10-Q 1 secondqtrtenq.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, 2001 or ( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the for the transition period from to Commission file number 1-3215 JOHNSON & JOHNSON (Exact name of registrant as specified in its charter) NEW JERSEY 22-1024240 (State or other jurisdiction of (I.R.S. Employer Incorporation or organization) Identification No.) One Johnson & Johnson Plaza New Brunswick, New Jersey 08933 (Address of principal executive offices) Registrant's telephone number, including area code (732) 524-0400 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 27, 2001, 3,119,842,548 shares of Common Stock, $1.00 par value, were outstanding. - 1 - JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS Part I - Financial Information Page No. Item 1. 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Quantitative and Qualitative Disclosures About Market Risk 17 Part II - Other Information Item 1 - Legal Proceedings 17 Item 4 - Submission of Matters to a Vote of Security Holders 20 Item 5 - Exhibits and Reports on Form 8-K 20 Signatures 21 - 2 - Part I - FINANCIAL INFORMATION Item 1 - Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) ASSETS July 1, December 31, 2001 2000 Current Assets: Cash and cash equivalents $ 4,722 4,278 Marketable securities, at cost 2,797 2,479 Accounts receivable, trade, less allowances $460 (2000 - $439) 4,805 4,601 Inventories (Note 4) 2,913 2,905 Deferred taxes on income 1,110 1,174 Prepaid expenses and other receivables 1,844 1,254 Total current assets 18,191 16,691 Marketable securities, non-current 1,143 717 Property, plant and equipment, at cost 11,936 11,866 Less accumulated depreciation and amortization 4,733 4,457 7,203 7,409 Intangible assets, net (Note 5) 7,616 7,535 Deferred taxes on income 250 240 Other assets 1,698 1,653 Total assets $36,101 34,245 See Notes to Consolidated Financial Statements All amounts have been restated under the pooling of interests method of accounting to give retroactive effect to the merger with ALZA Corporation, pursuant to the merger on June 22, 2001, see Note 1. - 3 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) LIABILITIES AND SHAREOWNERS' EQUITY July 1, December 31, 2001 2000 Current Liabilities: Loans and notes payable $ 924 1,489 Accounts payable 2,049 2,122 Accrued liabilities 3,218 2,793 Accrued salaries, wages and commissions 670 529 Taxes on income 485 322 Total current liabilities 7,346 7,255 Long-term debt 2,491 3,163 Deferred tax liability 242 255 Employee related obligations 1,812 1,804 Other liabilities 1,499 1,373 Shareowners' equity: Preferred stock - without par value (authorized and unissued 2,000,000 shares) - - Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,000 shares) 3,120 3,120 Note receivable from employee stock ownership plan (30) (35) Accumulated other comprehensive income/(loss) (Note 9) (552) (461) Retained earnings 20,469 18,113 23,007 20,737 Less common stock held in treasury, at cost (88,284,000 & 105,218,000 shares) 296 342 Total shareowners' equity 22,711 20,395 Total liabilities and shareowners' equity $36,101 34,245 See Notes to Consolidated Financial Statements All amounts have been restated under the pooling of interests method of accounting to give retroactive effect to the merger with ALZA Corporation, pursuant to the merger on June 22, 2001, see Note 1. - 4 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Quarter Ended July 1, Percent July 2, Percent 2001 to Sales 2000 to Sales Sales to customers (Note 6) $8,342 100.0 7,670 100.0 Cost of products sold 2,362 28.3 2,261 29.5 Gross Profit 5,980 71.7 5,409 70.5 Selling, marketing and administrative expenses 2,975 35.7 2,829 36.9 Research expense 829 9.9 713 9.3 Interest income (120) (1.4) (88) (1.1) Interest expense, net of portion capitalized 50 .6 53 .7 Other (income)expense, net 117 1.4 (11) (.2) 3,851 46.2 3,496 45.6 Earnings before provision for taxes on income 2,129 25.5 1,913 24.9 Provision for taxes on income (Note 3) 647 7.7 550 7.1 NET EARNINGS $1,482 17.8 1,363 17.8 NET EARNINGS PER SHARE (Note 8) Basic $ .49 .46 Diluted $ .48 .44 CASH DIVIDENDS PER SHARE $ .18 .16 AVG. SHARES OUTSTANDING Basic 3,029.3 2,983.0 Diluted 3,110.5 3,094.9 See Notes to Consolidated Financial Statements All amounts have been restated under the pooling of interests method of accounting to give retroactive effect to the merger with ALZA Corporation, pursuant to the merger on June 22, 2001, see Note 1. - 5 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Six Months July 1, Percent July 2, Percent 2001 to Sales 2000 to Sales Sales to customers (Note 6) $16,363 100.0 