Teva D. Del 05/07 07/05 08/08 Mylan D. Del 05/07 07/05 08/08 Dr. Reddy's D. Del 05/07 07/05 08/08 Purepac D. Del 05/07 07/05 08/08 Barr D. Del 05/07 07/05 08/08 Par D. Del 05/07 07/05 08/08 AlphaPharm D. Del 05/07 07/05 08/08 RAZADYNE(TM) ER Janssen Barr D.N.J. * 06/06 11/08 Sandoz D.N.J. 05/07 07/09 RISPERDAL(R) Tablets Janssen Mylan D.N.J. 06/06 12/03 05/06 .25, 0.5, 1, 2, 3, 4 Apotex D.N.J. * 06/06 11/08 mg tablets RISPERDAL(R) Oral Solution Janssen Apotex D.N.J. * 03/06 08/08 1 mg/ml TOPAMAX(R) Ortho-McNeil Mylan D.N.J. * 04/04 09/06 25,50,100, 200 mg tablet Cobalt D.N.J. * 10/05 03/08 TOPAMAX(R) SPRINKLE

Ortho-McNeil Cobalt D.N.J. * 12/05 05/08 15,25 mg Mylan capsule D.N.J. * 10/06 03/09 ULTRACET(R) Ortho-McNeil Apotex N.D. III. * 07/07 12/09 ULTRAM ER(R) Ortho-McNeil Par D. Del. * 05/07 09/09 100,200 mg tablet * Trial date to be established. Trial in the action against Teva, Dr. Reddy's and Mylan with respect to their ANDA challenges to the patent on ACIPHEX of Eisai Pharmaceutical, Inc., Ortho McNeil Pharmaceutical's marketing partner, proceeded before the district court in New York in April 2007. On May 11, 2007, the Court held that the ACIPHEX compound patent is enforceable. The Court had previously held that the patent is valid. Teva has appealed both decisions to the Court of Appeals for the Federal Circuit. In the action against Mylan and Dr. Reddy's Laboratories regarding RISPERDAL(R) (risperidone) tablets and M-Tabs, the District Court in New Jersey ruled, on October 13, 2006, that the RISPERDAL(R) patent was valid, enforceable, and infringed by the generic products at issue, and entered an injunction prohibiting Mylan and Dr. Reddy's from marketing their generic risperidone products until a date no earlier than patent expiration in December 2007. Mylan appealed that ruling. On May 11, 2007, the Court of Appeals affirmed the District Court's judgment of patent validity and enforceability. In the action against Mylan with respect to the patent on TOPAMAX(R), the District Court in New Jersey, on October 24, 2006, granted the motion of the Company's subsidiary Ortho-McNeil Pharmaceutical, Inc. (Ortho- McNeil) for a preliminary injunction barring launch by Mylan of its generic version of TOPAMAX(R). On February 2, 2007, the District Court granted Ortho- McNeil's motion for summary judgment dismissing Mylan's claim the patent was obvious, the only remaining issue in the case. The Court entered judgment in the case for Ortho-McNeil, and entered an injunction prohibiting Mylan from marketing its generic topiramate products until a date no earlier than patent expiration in September 2008. Mylan has appealed this ruling. In the action against Perrigo regarding a patent for PEPCID COMPLETE(R), the District Court for the Southern District of New York, on June 5, 2007, held that the patent was invalid as obvious. The Company's subsidiary McNEIL-PPC, Inc. will appeal the decision with its partners, Merck & Co., Inc., and Johnson & Johnson*Merck Consumer Pharmaceuticals Co. In the action against Barr and AlphaPharm with respect to their ANDA challenges to the RAZADYNE(R) patent that Janssen licenses from Synaptech, Inc., a four-day non- jury trial was held in the District Court in Delaware in May 2007. The Court has yet to issue its ruling in that action. In the weeks following the adverse ruling in the DITROPAN XL(R) ANDA litigation against Mylan in September 2005, Johnson & Johnson and ALZA received seven antitrust class action complaints filed by purchasers of the product. They allege that Johnson & Johnson and ALZA violated federal and state antitrust laws by knowingly pursuing baseless patent litigation, and thereby delaying entry into the market by Mylan and Impax. AVERAGE WHOLESALE PRICE (AWP) LITIGATION Johnson & Johnson and several of 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 (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 District 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. The MDL Court identified classes of Massachusetts-only private insurers providing "Medi-gap" insurance coverage and private payers for physician-administered drugs where payments were based on AWP ("Class 2" and "Class 3"), and a national class of individuals who made co-payments for physician-administered drugs covered by Medicare ("Class 1"). A trial of the two Massachusetts-only class actions concluded before the MDL Court in December 2006. On June 21, 2007, the MDL Court issued post-trial rulings, dismissing the Johnson & Johnson defendants from the case regarding all claims of Classes 2 and 3. The MDL Court subsequently indicated it would dismiss against the Johnson & Johnson defendants all claims by the Class 1 plaintiffs as well. Trial in the action brought by the Attorney General of the State of Alabama making allegations related to AWP is set for the first quarter of 2008. Additional AWP cases brought by various Attorneys General are expected to be set for trial in 2008. OTHER In July 2003, Centocor Corporation 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. In December 2003, Ortho-McNeil received a subpoena from the U.S. Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX(R) (topiramate). Additional subpoenas for documents have been received. Ortho-McNeil is cooperating in responding to the subpoenas. 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 employees before a federal grand jury in Boston. Cooperation in securing the testimony of additional witnesses before the grand jury has been requested and is being provided. In January 2004, Janssen received a subpoena from the Office of the Inspector General of the U.S. 