10-Q 1 secondquartertenq.txt UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q (X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2002 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 26, 2002, 2,975,339,590 shares of Common Stock, $1.00 par value, were outstanding. 1 JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS PART I - FINANCIAL INFORMATION Page No. Item 1 - FINANCIAL STATEMENTS Consolidated Balance Sheet - June 30, 2002 and December 30, 2001 3 Consolidated Statement of Earnings for the Fiscal Quarter Ended June 30, 2002 and July 1, 2001 5 Consolidated Statement of Earnings for the Fiscal Six Months Ended June 30, 2002 and July 1, 2001 6 Consolidated Statement of Cash Flows for the Fiscal Six Months Ended June 30, 2002 and July 1, 2001 7 Notes to Consolidated Financial Statements 8 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 14 Item 3. 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Section 1350 21 2 PART I - FINANCIAL INFORMATION Item 1 - FINANCIAL STATEMENTS JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) ASSETS June 30, December 30, 2002 2001 Current Assets: Cash and cash equivalents $ 2,606 3,758 Marketable securities 4,251 4,214 Accounts receivable, trade, less allowances for doubtful accounts $200(2001 - $197) 5,408 4,630 Inventories (Note 4) 3,352 2,992 Deferred taxes on income 1,374 1,192 Prepaid expenses and other receivables 1,863 1,687 Total current assets 18,854 18,473 Marketable securities, non-current 176 969 Property, plant and equipment, at cost 13,393 12,458 Less accumulated depreciation 5,345 4,739 8,048 7,719 Intangible assets, gross (Note 5) 11,194 10,910 Less accumulated amortization 1,929 1,833 Intangible assets, net 9,265 9,077 Deferred taxes on income 46 288 Other assets 1,962 1,962 Total assets $38,351 38,488 See Notes to Consolidated Financial Statements 3 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) LIABILITIES AND SHAREOWNERS' EQUITY June 30, December 30, 2002 2001 Current Liabilities: Loans and notes payable $ 2,540 565 Accounts payable 2,883 2,838 Accrued liabilities 3,541 3,135 Accrued salaries, wages and commissions 802 969 Taxes on income 801 537 Total current liabilities 10,567 8,044 Long-term debt 2,129 2,217 Deferred tax liability 262 493 Employee related obligations 1,703 1,870 Other liabilities 1,799 1,631 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 (25) (30) Accumulated other comprehensive income (Note 8) (646) (530) Retained earnings 24,813 23,066 27,262 25,626 Less common stock held in treasury, at cost (136,380,000 & 72,627,000 shares) 5,371 1,393 Total shareowners' equity 21,891 24,233 Total liabilities and shareowners' equity $38,351 38,488 See Notes to Consolidated Financial Statements 4 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Quarter Ended June 30, Percent July 1, Percent 2002 to Sales 2001 to Sales Sales to customers (Note 6) $9,073 100.0 8,179 100.0 Cost of products sold 2,582 28.4 2,372 29.0 Gross Profit 6,491 71.6 5,807 71.0 Selling, marketing and administrative expenses 3,017 33.3 2,802 34.3 Research expense 932 10.3 829 10.1 Purchased in-process research and development 189 2.1 - - Interest income (74) (.8) (120) (1.4) Interest expense, net of portion capitalized 44 .5 50 .6 Other (income)expense, net (45) (.5) 117 1.4 4,063 44.9 3,678 45.0 Earnings before provision for taxes on income 2,428 26.7 2,129 26.0 Provision for taxes on income (Note 3) 774 8.5 647 7.9 NET EARNINGS $1,654 18.2 1,482 18.1 NET EARNINGS PER SHARE (Note 7) Basic $ .55 .49 Diluted $ .54 .48 CASH DIVIDENDS PER SHARE $ .205 .18 AVG. SHARES OUTSTANDING Basic 3,003.4 3,029.3 Diluted 3,069.3 3,110.5 See Notes to Consolidated Financial Statements 5 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Six Months June 30, Percent July 1, Percent 2002 to Sales 2001 to Sales Sales to customers (Note 6) $17,816 100.0 16,034 100.0 Cost of products sold 5,039 28.3 4,683 29.2 Gross Profit 12,777 71.7 11,351 70.8 Selling, marketing and administrative expenses 5,860 32.9 5,468 34.1 Research expense 