15,110 100.0 Cost of products sold 4,662 28.5 4,503 29.8 Gross Profit 11,701 71.5 10,607 70.2 Selling, marketing and administrative expenses 5,818 35.6 5,508 36.5 Research expense 1,588 9.7 1,390 9.2 Interest income (245) (1.5) (171) (1.1) Interest expense, net of portion capitalized 83 .5 114 .7 Other (income)expense, net 111 .6 (61) (.4) 7,355 44.9 6,780 44.9 Earnings before provision for taxes on income 4,346 26.6 3,827 25.3 Provision for taxes on income (Note 3) 1,312 8.1 1,133 7.5 NET EARNINGS $ 3,034 18.5 2,694 17.8 NET EARNINGS PER SHARE (Note 8) Basic $ 1.00 .90 Diluted $ .98 .88 CASH DIVIDENDS PER SHARE $ .34 .30 AVG. SHARES OUTSTANDING Basic 3,024.6 2,981.1 Diluted 3,106.3 3,091.7 See Notes to Consolidated Financial Statements All amounts have been restated under the pooling of interests method of accounting to give retroactive effect to the merger with ALZA Corporation, pursuant to the merger on June 22, 2001, see Note 1. - 6 - JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Six Months July 1, July 2, 2001 2000 CASH FLOWS FROM OPERATING ACTIVITIES Net earnings $ 3,034 2,694 Adj. to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 804 832 Accounts receivable reserves 59 (23) Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (431) (286) Increase in inventories (125) (40) Changes in other assets and liabilities 585 122 NET CASH FLOWS FROM OPERATING ACTIVITIES 3,926 3,299 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equip (571) (690) Proceeds from the disposal of assets 53 31 Acquisition of businesses, net of cash acquired (17) (7) Purchases of investments (4,430) (2,187) Sales of investments 3,649 2,189 Other (69) (92) NET CASH USED BY INVESTING ACTIVITIES (1,385) (756) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareowners (950) (826) Repurchase of common stock (629) (369) Proceeds from short-term debt 187 162 Retirement of short-term debt (938) (1,086) Proceeds from long-term debt 10 6 Retirement of long-term debt (20) (22) Proceeds from the exercise of stock options 294 226 NET CASH USED BY FINANCING ACTIVITIES (2,046) (1,909) EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (51) (25) INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS 444 609 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 4,278 2,512 CASH AND CASH EQUIVALENTS, END OF PERIOD $ 4,722 3,121 ACQUISITION OF BUSINESSES Fair value of assets acquired 159 83 Fair value of liabilities assumed (66) (1) 93 82 Treasury stock issued at fair value (76) (75) $ 17 7 See Notes to Consolidated Financial Statements All amounts have been restated under the pooling of interests method of accounting to give retroactive effect to the merger with ALZA Corporation, pursuant to the merger on June 22, 2001, see Note 1. - 7 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - The accompanying unaudited interim financial statements and related notes should be read in conjunction with the Consolidated Financial Statements of Johnson & Johnson and Subsidiaries (the "Company") and related notes as contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and the Supplemental Consolidated Financial Statements on Form 8-K filed on August 7, 2001. The balance sheet as of December 31, 2000 and the unaudited interim statements of earnings and cash flows for the fiscal quarter and six months ended July 1, 2001 and July 2, 2000 have been prepared to give retroactive effect to the merger with ALZA Corporation on June 22, 2001. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair presentation of such statements. Earnings per share figures and shares outstanding reflect the two-for-one stock split effective during the second quarter of 2001. Certain prior year amounts have been reclassified to conform with the current year presentation. NOTE 2 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES Effective January 1, 2001, the Company adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No 133", collectively referred to as SFAS 133. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (OCI), depending on whether the derivative is designated as part of a hedge transaction, and, if it is depending on the type of hedge transaction. On January 1, 2001 the Company recorded a $17 million net-of-tax cumulative effect transition adjustment gain in OCI to recognize at fair value all derivative instruments designated as cash flow hedges. The adjustment to net earnings was immaterial. As of July 1, 2001 the balance of deferred net gains on derivatives accumulated in OCI was $103 million (after tax). Of this amount, the Company expects that $101 million, which includes the transition adjustment, will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. The underlying transactions which will occur and cause the amount deferred in OCI to affect earnings primarily represent sales to third parties and purchases of inventory. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 15 months. For the quarter ended July 1, 2001 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the quarter ended July 1, 2001 the Company has recorded a net gain of $2 million (after tax) in the `Other (income) expense, net' category of the consolidated statement of earnings, representing the impact of discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period. Refer to Note 9 - Accumulated Other Comprehensive Income for disclosure of movements in OCI. - 8 - NOTE 3 - INCOME TAXES The effective income tax rates for the first fiscal six months of 2001 and 2000 are 30.2% and 29.6%, respectively, as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate is primarily the result of domestic subsidiaries operating in Puerto Rico under a grant for tax relief expiring on December 31, 2007 and the result of subsidiaries manufacturing in Ireland under an incentive tax rate expiring on December 21, 2010. NOTE 4 - INVENTORIES (Dollars in Millions) July 1, 2001 Dec. 31, 2000 Raw materials and supplies $ 760 718 Goods in process 538 480 Finished goods 1,615 1,707 $ 2,913 2,905 NOTE 5 - INTANGIBLE ASSETS (Dollars in Millions) July 1, 2001 Dec. 31, 2000 Intangible assets $ 9,323 9,076 Less accumulated amortization 1,707 1,541 $ 7,616 7,535 The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis over periods of up to 40 years. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives. - 9 - NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Second Quarter Percent Increase/ 2001 2000 (Decrease) Consumer Domestic $ 888 902 (1.6) International 796 805 (1.1) 1,684 1,707 (1.4)% Pharmaceutical Domestic $ 2,722 2,283 19.3 International 1,142 1,100 3.8 3,864 3,383 14.2% Med Dev & Diag Domestic $ 1,537 1,360 13.0 International 1,257 1,220 3.0 2,794 2,580 8.3% Domestic $ 5,147 4,545 13.2 International 3,195 3,125 2.2 Worldwide $ 8,342 7,670 8.8% Six Months Percent Increase/ 2001 2000 (Decrease) Consumer Domestic $ 1,867 1,845 1.2 International 1,603 1,614 (.7) 3,470 3,459 .3% Pharmaceutical Domestic $ 5,078 4,353 16.7 International 2,275 2,193 3.7 7,353 6,546 12.3% Med Dev & Diag Domestic $ 3,012 2,671 12.8 International 2,528 2,434 3.9 5,540 5,105 8.5% Domestic $ 9,957 8,869 12.3 International 6,406 6,241 2.6 Worldwide $16,363 15,110 8.3% - 10 - OPERATING PROFIT BY SEGMENT OF BUSINESS Second Quarter Percent 2001 2000 Change Consumer $ 243 227 7.0 Pharmaceutical(1) 1,410 1,319 6.9 Med. Dev. & Diag. 548 450 21.8 Segments total 2,201 1,996 10.3 Expenses not allocated to segments (72) (83) Worldwide total $ 2,129 1,913 11.3% Six Months Percent 2001 2000 Change Consumer $ 536 454 18.1 Pharmaceutical(1) 2,832 2,632 7.6 Med. Dev. & Diag. 1,119 921 21.5 Segments total 4,487 4,007 12.0 Expenses not allocated to segments (141) (180) Worldwide total $ 4,346 3,827 13.6% Note: Prior year amounts have been reclassified to conform with current year presentation. (1) Includes special charges of $109 million for restructuring and deal costs related to the ALZA merger. SALES BY GEOGRAPHIC AREA Second Quarter Percent 2001 2000 Increase U.S. $ 5,147 4,545 13.2 Europe 1,729 1,665 3.9 Western Hemisphere Excluding U.S. 539 507 6.3 Asia-Pacific, Africa 927 953 (2.7) Total $ 8,342 7,670 8.8% Six Months Percent 2001 2000 Increase U.S. $ 9,957 8,869 12.3 Europe 3,466 3,343 3.7 Western Hemisphere Excluding U.S. 1,062 1,023 3.8 Asia-Pacific, Africa 1,878 1,875 .1 Total $ 16,363 15,110 8.3% - 11 - NOTE 7 - ACCOUNTING FOR SALES INCENTIVES The Company currently recognizes the expense related to coupons and certain sales incentives upon issuance and classifies these expenses as selling, marketing and administrative expense. The amount of such sales incentives were $56 million and $65 million for the first six months of 2001 and 2000, respectively. EITF 00-14 will take effect in the first quarter of 2002 and the impact on the Company will be the reclassification of the above mentioned amounts from expense to a reduction of sales. NOTE 8 - EARNINGS PER SHARE The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the six months ended July 1, 2001 and July 2, 2000. Earnings per share figures and shares outstanding reflect the two-for-one stock split effective during the second quarter of 2001. (Shares in Millions) Fiscal Quarter Ended July 1, July 2, 2001 2000 Basic net earnings per share $ .49 .46 Average shares outstanding - basic 3,029.3 2,983.4 Potential