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(R) (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. An additional subpoena seeking information about marketing of and adverse reactions to RISPERDAL(R) was received from the U.S. Attorney's Office for the Eastern District of Pennsylvania in November 2005. Janssen is cooperating in responding to these subpoenas. In August 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 have responded to the subpoena. In September 2004, Ortho Biotech Inc. (Ortho Biotech), 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(R) (Epoetin alfa) from 1997 to the present, as well as to dealings with U.S. Oncology Inc., a healthcare services network for oncologists. Ortho Biotech has responded 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 Orthopaedics and surgeons or surgeons-in- training involved in hip and knee replacement and reconstructive surgery. Other leading orthopaedic companies are known to have received a similar subpoena. DePuy Orthopaedics is responding to the subpoena as well as several follow-on subpoenas for documents. A number of employees of DePuy have been subpoenaed to testify before a grand jury in connection with this investigation. In June 2005, the U.S. Senate Committee on Finance requested the Company to produce information regarding use by several of its pharmaceutical subsidiaries of educational grants. A similar request was sent to other major pharmaceutical companies. In July 2005, the Committee specifically requested information about educational grants in connection with the drug PROPULSID(R). A follow up request was received from the Committee for additional information in January 2006. In July 2005, Scios Inc. (Scios), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR(R). Scios is responding to the subpoena. In early August 2005, Scios was advised that the investigation would be handled by the U.S. Attorney's Office for the Northern District of California in San Francisco. In September 2005, Johnson & Johnson received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to sales and marketing of eight drugs to Omnicare, Inc., a manager of pharmaceutical benefits for long-term care facilities. The Johnson & Johnson subsidiaries involved are responding to the subpoena. Several employees of the Company's pharmaceutical subsidiaries have been subpoenaed to testify before a grand jury in connection with this investigation. In February 2006, Johnson & Johnson received a subpoena from the U.S. Securities & Exchange Commission (SEC) requesting documents relating to the participation by several Johnson & Johnson subsidiaries in the United Nations Iraq Oil For Food Program. The subsidiaries are cooperating with the SEC in producing responsive documents. In June 2006, DePuy received a subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents related to the manufacture, marketing and sale of orthopaedic devices, and had search warrants executed in connection with the investigation. DePuy is responding to the request for documents. In the wake of publicity about the subpoena, DePuy was served with five civil antitrust class actions. In September 2006, Janssen received a subpoena from the Attorney General of the State of California seeking documents regarding sales and marketing and side- effects of RISPERDAL(R), as well as interactions with State officials regarding the State's formulary for Medicaid-reimbursed drugs. Janssen is in the process of responding to the subpoena. In November 2006, Centocor received a subpoena seeking documents in connection with an investigation being conducted by the Office of the United States Attorney for the Central District of California regarding Centocor's Average Selling Price (ASP) calculations for REMICADE(R) under the company's Contract Purchase Program. Centocor is producing material responsive to the subpoena and cooperating with the investigation. In February 2007, Johnson & Johnson voluntarily disclosed to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) that subsidiaries outside the United States are believed to have made improper payments in connection with the sale of medical devices in two small-market countries, which payments may fall within the jurisdiction of the Foreign Corrupt Practices Act (FCPA). In the course of continuing dialogues with the agencies, other issues potentially rising to the level of FCPA violations in additional markets have been brought to the attention of the agencies by the Company. The Company has provided and will continue to provide additional information to DOJ and SEC, and will cooperate with the agencies' reviews of these matters. On March 5, 2007, Cordis Corporation received a letter request for documents from the Committee on Oversight and Government Reform of the U.S. House of Representatives regarding marketing and safety of drug- eluting stents. Cordis is cooperating in responding to the request. On March 12, 2007, the Company announced that it had received separate subpoenas from the U.S. Attorney's Office in Philadelphia, the U.S. Attorney's Office in Boston and the U.S. Attorney's Office in San Francisco. The subpoenas relate to investigations by these three offices referenced above concerning, respectively, sales and marketing of RISPERDAL(R) by Janssen, TOPAMAX(R) by Ortho-McNeil and NATRECOR(R) by Scios. The subpoenas request information regarding the Company's corporate supervision and oversight of these three subsidiaries, including their sales and marketing of these drugs. The Company is cooperating in responding to these requests. In addition, the U.S. Attorney's office in Boston has issued subpoenas to several employees of Johnson & Johnson. On March 21, 2007, the Company received a letter from the Committee on Energy and Commerce of the U.S. House of Representatives seeking answers to several questions regarding marketing and safety of PROCRIT(R), the erythropoietin product sold by the Company's Ortho- Biotech subsidiary. On May 30, 2007, Senator Grassley, the ranking member of the United States Senate Committee on Finance, sent the Company a letter seeking information relating to PROCRIT(R). Although there are some differences between the two letters, the Senate request in large measure overlaps with the House request. The Company provided its initial response on July 9, 2007. On May 10, 2007, the New York State Attorney General issued a subpoena seeking information relating to PROCRIT(R). Like the House and Senate requests, the subpoena asks for materials relating to PROCRIT(R) safety, marketing and pricing. The Company is responding to these requests. On April 27, 2007, the Company received two subpoenas from the Office of the Attorney General of the State of Delaware. The subpoenas seek documents and information relating to nominal pricing agreements. For purposes of the subpoenas, nominal pricing agreements are defined as agreements under which the Company agreed to provide a pharmaceutical product for less than ten percent of the Average Manufacturer Price for the product. The Company is responding to the subpoenas and will cooperate with the inquiry. 