1,763 9.9 1,588 9.9 Purchased in-process research and development 189 1.1 - - Interest income (150) (.8) (245) (1.5) Interest expense, net of portion capitalized 78 .4 83 .5 Other (income)expense, net (12) (.1) 111 .7 7,728 43.4 7,005 43.7 Earnings before provision for taxes on income 5,049 28.3 4,346 27.1 Provision for taxes on income (Note 3) 1,561 8.7 1,312 8.2 NET EARNINGS $ 3,488 19.6 3,034 18.9 NET EARNINGS PER SHARE (Note 7) Basic $ 1.15 1.00 Diluted $ 1.13 .98 CASH DIVIDENDS PER SHARE $ .385 .34 AVG. SHARES OUTSTANDING Basic 3,022.2 3,024.6 Diluted 3,086.9 3,106.3 See Notes to Consolidated Financial Statements 6 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Six Months June 30, July 1, 2002 2001 CASH FLOWS FROM OPERATING ACTIVITIES Net earnings $ 3,488 3,034 Adjustments to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 832 804 Purchased in-process R&D 189 - Accounts receivable reserves (36) 59 Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (549) (431) Increase in inventories (207) (125) Changes in other assets and liabilities (224) 585 NET CASH FLOWS FROM OPERATING ACTIVITIES 3,493 3,926 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (802) (571) Proceeds from the disposal of assets 128 53 Acquisition of businesses, net of cash acquired (466) (17) Purchases of investments (3,126) (4,430) Sales of investments 3,942 3,649 Other (213) (69) NET CASH USED BY INVESTING ACTIVITIES (537) (1,385) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareowners (1,163) (950) Repurchase of common stock (5,255) (629) Proceeds from short-term debt 2,189 187 Retirement of short-term debt (219) (938) Proceeds from long-term debt 20 10 Retirement of long-term debt (16) (20) Proceeds from the exercise of stock options 227 294 NET CASH USED BY FINANCING ACTIVITIES (4,217) (2,046) EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS 109 (51) (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS (1,152) 444 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 3,758 4,278 CASH AND CASH EQUIVALENTS, END OF PERIOD $

2,606 4,722 SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: ACQUISITION OF BUSINESSES Fair value of assets acquired $ 535 159 Fair value of liabilities assumed (69) (66) Net Cash Payment 466 93 Treasury stock issued at fair value - (76) Net cash paid for acquisitions $ 466 17 See Notes to Consolidated Financial Statements 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 30, 2001. The Company has adopted EITF Issue No. 01-09 "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products" effective December 31, 2001. All periods have been restated primarily to reclassify sales incentives and trade promotional allowances from expense to a reduction of sales. As such, sales for the fiscal six months of 2001 were reduced by $329 million. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair presentation of such statements. Certain other prior year amounts have been reclassified to conform with the current year presentation. NOTE 2 - FINANCIAL INSTRUMENTS Effective January 1, 2001, the Company adopted SFAS No. 133 requiring that all derivative instruments be recorded on the balance sheet at fair value. As of June 30, 2002 the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $22 million (after tax). Of this amount, the Company expects that the entire $22 million 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 its exposure to the variability in future cash flows for forecasted transactions is 18 months. For the fiscal quarter ended June 30, 2002 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the fiscal quarter ended June 30, 2002, the Company has recorded a net gain of $1 million (after tax) in the "other (income) expense, net" category of the consolidated statement of earnings, representing the impact of discontinuance of cash flow hedges because it is probable that the originally forecasted transactions will not occur by the end of the originally specified time period. Refer to Note 8 for disclosures of movements in Accumulated Other Comprehensive Income. NOTE 3 - INCOME TAXES The effective income tax rates for the first six months of fiscal year 2002 and 2001 are 30.9% and 30.2%, respectively, as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate is primarily the result of subsidiaries manufacturing in Ireland under an incentive tax rate effective through the year 2010 and domestic subsidiaries operating in Puerto Rico under a tax incentive grant expiring in 2014. 