shares exercisable under stock option plans 121.9 130.5 Less: shares which could be repurchased under treasury stock method (76.8) (80.4) Convertible debt shares 36.1 61.4 Adjusted average shares outstanding - diluted 3,110.5 3,094.9 Diluted earnings per share $ .48 .44 Fiscal Six Months Ended (Shares in Millions) July 1, July 2, 2001 2000 Basic net earnings per share $ 1.00 .90 Average shares outstanding - basic 3,024.6 2,981.6 Potential shares exercisable under stock option plans 123.3 129.4 Less: shares which could be repurchased under treasury stock method (77.7) (80.9) Convertible debt shares 36.1 61.6 Adjusted average shares outstanding - diluted 3,106.3 3,091.7 Diluted earnings per share $ .98 .88 - 12 - NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the six months ended July 1, 2001 is $2,931 million, compared with $2,705 million for the same period a year ago. Total comprehensive income includes net earnings, net unrealized currency gains and losses on translation, net unrealized gains and losses on available for sale securities, pension liability adjustments and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The following table sets forth the components of accumulated other comprehensive income. Total Unrld Gains/ Accum For. Gains/ Pens (Losses) Other Cur. (Losses) Liab on Deriv Comp Trans. on Sec Adj. & Hedg Inc/(Loss) December 31, 2000 $ (522) 76 (15) - (461) 2001 Six Months changes Transition Adj. - - - 17 Net change associated to current period hedging transactions - - - 261 Net amount reclassed to net earnings - - - (175)* Net Six Months changes(209) 16 (1) 103 (91) July 1, 2001 $ (731) 92 (16) 103 (552) Note: All amounts, other than foreign currency translation, are net of tax. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in non US subsidiaries. *Primarily offset by changes in value of the underlying transactions. NOTE 10 - MERGERS & ACQUISITIONS On March 2, 2001, Johnson & Johnson acquired BabyCenter, Inc. from eToys, Inc. The purchase was an all cash transaction valued at approximately $10 million. BabyCenter.com is the largest and best-known online parenting resource serving expectant and new mothers and fathers. The BabyCenter family of websites also includes ParentCenter.com and BabyCentre.co.uk. On April 18, 2001, Johnson & Johnson completed their previously announced merger with Heartport, valued at approximately $81 million. Holders of Heartport common stock received 0.0614 shares of Johnson & Johnson common stock for each outstanding share of Heartport. Johnson & Johnson purchased the number of shares of Johnson & Johnson common stock equal to the number of such shares issued in connection with the merger in the open market. Heartport manufactures and markets less invasive cardiac surgery products that enable surgeons to perform a wide range of less invasive open-chest and minimally invasive heart operations, including stopped heart and beating heart procedures. On June 22, 2001, Johnson & Johnson completed their previously announced merger with ALZA Corporation (ALZA). The transaction was completed after ALZA shareholders voted to approve the merger agreement with Johnson & Johnson. ALZA shareholders received a fixed exchange ratio of .98 shares of Johnson & Johnson common stock for each share of ALZA in a tax-free transaction. The transaction was accounted for by the pooling of interests method of accounting. ALZA Corporation is a research-based pharmaceutical company and a leader in drug delivery technologies. ALZA applies its delivery technologies to develop pharmaceutical products with enhanced therapeutic value for its own portfolio and for many of the world's leading pharmaceutical companies. ALZA's sales and marketing efforts have been focused in oncology and urology. - 13 - On May 9, 2001, the Company announced it entered into a definitive merger agreement to acquire Inverness Medical Technologies, excluding certain businesses, in a stock-for-stock exchange. Inverness is a developer of innovative products focused primarily on the self-management of diabetes. The transaction is expected to close in the fourth quarter of 2001 and is subject to certain European regulatory approvals and other customary closing conditions. NOTE 11 - LEGAL PROCEEDINGS The information called for by this footnote is incorporated herein by reference to Item 1 ("Legal Proceedings") included in Part II of this Report on Form 10-Q. NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS In April 2001, the EITF reached a consensus on EITF Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." EITF Issue No. 00-25 requires that certain expenses included in