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 U.S., 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 Court denied plaintiffs' class certification motion in December 2006 and their motion for reconsideration in April 2007. Plaintiffs are seeking to appeal these decisions. In late December 2005 and early 2006, three purported class actions were filed on behalf of purchasers of endo-mechanical instruments against the Company and its wholly-owned subsidiaries, Ethicon, Inc., Ethicon Endo- Surgery, Inc., and Johnson & Johnson Health Care Systems, Inc. These challenge suture and endo- mechanical contracts with Group Purchasing Organizations and hospitals,in which discounts are predicated on a hospital achieving specified market share targets for both categories of products. These actions have been filed in the Federal District Court for the Central District of California. In November 2005, Amgen filed suit against Hoffmann- LaRoche, Inc. in the U.S. District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it will seek to introduce into the United States, infringes a number of Amgen patents concerning EPO. Amgen licenses EPO for sale in the United States to the Company's Ortho Biotech Inc. subsidiary for non- dialysis indications. Trial in this action will commence in October 2007. In October 2006, Wyeth, Inc. initiated litigation in Delaware against Cordis Corporation alleging that Cordis breached the license and supply agreement pursuant to which Wyeth supplies Cordis the drug Rapamycin which is used in connection with Cordis' CYPHER(R) Sirolimus-eluting Stent. Cordis has commenced its own action in Delaware seeking a declaration that no breach has occurred. With respect to all the above matters, the Company and its subsidiaries are vigorously contesting the allegations asserted against them and otherwise pursuing defenses to maximize the prospect of success. The Company and its subsidiaries involved in these matters continually evaluate their strategies in managing these matters and, where appropriate, pursue settlements and other resolutions where those are in the best interest of the Company. 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 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 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 12 - SUBSEQUENT EVENT On July 31, 2007 the Company announced initiatives that are expected to generate pre-tax, annual cost savings of $1.3-$1.6 billion for 2008 in an effort to improve its overall cost structure. The company expects to take associated pre-tax, restructuring charges in the range of $550-$750 million in the second half of 2007. 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 2007, worldwide sales were $30.2 billion, a total increase of 14.5% including an operational increase of 12.1% over 2006 first fiscal six months sales of $26.4 billion. Currency had a positive impact of 2.4% for the period. The acquisition of Pfizer Inc.'s Consumer Healthcare business net of related divestitures increased both total sales growth and operational growth by 7.1%. Sales by U.S. companies were $16.3 billion in the first fiscal six months of 2007, which represented an increase of 10.5% over the same period last year. Sales by international companies were $13.9 billion, which represented a total increase of 19.6% including an operational increase of 14.2%, and a positive impact from currency of 5.4% over the first fiscal six months of 2006. Sales by companies in Europe experienced an increase of 21.3%, including an operational growth of 13.0% and a positive impact from currency of 8.3%. Sales by companies in the Western Hemisphere, excluding the U.S., experienced total growth of 28.2% including operational growth of 25.5% and a positive impact from currency of 2.7%. Sales by companies in the Asia- Pacific, Africa region posted sales growth of 12.4%, with operational growth of 10.9% and a positive impact from currency of 1.5%. For the fiscal second quarter of 2007, worldwide sales were $15.1 billion, a total increase of 13.2% and an operational increase of 10.8%, over 2006 fiscal second quarter sales of $13.4 billion. Currency fluctuations positively impacted sales by 2.4% for the period. The acquisition of Pfizer Inc.'s Consumer Healthcare business net of related divestitures increased both total sales growth and operational growth by 7.1%. Sales by U.S. companies were $8.0 billion in the fiscal second quarter of 2007, which represented an increase of 9.0%. Sales by international companies were $7.1 billion, which represented a total increase of 18.4%, including an operational increase of 13.0%, and a positive impact from currency of 5.4% over the fiscal second quarter of 2006. Sales by companies in Europe experienced a total increase of 18.6%, with operational growth of 11.0% and a positive impact from currency of 7.6%. Sales by companies in the Western Hemisphere, excluding the U.S., experienced total growth of 29.1%, operational growth of 24.1% and a positive impact from currency of 5.0%. Sales by companies in the Asia-Pacific, Africa region posted sales growth of 12.9%, with operational growth of 11.3% and a positive impact from currency of 1.6%. Analysis of Sales by Business Segments Consumer Consumer segment sales in the first fiscal six months of 2007 were $7.1 billion, an increase of 48.5% over the same period a year ago, with 45.4% of