8 NOTE 4 - INVENTORIES (Dollars in Millions) June 30, 2002 Dec. 30, 2001 Raw materials and supplies $ 1,031 842 Goods in process 703 605 Finished goods 1,618 1,545 $ 3,352 2,992 NOTE 5 - INTANGIBLE ASSETS In accordance with SFAS No. 142, for all acquisitions completed after June 30, 2001 resulting in goodwill and/or intangible assets deemed to have indefinite lives, no amortization was recorded. Further, effective the beginning of fiscal year 2002 in accordance with SFAS No. 142, the Company discontinued the amortization relating to all existing goodwill and indefinite lived intangible assets. The effect of non-amortization of this goodwill and these intangible assets was $30 million after tax or $0.01 per diluted share for the second quarter of 2002 and $60 million after tax or $0.02 per diluted share for the six months ended June 30, 2002. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. SFAS No. 142 requires that goodwill and non-amortizable intangible assets will be assessed annually for impairment and the required initial assessment was completed at June 30, 2002 and no impairment was determined. The amortization expense of amortizable intangible assets for the fiscal six months ended June 30, 2002, is $188 million pre-tax and the estimated amortization expense for the full year 2002 and for each of the five succeeding years approximates $375 million pre tax, per year respectively. (Dollars in Millions) June 30, 2002 Goodwill-gross $ 5,317 Less accumulated amortization 656 Goodwill - net 4,661 Trademarks (non-amortizable)- gross 683 Less accumulated amortization 108 Trademarks (non-amortizable)- net 575 Patents 2,167 Less accumulated amortization 471 Patents - net 1,696 Other intangible - gross 3,027 Less accumulated amortization 694 Other intangibles - net 2,333 Total intangible assets - gross 11,194 Less accumulated amortization 1,929 Total intangibles - net $ 9,265 Goodwill as of June 30, 2002 as allocated by segment of business is as follows (Dollars in millions): Med. Dev Consumer Pharm & Diag Total Goodwill, net of accumulated amortization at December 30, 2001 845 232 3,494 4,571 Reclassification of intangibles, net of accumulated amortization - (109) - (109) Acquisitions - 150 50 200 Translation & Other (2) (2) 3 (1) Goodwill at June 30, 2002 843 271 3,547 4,661 9 NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Fiscal Second Quarter Percent 2002 2001 Change Consumer Domestic $ 907 807 12.4 International 742 723 2.6 1,649 1,530 7.8% Pharmaceutical Domestic $ 2,934 2,722 7.8 International 1,324 1,142 15.9 4,258 3,864 10.2% Med Dev & Diag Domestic $ 1,758 1,530 14.9 International 1,408 1,255 12.2 3,166 2,785 13.7% Domestic $ 5,599 5,059 10.7 International 3,474 3,120 11.3 Worldwide $ 9,073 8,179 10.9% Fiscal Six Months Percent 2002 2001 Change Consumer Domestic $ 1,807 1,703 6.1 International 1,446 1,458 (.8) 3,253 3,161 2.9% Pharmaceutical Domestic $ 5,892 5,078 16.0 International 2,547 2,275 12.0 8,439 7,353 14.8% Med Dev & Diag Domestic $ 3,421 2,993 14.3 International 2,703 2,527 7.0 6,124 5,520 10.9% Domestic $11,120 9,774 13.8 International 6,696 6,260 7.0 Worldwide $ 17,816 16,034 11.1% 10 OPERATING PROFIT BY SEGMENT OF BUSINESS Fiscal Second Quarter Percent 2002 2001 Change Consumer $ 339 253 34.0 Pharmaceutical 1,577 1,331 18.5 Med. Dev. & Diag. 564 522 8.0 Segments total 2,480 2,106 17.8 Expenses not allocated to segments (52) 23 Worldwide total $ 2,428 2,129 14.0% Fiscal Six Months Percent 2002 2001 Change Consumer $ 654 539 21.3 Pharmaceutical 3,241 2,697 20.2 Med. Dev. & Diag. 1,226 1,075 14.0 Segments total 5,121 4,311 18.8 Expenses