marketing, administration and research costs be recorded as a reduction of operating revenue and will be effective in the first quarter of 2002. The Company is currently in the process of determining the impact of EITF No. 00-25. In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." All business combinations consummated after July 1, 2001 (including the Inverness acquisition) will be accounted for in accordance with the new pronouncements. In addition, effective January 1, 2002, the Company will no longer be required to amortize goodwill and certain other intangible assets on acquisitions prior to July 1, 2001 as a charge to earnings. Also, the Company will be required to review goodwill and other intangible assets for potential impairment. The Company is currently in the process of quantifying the impact of the new standards. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SALES AND EARNINGS Consolidated sales for the first six months of 2001 were $16.36 billion, which exceeded sales of $15.11 billion for the first six months of 2000 by 8.3%. The strength of the U.S. dollar relative to the foreign currencies decreased sales for the first six months of 2001 by 3.5%. Excluding the effect of the stronger U.S. dollar relative to foreign currencies, sales increased 11.8% on an operational basis for the first six months of 2001. Consolidated net earnings for the first six months of 2001 were $3.03 billion, compared with net earnings of $2.69 billion for the first six months of 2000. Other income and expense for 2001 reflects special charges of $102 million after-tax for restructuring and deal costs related to the ALZA merger. For 2000, other income and expense includes gain related to the sale of certain equity securities. Worldwide basic net earnings per share for the first six months of 2001 were $1.00, compared with $.90 for the same period in 2000, an increase of 11.1%. Excluding special charges, basic net earnings per share were $1.04, an increase of 15.6% compared to $.90 for the same period in 2000. Worldwide diluted net earnings per share for the first six months of 2001 were $.98, compared with $.88 for the same period in 2000, an increase of 11.4%. Excluding special charges, diluted earnings per share were $1.01, compared with $.88 for the same period in 2000, an increase of 14.8%. - 14 - Consolidated sales for the second quarter of 2001 were $8.34 billion, an increase of 8.8% over 2000 second quarter sales of $7.67 billion. The effect of the stronger U.S. dollar relative to foreign currencies decreased second quarter sales by 3.3%. Consolidated net earnings for the second quarter of 2001 were $1.48 billion, compared with $1.36 billion for the same period a year ago, an increase of 8.7%. Worldwide basic net earnings per share for the second quarter of 2001 rose 6.5% to $.49, compared with $.46 in the 2000 period. Excluding special charges, worldwide basic net earnings per share for the second quarter were $.52, compared with $.46 for the same period a year ago, an increase of 13.0%. Worldwide diluted net earnings per share for the second quarter of 2001 rose 9.1% to $.48, compared with $.44 in 2000. Excluding special charges, worldwide diluted net earnings per share for the second quarter were $.51, compared to $.44 for the same period a year ago, an increase of 15.9%. Domestic sales for the first six months of 2001 were $9.96 billion, an increase of 12.3% over 2000 domestic sales of $8.87 billion for the same period a year ago. Sales by international subsidiaries were $6.41 billion for the first six months of 2001 compared with $6.24 billion for the same period a year ago, an increase of 2.6%. Excluding the impact of the stronger value of the dollar, international sales increased by 10.9%.

Worldwide Consumer sales for the second quarter of 2001 were $1.7 billion, an operational increase of 2.4% versus the same period a year ago. Domestic sales decreased by 1.6%, while international sales gains in local currency of 6.9% were entirely offset by negative currency, resulting in a reported worldwide sales decrease of 1.4%. During the quarter, McNeil Consumer Healthcare reintroduced the 110-year- old ST. JOSEPH Aspirin brand. Once known exclusively as a baby aspirin, ST. JOSEPH Aspirin now offers adult consumers a single tablet in the strength that doctors recommend most for cardio therapy. Worldwide Pharmaceutical sales of $3.9 billion for the quarter resulted in an operational increase of 16.5% over the same period in 2000. Domestic sales increased 19.3%. International sales increased operationally 10.8% but were offset by a negative currency impact of 7.0%. Worldwide reported