operational growth and a positive currency impact of 3.1%. U.S. Consumer segment sales increased by 41.6% while international sales experienced a total increase of 54.8%, an operational increase of 48.9%, with a positive currency impact of 5.9%. The acquisition of Pfizer Inc.'s Consumer Healthcare business net of the related divestitures increased total sales growth for the total Consumer Segment by 39.4%. Major Consumer Franchise Sales - First Fiscal Six Months (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change OTC Pharm & Nutr $2,463 $1,286 91.5% 89.4% 2.1% Skin Care 1,521 1,313 15.9 12.7 3.2 Baby & Kids Care 934 827 12.8 8.5 4.3 Women's Health 884 814 8.6 4.8 3.8 Oral Care Products 713 197 * * 2.0 Other 545 316 72.5 70.1 2.4 Total $7,060 $4,753 48.5% 45.4% 3.1% *Percentages greater than 100% Consumer segment sales in the fiscal second quarter of 2007 were $3.6 billion, an increase of 48.6% over the same period a year ago with 45.1% of operational growth and a positive currency impact of 3.5%. U.S. Consumer segment sales increased by 41.6% while international sales experienced a total increase of 54.6%, an operational increase of 48.1%, with a positive currency impact of 6.5%. The acquisition of Pfizer Inc.'s Consumer Healthcare business net of the related divestitures increased total sales growth for the total Consumer Segment by 39.7%. Major Consumer Franchise Sales - Fiscal Second Quarter (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change OTC Pharm & Nutr $1,206 $633 90.6% 88.4% 2.2% Skin Care 757 654 15.8 12.1 3.7% Baby & Kids Care 487 421 15.6 10.6 5.0 Women's Health 463 415 11.4 7.0 4.4 Oral Care Products 353 104 * * 2.2 Other 298 171 74.3 71.7 2.6 Total $3,564 $2,398 48.6% 45.1% 3.5% *Percentages greater than 100% The OTC Pharmaceuticals and Nutritionals franchise achieved operational growth of 88.4%. This was attributable to new products from acquisitions, as well as growth for adult analgesics and SPLENDA(R) products. The impact on OTC Pharmaceuticals and Nutritionals total sales growth due to newly acquired brands from Pfizer Inc. was 71.0% in the fiscal second quarter of 2007. The Skin Care franchise operational growth of 12.1% was driven by strong performances from the AVEENO(R), and NEUTROGENA(R) product lines as well as the addition of the Pfizer and Group Vendome products. These gains were partially offset by softer sales of Johnson's Adult products. The impact on Skin Care total sales growth due to newly acquired brands from Pfizer Inc. was 5.1% in the fiscal second quarter of 2007. The Baby & Kids Care franchise operational growth of 10.6% was the result of the strong performances of cleansers, lotions and creams and hair care products. The impact on Baby & Kids Care total sales growth due to newly acquired brands from Pfizer Inc. and divestitures related to the acquisition was 1.8% in the fiscal second quarter of 2007. The Women's Health franchise achieved operational growth of 7.0%, which was attributable to new products related to acquisitions. The impact on Women's Health total sales growth due to newly acquired brands from Pfizer Inc. was 4.9% in the fiscal second quarter of 2007. The Oral Care franchise operational growth was attributable to new products from acquisitions such as LISTERINE(R) mouthwashes. An operational sales decline in the toothbrush, floss and mouth fresheners and whitening products, was due to new product launches included in the fiscal second quarter of 2006 as well as increased competition in 2007. The impact on Oral Care total sales growth due to newly acquired brands from Pfizer Inc. and divestitures related to the acquisition was greater than 100%. Pharmaceutical Pharmaceutical segment sales in the first fiscal six months of 2007 were $12.4 billion, a total increase of 8.2% over the same period a year ago with 6.2% 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 6.9% and the total growth in international Pharmaceutical sales was 10.4%, with 4.7% of this change due to operational increases and the remaining 5.7% increase related to the positive impact of currency. Major Pharmaceutical Product Revenues - First Fiscal Six Months (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change Anti-psychotics $2,315 $2,055 12.7% 10.2% 2.5% REMICADE(R) 1,600 1,457 9.8 9.8 - PROCRIT(R)/EPREX(R) 1,575 1,594 (1.2) (3.6) 2.4 TOPAMAX(R) 1,188 965 23.1 21.8 1.3 LEVAQUIN(R)/FLOXIN(R) 843 744 13.3 13.3 - ACIPHEX(R)/PARIET(TM) 672 614 9.4 6.3 3.1 DURAGESIC(R)/Fentanyl Transdermal 591 661 (10.5) (13.5) 3.0 CONCERTA(R) 508 452 12.3 10.9 1.4 Hormonal Contraceptives 477 501 (4.9) (6.2) 1.3 Other 2,601 2,393 8.7 5.4 3.3 Total $12,370 $11,436 8.2% 6.2% 2.0% Pharmaceutical segment sales in the fiscal second quarter of 2007 were $6.1 billion, a total increase of 5.8% over the same period a year ago with 3.8% 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 4.8% and the growth in international Pharmaceutical sales was 7.6%, with 2.0% of this change due to operational increases and the remaining 5.6% increase related to the positive impact of currency. Major Pharmaceutical Product Revenues - Fiscal Second Quarter (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change Anti-psychotics $1,137 $1,036 9.7% 7.3% 2.4% REMICADE(R) 869 777 11.9 11.9 - PROCRIT(R)/EPREX(R) 758 808 (6.1) (8.5) 2.4 TOPAMAX(R) 578 495 16.8 15.5 1.3 LEVAQUIN(R)/FLOXIN(R) 364 343 6.1 6.0 0.1 ACIPHEX(R)/PARIET(TM) 336 308 9.1 5.9 3.2 DURAGESIC(R)/Fentanyl Transdermal 289 336 (14.1) (16.8) 2.7 CONCERTA(R) 255 217 17.8 16.3 1.5 Hormonal Contraceptives 240 247 (3.2) (4.6) 1.4 Other 1,323 1,243 6.4 3.0 3.4 Total $6,149 $5,810 5.8% 3.8% 2.0% Sales growth within the segment was led by strong performances from TOPAMAX(R) (topiramate), REMICADE(R) (infliximab), CONCERTA(R) and RISPERDAL(R) CONSTA(R) (risperidone). Generic competition related to DURAGESIC(R) (fentanyl transdermal system) and DITROPAN(R) in the U.S, as well as SPORANOX(R) (itraconazole), DURAGESIC(R) (fentanyl transdermal system) and RISPERDAL oral in certain countries outside the U.S., continue to negatively impact sales during the fiscal second quarter of 2007. The anti-psychotic franchise which includes RISPERDAL(R) oral (risperidone), a medication that treats the symptoms of schizophrenia and bipolar mania, RISPERDAL(R) CONSTA(R) (risperidone) a long acting injectable and INVEGA(TM) (paliperdone) Extended-Release tablets for the treatment of schizophrenia, achieved operational growth of 7.3% in the fiscal second quarter of 2007. Sales growth was positively impacted by the U.S. launch of INVEGA(TM) and the global success of RISPERDAL(R) CONSTA(R). The patent for the RISPERDAL(R) compound will expire in the U.S. and most major markets outside the U.S. by December 2007. In March, the U.S. Food and Drug Administration (FDA) granted pediatric exclusivity for RISPERDAL(R), which extends the marketing exclusivity in the U.S. for RISPERDAL(R) oral to the end of June 2008. In 2006, worldwide sales of RISPERDAL(R) oral were $3.3 billion and U.S. sales were $2.1. The expiration of a product patent or loss of market exclusivity can result in a significant reduction in sales. REMICADE(R) (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, psoriasis, psoriatic arthritis, ulcerative colitis and use in the treatment of rheumatoid arthritis, experienced strong operational growth of 11.9% over prior year fiscal second quarter. This continued growth was driven by expanded indications and overall market growth. During the fiscal second quarter of 2007, REMICADE(R) received approval from the European Commission (EU) for the pediatric Crohn's disease indications. REMICADE(R) is experiencing increased competition which may negatively impact the future rate of sales growth. PROCRIT(R) (Epoetin alfa) and EPREX(R) (Epoetin alfa) performance combined had an operational sales decline of 8.5%, as compared to prior year fiscal second quarter. PROCRIT(R) experienced an operational decline of 14.3% primarily due to a decline in the market as compared to prior year fiscal second quarter, while EPREX(R) had operational growth of 2.3%. On July 30, 2007 The Centers for Medicare and Medicaid (CMS) issued a National Coverage Determination (NCD), which significantly limits the future reimbursement of Erythropoiesis Stimulating Agents (ESA's) in oncology in the U.S. In the U.S., Epoetin alfa products are subject to a label change, which may negatively impact future sales. The label for Epoetin alfa products is also under review in jurisdictions outside the U.S. TOPAMAX(R) (topiramate), which has been approved for adjunctive and monotherapy use in epilepsy, as well as for the prophylactic treatment of migraines, experienced strong operational growth of 15.5% as compared to prior year fiscal second quarter. The growth in the U.S. was due to continued growth of share in the migraine indication, while outside the U.S. sales declined slightly on an operational basis due to generic competition in certain markets. LEVAQUIN(R) (levofloxacin)/FLOXIN(R) achieved operational growth of 6.0% over prior year fiscal second quarter. This was primarily due to favorable market growth. In March the FDA granted pediatric exclusivity in the U.S. for LEVAQUIN(R), which will extend the marketing exclusivity by six months to June 2011. ACIPHEX(R)/PARIET(R) a proton pump inhibitor, achieved operational growth of 5.9% as compared to prior year fiscal second quarter. DURAGESIC(R)/Fentanyl Transdermal (fentanyl transdermal system) experienced an operational sales decline of 16.8% over the fiscal second quarter of 2006 primarily due to continued generic erosion. CONCERTA(R) (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, achieved operational sales growth of 16.3% over the fiscal second quarter of 2006. Although the original CONCERTA(R) patent expired in 2004, the FDA has not approved any generic version that is substitutable for CONCERTA(R). Two parties have filed Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA(R), which are pending and may be approved at any time. The hormonal contraceptive franchise experienced an operational sales decline of 4.6% primarily resulting from generic competition in oral contraceptives. ORTHO EVRA(R)(norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, experienced a decline in sales as a result of labeling changes and negative media coverage concerning product safety. This was partially offset by growth in ORTHO TRI-CYCLEN(R) LO (norgestimate/ethinyl estradiol), a low dose oral contraceptive. Medical Devices and Diagnostics Medical Devices and Diagnostics segment sales in the first fiscal six months of 2007 were $10.7 billion, an increase of 5.6% over the same period a year ago, with 3.2% of this change due to operational increases and the remaining 2.4% increase related to the positive impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 1.8% and the growth in international Medical Devices and Diagnostics sales was 9.5%, which included operational increases of 4.6% and an increase of 4.9% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales - Fiscal Six Months (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change DEPUY(R) $2,292 $2,074 10.5% 7.7% 2.8% ETHICON ENDO-SURGERY(R) 1,848 1,651 11.9 9.0 2.9 CORDIS(R) 1,780 2,143 (16.9) (18.3) 1.4 ETHICON(R) 1,771 1,590 11.4 7.8 3.6 LIFESCAN(R) 1,145 1,027 11.6 8.6 3.0 Vision Care 1,066 915 16.4 15.7 0.7 ORTHO-CLINICAL DIAGNOSTICS(R) 799 738 8.2 6.0 2.2 Other 37 28 32.1 31.4 0.7 Total $10,738 $10,166 5.6% 3.2% 2.4% Medical Devices and Diagnostics segment sales in the fiscal second quarter of 2007 were $5.4 billion, an increase of 5.1% over the same period a year ago, with 2.8% of this change due to operational growth and the remaining 2.3% increase related to the positive impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 1.1% and the growth in international Medical Devices and Diagnostics sales was 9.1%, which included operational growth of 4.4% and an increase of 4.7% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales Fiscal Second Quarter (Dollars in Millions) July 1, July 2, Total Operations Currency 2007 2006 Change Change Change DEPUY(R) $1,135 $1,035 9.7% 7.0% 2.7% ETHICON ENDO- SURGERY(R) 957 857 11.7 8.9 2.8 ETHICON(R) 901 816 10.4 6.7 3.7 CORDIS(R) 852 1,068 (20.3) (21.6) 1.3 LIFESCAN(R) 596 522 14.2 11.2 3.0 Vision Care 553 474 16.5 16.3 0.2 ORTHO-CLINICAL DIAGNOSTICS(R) 406 368 10.3 8.1 2.2 Other 18 15 20.0 19.4 0.6 Total $5,418 $5,155 5.1% 2.8% 2.3% The DePuy franchise's operational growth of 7.0% over the same period a year ago was primarily due to DePuy's orthopaedic joint reconstruction products including the hip and knee product lines. Strong performance was also achieved in Mitek sports medicine products. The Ethicon Endo-Surgery franchise achieved operational growth of 8.9% over prior year fiscal second quarter. A major contributor of growth continues to be endocutter sales, which include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise.