sales growth including a 2.3% negative currency impact was 14.2%. Sales growth reflects the strong performance of PROCRIT/EPREX, for the treatment of anemia; RISPERDAL, an antipsychotic medication; DURAGESIC, a transdermal patch for chronic pain; REMICADE, for the treatment of rheumatoid arthritis and Crohn's disease; TOPAMAX, an antiepileptic, and ACIPHEX/PARIET, a proton pump inhibitor for gastrointestinal disorders. On June 22, 2001, the Company completed the merger with ALZA Corporation, a research-based pharmaceutical company and a leader in drug delivery technologies. ALZA applies its delivery technologies to develop pharmaceutical products with enhanced therapeutic value for its own portfolio and for many of the world's leading pharmaceutical companies. - 15 - During the quarter, the Company received U.S. Food and Drug Administration (FDA) approval for an oral solution formulation of REMINYL (galantamine hydrobromide), a new treatment for mild to moderate Alzheimer's disease. REMINYL Oral Solution provides patients and their caregivers with a new dosing option for individuals who prefer a liquid or cannot swallow tablets. REMINYL tablets were launched in the United States in April. The Company also received FDA approval for SPORANOX (itraconazole) for empiric therapy of febrile, neutropenic patients with suspected fungal infections. Empiric therapy allows physicians to prescribe treatment promptly based on their observation and experience without time-consuming tests. Worldwide sales for the Medical Devices and Diagnostics segment were $2.8 billion in the second quarter of 2001, which represented an increase of 12.4% in local currency as compared to the same period in 2000. Domestic sales were up 13.0%, while international sales increased 11.9% on an operational basis. Worldwide sales gains including the negative impact of currency were reported at 8.3%. The primary contributors to the segment's growth were the Cordis circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal products; Ethicon's Mitek suture anchors and Gynecare women's health products; and Ethicon Endo- Surgery's minimally invasive surgical products. On April 18, 2001, the Company announced the completion of the merger with Heartport, Inc. Heartport is a pioneer in developing, manufacturing and selling less invasive cardiac open-chest and minimally invasive heart operations, including stopped heart and beating heart procedures. In the second quarter, the Company announced it entered into a definitive merger agreement to acquire Inverness Medical Technologies, excluding certain businesses, in a stock-for-stock exchange. Inverness is a developer of innovative products focused primarily on the self-management of diabetes. The transaction is expected to close in the fourth quarter of 2001 and is subject to certain European regulatory approvals and other customary closing conditions. LIQUIDITY AND CAPITAL RESOURCES Cash and current marketable securities increased $762 million during the first six months of 2001 to $7.52 billion at July 1, 2001. Total borrowings decreased $1.24 billion during the first six months of 2001 to $3.42 billion. Net cash (cash and current marketable securities net of debt) as of July 1, 2001 was $4.1 billion, compared with $2.11 billion at the end of 2000. Total debt represented 13.1% of total capital (shareowners' equity and total debt) at quarter end compared with 18.6% at the end of 2000. Johnson & Johnson exercised its option to redeem the $460 million convertible subordinated debentures of Centocor due 2005 at a price equal to 102.714% of the principal amount plus accrued interest. The debentures were subsequently converted by the holders into approximately 11,928,000 shares of Johnson & Johnson common stock. For the period ended July 1, 2001, there were no material cash commitments. Additions to property, plant and equipment were $571 million for the first six months of 2001, compared with $690 million for the same period in 2000. On April 26, 2001, the Board of Directors approved an increase in the authorized common stock from 2.16 billion to 4.32 billion shares and a subsequent two-for-one split of its common stock. Par value will remain at $1.00 per common share. One new share of common stock was issued on June 12, 2001 with respect to each existing share of common stock held of record as of the close of business on May 22, 2001. On July 16, 2001, the Board of Directors approved a regular quarterly dividend of $.18 cents per share, payable on September 11, 2001 to shareowners of record as of August 21, 2001. - 16 - CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS This Form 10-Q contains "forward-looking statements." Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approvals, market position and expenditures. Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 contains, in Exhibit 99(b), a discussion of various factors that could cause actual results to differ from expectations. That Exhibit from the Form 10-K is incorporated in this filing by reference. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. Item 3. Quantitative and Qualitative Disclosures About Market Risk There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in its Annual Report on Form 10-K for the fiscal year ended December 31, 2000. Part II - OTHER INFORMATION Item 1. Legal Proceedings The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use which accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by reserves established under its self-insurance program and by commercially available excess liability insurance. One group of cases against the Company concerns the Janssen product Propulsid, which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, hundreds of lawsuits have been filed against Janssen, which is a wholly owned subsidiary of the Company, and the Company regarding Propulsid in state and federal courts across the country. Many of these actions involve the claims of multiple plaintiffs and a significant number seek certification as class actions. These actions accuse

Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of over-promotion. These actions seek substantial compensatory and punitive damages. Janssen and the Company dispute the claims against them and are vigorously defending these actions. The Company believes it has adequate self and commercially available excess insurance with respect to these cases. - 17 - The Company's subsidiary, Johnson & Johnson Vision Care Inc. (Vision Care), together with a trade association and various individual defendants, is a defendant in several consumer class actions and an action brought by multiple State Attorneys General on behalf of consumers alleging violations of federal and state antitrust laws. These cases, which were filed between July 1994 and December 1996 and are consolidated before the United States District Court for the Middle District of Florida, assert that enforcement of Vision Care's long-standing policy of selling contact lenses only to licensed eye care professionals is a result of an unlawful conspiracy to eliminate alternative distribution channels from the disposable contact lens market. In April 2001, after several weeks of trial, these cases were concluded based on a settlement agreement, yet to be approved finally by the court, which provides for a cash payment to the class, a package of consumer benefits available to class members based on certain eligibility requirements, and reciprocal requirements for Vision Care to provide contact lenses to alternative channels of supply (e.g., mail order) under specified circumstances and for the State Attorneys General to continue to enforce state laws governing sale of contact lenses by mail order firms. Several mail order firms have filed motions to intervene in the proceedings, arguing that the settlement, or Vistakon's interpretation of it, will harm them. Johnson & Johnson Vision Care is also a defendant in a nationwide consumer class action brought on behalf of purchasers of its ACUVUE brand contact lenses. The plaintiffs in that action, which was filed in 1996 in New Jersey State Court, allege that Vision Care sold its 1-DAY ACUVUE lens at a substantially cheaper price than ACUVUE and misled consumers into believing these were different lenses when, in fact, they were allegedly "the same lenses." Plaintiffs are seeking substantial damages and an injunction against supposed improper conduct. A settlement agreement has been reached with plaintiffs in this case which has been preliminarily approved by the court. The settlement provides for cash and consumer benefits based on proof of eligibility, and revision of certain Vision Care marketing and labeling materials. The Company's Ortho Biotech subsidiary is party to an arbitration proceeding filed against it in 1995 by Amgen, Ortho Biotech's licensor of U.S. non-dialysis rights to EPO, in which Amgen seeks to terminate Ortho Biotech's U.S. license rights and collect substantial damages based on alleged deliberate EPO sales by Ortho Biotech during the early 1990's into Amgen's reserved dialysis market. The Company believes no basis exists for terminating Ortho Biotech's U.S. license rights or for obtaining damages and is vigorously contesting Amgen's claims. However, Ortho Biotech's