Additionally, strong results were achieved with the continued success of the HARMONIC ACE(R), an ultrasonic cutting and coagulating surgical device. Ethicon worldwide sales grew operationally by 6.7% from the same period in the prior year, resulting from strong growth in the hemostasis, biosurgicals and meshes and women's health product lines. The Cordis franchise experienced an operational sales decline of 21.6% over the fiscal second quarter of 2006. These results were impacted by lower sales of CYPHER(R) Sirolimus-eluting Coronary Stent due to increased competition in Europe and Japan as well as global contraction of the drug-eluting stent market following reports of a potential risk of late stent thrombosis associated with the use of drug-eluting stents. These results were partially offset by strong sales growth achieved by the Biosense Webster business. The growth of the Biosense Webster business was primarily driven by the sales of AcuNav(TM) Ultrasound Catheters. On June 13, 2007 the U.S. Food and Drug Administration (FDA) notified Cordis that all items outlined in the Warning Letters received in April and July 2004 regarding Good Manufacturing Practice regulations and Good Clinical Practice regulations have been resolved. The LifeScan franchise achieved operational growth of 11.2% over the fiscal second quarter of 2006 reflecting the continued success of the ULTRA(R) product lines. An additional contributor was the growth of the Animas business, driven by new product launches. The Vision Care franchise operational sales growth of 16.3% was led by the continued global success of ACUVUE(R) OASYS(TM), ACUVUE(R) ADVANCE(TM) Brand Contact Lenses for Astigmatism and the 1-DAY ACUVUE(R) product lines. The Ortho-Clinical Diagnostics franchise achieved operational growth of 8.1% over the fiscal second quarter of 2006. The Immunohematology product line was a major contributor in the U.S., as well as the continued growth of the Chagas screening assay in the U.S. Cost of Products Sold and Selling, Marketing and Administrative Expenses Consolidated costs of products sold for the first fiscal six months of 2007 increased to 29.0% from 28.1% of sales as compared to the same period a year ago. The cost of products sold for the fiscal second quarter of 2007 increased to 28.8% from 28.3% of sales in the same period a year ago. The increase was due to the impact of newly acquired consumer brands partially offset by cost improvements primarily in the Medical Devices and Diagnostics segment. Consolidated selling, marketing and administrative expenses for the first fiscal six months of 2007 increased 0.5% over the same period a year ago. Consolidated selling, marketing and administrative expenses as a percent to sales for the first fiscal six months of 2007 were 32.5% versus 32.0% for the same period a year ago. Consolidated selling, marketing and administrative expenses for the fiscal second quarter of 2007 increased 0.7% over the same period a year ago. As a percent to sales, consolidated selling, marketing and administrative expenses were 33.3% versus 32.6% for the same period a year ago. Increases in the quarterly and six month periods were attributable to the addition of the newly acquired consumer brands to the mix of businesses partially offset by continued cost containment efforts primarily in the Pharmaceutical business. 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 2007 were $3.5 billion, an increase of 4.7% over the same period a year ago. Research and development spending in the fiscal second quarter of 2007 was $1.9 billion, an increase of 2.1% over the fiscal second quarter of 2006. As a percent to sales, the level of research and development spending decreased for both the fiscal second quarter and the first fiscal six months of 2007 as compared to the same period a year ago. The decrease as compared to 2006 was primarily due to the inclusion in 2006 of the $165 million up front payment to Vertex Pharmaceuticals for the rights to develop and commercialize VX-950 for Hepatitis C in selected regions, including Europe. An additional contributing factor to the decrease as a percent to sales in research and development was the change in the mix of businesses with the inclusion of the newly acquired consumer products. In-Process Research & Development(IPR&D) In the fiscal second quarter of 2007, the Company had no IPR&D charges. In the fiscal second quarter of 2006, the Company recorded IPR&D charges of $87 million before tax, with no tax benefit, related to the acquisition of Vascular Control Systems, Inc. Other (Income) Expense, Net Other (income) expense, net is the account where the Company records gains and losses related to the sale and write-down of certain equity securities of the Johnson & Johnson Development Corporation, gains and losses on the disposal of fixed assets, currency gains and losses, minority interests, litigation settlements, as well as royalty income. As a percent to sales, other (income) expense, net for the fiscal second quarter of 2007 was similar to the fiscal second quarter of 2006. The unfavorable change in other (income) expense, net for the first fiscal six