U.S. license rights to EPO are material to the Company; thus, an unfavorable outcome on the termination issue could have a material adverse effect on the Company's consolidated financial position, liquidity and results of operations. The arbitration is scheduled to begin in September of this year. - 18 - The Company and its LifeScan subsidiary are defendants in several class actions filed in federal and state courts in California in 1998 in which it is alleged that purchasers of SureStep blood glucose meters and strips suffered economic harm because those products contained undisclosed defects. In late 2000, LifeScan pleaded guilty in federal court to three misdemeanors and paid a total of $60 million in fines and civil costs to resolve an investigation related to those same alleged defects. In one of the federal class actions, a nationwide class was certified by the district court last year and trial has been scheduled for November of this year. The Company and LifeScan believe these claims are without merit and are vigorously defending these actions. In patent infringement actions tried in Delaware Federal Court late last year, Cordis, a Johnson & Johnson company, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis coronary stent patents. On December 15, 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and on December 21, 2000 the jury in the Medtronic AVE action returned a verdict of $271 million. These sums represent lost profit and reasonable royalty damages to compensate Cordis for infringement but do not include pre or post judgment interest. In February 2001 a hearing was held on the claims of Boston Scientific and Medtronic AVE that the patents at issue are unenforceable owing to alleged inequitable conduct before the patent office. Post trial motions and appeals to the Federal Circuit Court of Appeals will follow and no judgments are likely to be paid, if at all, until those proceedings have run their course. Furthermore, since the amount of damages, if any, which the Company may receive cannot be quantified until the legal process is complete, no gain has been recorded in the financial statements for either of these awards. The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business. The Company believes that the above proceedings, except as noted above, would not have a material adverse effect on its results of operations, cash flows or financial position. - 19 - Part II - Other Information Item 4. Submission of Matters to a Vote of Security Holders (a) The annual meeting of the shareowners of the Company was held on April 26, 2001. (b) The shareowners elected all the Company's nominees for director. The shareowners also approved the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for 2001. 1. Election of Directors: For Withheld G. N. Burrow 1,160,305,362 4,401,900 J. G. Cooney 1,116,277,522 48,429,740 J. G. Cullen 1,160,372,918 4,334,344 M. J. Folkman 1,160,200,614 4,506,648 A. D. Jordan 1,160,081,291 4,625,971 A. G. Langbo 1,160,485,503 4,221,759 R. S. Larsen 1,160,552,294 4,154,968 J. T. Lenehan 1,160,727,491 3,979,771 J. S. Mayo 1,159,658,459 5,048,803 L. F. Mullin 1,160,375,408 4,331,854 H. B. Schacht 1,159,455,218 5,252,044 M. F. Singer 1,159,753,207 4,954,055 J. W. Snow 1,160,336,316 4,370,946 W. C. Weldon 1,160,686,159 4,021,103 R. N. Wilson 1,160,362,075 4,345,187 2. Approval of Appointment of PricewaterhouseCoopers LLP: For 1,129,588,939 Against 28,495,208 Abstain 6,623,115 (c) A shareowner proposal on pharmaceutical pricing was defeated. The vote on this proposal was as follows: For 56,404,756 Against 877,946,132 Abstain 35,161,337 Item 5. Exhibits and Reports on Form 8-K (a) Exhibit Numbers (1) Exhibit 3 - Certificate of Amendment to the Restated Certificate of Incorporation of the Company effective May 22, 2001. (2) Exhibit 99.2 - By-Laws of the Company, as amended effective June 11, 2001 (b) Reports on Form 8-K A Report on Form 8-K was filed on August 7, 2001, which included Management's Discussion and Analysis of Results of Operations and Financial Condition, the consolidated balance sheets of Johnson & Johnson and subsidiaries as of April 1, 2001, December 31, 2000 and January 2, 2000 and the related consolidated statement of earnings, shareowners' equity and cash flows for April 1, 2001, April 2, 2000 and each of the three years in the period ended December 31, 2000. - 20 - SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. JOHNSON & JOHNSON (Registrant) Date: August 15, 2001 By /s/ R. J. DARRETTA R. J. DARRETTA Vice President, Finance Date: August 15, 2001 By /s/ C. E. LOCKETT C. E. LOCKETT Controller (Chief Accounting Officer) - 21 -