months of 2007 as compared to the same period a year ago was $471 million. This was primarily due to the net gain of $175 million before tax related to the divestiture of certain brands recorded in the fiscal first quarter of 2007, as compared to the same period a year ago, which included a gain of $622 million recorded for the Guidant acquisition agreement termination fee, less associated expenses. OPERATING PROFIT BY SEGMENT Consumer Segment Operating profit for the Consumer segment as a percent to sales in the first fiscal six months of 2007 was 17.6% versus 19.0% over the same period a year ago. Operating profit as a percent to sales in the fiscal second quarter of 2007 was 13.5% versus 18.3% over the same period a year ago. This decrease was related to integration costs and other operating expenses related to newly acquired products. Pharmaceutical Segment Operating profit for the Pharmaceutical segment as a percent to sales in the first fiscal six months of 2007 was 35.7% versus 31.7% over the same period a year ago. Operating profit as a percent to sales in the fiscal second quarter of 2007 was 34.7% versus 29.2% over the same period a year ago. For both periods in 2007, operating profit margin improved, as compared to the same periods a year ago. This was due to the inclusion of the $165 million up front payment to Vertex Pharmaceuticals for the rights to develop and commercialize VX-950 for Hepatitis C in selected regions in the fiscal second quarter of 2006 as well as cost containment efforts in selling, marketing and administrative expenses in the first fiscal six months of 2007. 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 2007 was 20.8% versus 35.4% over the same period a year ago. Operating profit as a percent to sales in the fiscal second quarter of 2007 was 28.1% versus 27.8% over the same period a year ago. The primary driver of the decline in the operating profit margin in the Medical Devices and Diagnostics segment for the fiscal six months over the same period a year ago was the acquisition related IPR&D charges of $807 million incurred during the fiscal six months of 2007 versus $124 million incurred during the fiscal six months of 2006. Partially offsetting this decline was the impact of cost improvements in cost of goods sold. Additionally, the first fiscal six months of 2006 included the gain associated with the Guidant acquisition agreement termination fee, less associated expenses, of $622 million before tax. Interest (Income) Expense Interest income decreased in both the first fiscal six months and fiscal second quarter of 2007 as compared to the same periods a year ago. The cash balance, which included marketable securities, was $6.0 billion at the end of the fiscal second quarter of 2007. This was a decrease of $8.7 billion from the same period a year ago. The decline was primarily due to acquisition activity and the stock repurchase program during the fiscal year 2006. Interest expense increased in both the first fiscal six months and fiscal second quarter of 2007 as compared to the same periods a year ago, resulting from a higher debt position. This was due to acquisition activity and the stock repurchase program during the fiscal year 2006. Provision For Taxes on Income The worldwide effective income tax rates for the first fiscal six months of 2007 and 2006 were 26.4% and 25.5%, respectively, an increase in the effective tax rate of 0.9%. This was primarily due to the IPR&D charge of $807 million recorded in the fiscal first quarter of 2007, which was non-deductible for tax purposes. This unfavorable change was partially offset by increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions along with the impact of the Research and Development tax credit, which was not in effect in the first fiscal nine months of 2006. The tax rate for the first fiscal six months of 2006 benefited from a reversal of tax allowances of $134 million associated with the Tibotec business. This 2006 benefit was offset by 2006 acquisition-related IPR&D charges of $124 million, for which there was a minimal tax benefit and a high tax rate related to the gain of $622 million before tax associated with the Guidant acquisition agreement termination fee. 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, and acquisitions. In the first fiscal six months of 2007, cash flow from operations was $6.7 billion, an increase of $0.9 billion over the same period a year ago. This increase was primarily due to the change of $0.5 billion in accounts payable and accrued liabilities as well as a decrease in accounts receivable of $0.3 billion versus the same period a year ago. Net cash used by investing activities increased by $.3 billion primarily due to a $0.2 billion increase in proceeds from the disposal of assets. This is due to divestitures related to the acquisition of Consumer Healthcare business of Pfizer Inc. Net cash used by financing activities decreased by $2.3 billion primarily due to a $2.2 billion decrease in the repurchase of common stock over the same period a year ago. During the first fiscal six months of 2006 $2.7 billion was utilized for the stock repurchase program. Cash and current marketable securities were $6.0 billion at the end of the fiscal second quarter of 2007 as compared with $14.7 billion at fiscal second quarter of 2006, a decrease of $8.7 billion, which was due to acquisition activity and the 2006 stock repurchase program. On July 9, 2007, the Company announced that its Board of Directors has approved a stock repurchase program, authorizing the Company to buy back up to $10 billion of the Company's common stock. Share repurchases will take place on the open market from time to time based on market conditions. The repurchase program has no time limit and may be suspended for periods or discontinued at any time. Any shares acquired will be available for general corporate purposes. The Company intends to fund the share repurchase program through a combination of available cash and debt. The Company does not expect its triple-A credit rating to be effected by the share repurchase program. Dividends On April 26, 2007, the Board of Directors declared a regular cash dividend of $0.415 per share, payable on June 12, 2007 to shareholders of record as of May 29, 2007. This represented an increase of 10.7% in the quarterly dividend rate and was the 45th consecutive year of cash dividend increases. On July 16, 2007, the Board of Directors declared a regular cash dividend of $0.415 per share, payable on September 11, 2007 to shareholders of record as of August 28, 2007. The Company expects to continue the practice of paying regular cash dividends. OTHER INFORMATION New Accounting Standards In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective in the fiscal first quarter of 2008 and the Company will adopt the statement at that time. The Company believes that the adoption of SFAS No 157 will not have a material effect on its results of operations, cash flows or financial position. In June 2006, the FASB issued FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification and other matters. The statement was effective for the fiscal year 2007 and the Company adopted the Interpretation at that time. See Note 3 to the Unaudited Consolidated Financial Statements for more details. In February 2007, the FASB issued Statement No. 159, Fair Value Option for Financial Assets and Financial Liabilities, which permits an entity to measure certain financial assets and financial liabilities at fair value. Statement 159 is effective for fiscal year 2008 but early adoption is permitted. The Company is currently in the process of evaluating this pronouncement and the impact of the adoption of FASB 159 would have on its results of operations, cash flows and financial position. EITF Issue 07-3: Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities. This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 is not expected to have a significant impact 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 1996 through 2006 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 2006, 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" included in Item 1. Financial Statements (unaudited)- Notes to Consolidated Financial Statements, Note 11. 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 expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company does not undertake 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 December 31, 2006 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 31, 2006. Item 4 - CONTROLS AND PROCEDURES Disclosure controls and procedures. At 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 information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. 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 Dominic J. Caruso, Vice President, Finance and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Weldon and Caruso concluded that, as of the end of the period covered by this report, 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 11 included in Part I, Item 1, Financial Statements (unaudited) - 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 second quarter of 2007. Common Stock purchases on the open market are made as part of a systematic plan to meet the Company's compensation programs. Total Average Number of Price Shares Paid per Fiscal Month Purchased Share April 2, 2007 through April 29,2007 2007 759,900 $64.28 April 30, 2007 through May 27, 2007 3,508,300 $63.07 May 28, 2007 through July 1, 2007 2,788,400 $62.41 Total 7,056,600 $62.94 On July 9, 2007, the Company announced that its Board of Directors has approved a stock repurchase program, authorizing the Company to buy back up to $10 billion of the Company's common stock. Share repurchases will take place on the open market from time to time based on market conditions. The repurchase program has no time limit and may be suspended for periods or discontinued at any time. Any shares acquired will be available for general corporate purposes. The Company intends to fund the share repurchase program through a combination of available cash and debt. The Company does not expect its triple-A credit rating to be effected by the share repurchase program. 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 26, 2007. (b) Election of the directors is set forth in (c) below. (c) The shareholders elected all the Company's nominees for director and ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent registered accounting firm for the fiscal year 2007. The shareholders did not approve the shareholder proposal on majority voting requirements for director nominees or the shareholder proposal on the Supplemental Retirement Plan. 1. Election of Directors: Shares For* Shares Withheld M. S. Coleman 2,466,892,805 66,572,007 J. G. Cullen 2,448,973,367 84,491,445 M. M. E. Johns 2,466,990,283 66,474,529 A. G. Langbo 2,450,076,051 83,388,761 S. L. Lindquist 2,468,186,923 65,277,889 L. F. Mullin 2,465,217,964 68,246,848 C. A. Poon 2,451,698,460 81,766,352 C. Prince 2,378,580,307 154,884,505 S. S Reinemund 2,468,193,021 65,271,791 D. Satcher 2,467,154,212 66,310,600 W. C. Weldon 2,448,815,553 84,649,259 *Includes 532,746,949 broker non-votes 2. Ratification of Appointment of PricewaterhouseCoopers LLP: For* 2,461,102,118 Against 45,531,421 Abstain 26,831,273 *Includes 532,746,949 broker non-votes 3. Shareholder proposal on majority voting requirements for director nominees: For 881,161,926 Against 1,083,580,571 Abstain 35,975,366 Broker Non-vote 532,746,949 4 . Proposal on Supplemental Retirement Plan: For 645,742,277 Against 1,314,642,129 Abstain 40,333,457 Broker Non-vote 532,746,949 Item 6 - EXHIBITS 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. Exhibit 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Furnished with this document. 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 8, 2007 By /s/ D. J. CARUSO D. J. CARUSO Vice President, Finance; Chief Financial Officer (Principal Financial Officer) Date: August 8, 2007 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Principal Accounting Officer)