not allocated to segments (72) 35 Worldwide total $ 5,049 4,346 16.2% SALES BY GEOGRAPHIC AREA Fiscal Second Quarter Percent 2002 2001 Change U.S. $ 5,599 5,059 10.7 Europe 1,923 1,689 13.9 Western Hemisphere Excluding U.S. 521 522 (.2) Asia-Pacific, Africa 1,030 909 13.3 Total $ 9,073 8,179 10.9% Fiscal Six Months Percent 2002 2001 Change U.S. $ 11,120 9,774 13.8 Europe 3,687 3,386 8.9 Western Hemisphere Excluding U.S. 1,002 1,028 (2.5) Asia-Pacific, Africa 2,007 1,846 8.7 Total $ 17,816 16,034 11.1% 11 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 three and six months ended June 30, 2002 and July 1, 2001. 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 Second Quarter June 30, July 1, 2002 2001 Basic net earnings per share $ .55 .49 Average shares outstanding - basic 3,003.4 3,029.3 Potential shares exercisable under stock option plans 199.6 121.9 Less: shares which could be repurchased under treasury stock method (148.1) (76.8) Convertible debt shares 14.4 36.1 Adjusted average shares outstanding - diluted 3,069.3 3,110.5 Diluted earnings per share $ .54 .48 (Shares in Millions) Fiscal Six Months June 30, July 1, 2002 2001 Basic net earnings per share $ 1.15 1.00 Average

shares outstanding - basic 3,022.2 3,024.6 Potential shares exercisable under stock option plans 199.5 123.3 Less: shares which could be repurchased under treasury stock method (149.2) (77.7) Convertible debt shares 14.4 36.1 Adjusted average shares outstanding - diluted 3,086.9 3,106.3 Diluted earnings per share $ 1.13 .98 Diluted earnings per share calculation includes the dilution effect of convertible debt: a decrease in interest expense of $7 million and $15 million after tax for the fiscal six month period ended June 30, 2002 and July 1, 2001, respectively. The amount of the decrease in interest expense was $3 million and $7 million after tax for the fiscal quarter ended June 30, 2002 and July 1, 2001, respectively. Diluted earnings per share excludes 0.3 million and 60 million shares of options for the fiscal six months ended June 30, 2002 and July 1, 2001, respectively as the exercise price of these options was greater than their average market value, resulting in an anti- dilutive effect on diluted earnings per share. The shares of options excluded from the diluted earnings per share calculations for the fiscal quarter ended, June 30, 2002 and July 1, 2001 were 0.3 million and 61 million shares of options, respectively. 12 NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the fiscal six months ended June 30, 2002 is $3,366 million, compared with $2,931 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 30, 2001 $ (697) 84 (15) 98 (530) 2002 Six Months changes Net change associated to current period hedging transactions - - - (285) Net amount reclassed to net earnings - - - 165* Net Six Months changes 71 (67) - (120) (116) June 30, 2002 $ (626) 17 (15) (22) (646) 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 9 - MERGERS & ACQUISITIONS On March 12, 2002, Johnson & Johnson acquired Micro Typing Systems, Inc. The transaction is valued at approximately $30 million in cash. Micro Typing Systems manufactures a line of reagents and supplies distributed instruments known as the ID-MICRO TYPING SYSTEM (ID-MTS). ID-MTS is used in hospitals and donor centers to help to ensure safe and effective blood transfusions. On April 18, 2002, Johnson & Johnson announced the completion of the acquisition of Tibotec-Virco NV, a privately held biopharmaceutical company focused on developing anti-viral treatments, with several promising compounds in development for the treatment of infectious diseases including HIV. The transaction is valued at approximately $320 million in cash and debt. Johnson & Johnson incurred an after-tax charge of approximately $150 million, or $0.05 per share, in the second quarter associated with in-process research and development costs relating to this acquisition. On June 27, 2002, Johnson & Johnson acquired Obtech Medical AG, a privately held Swiss company that markets an adjustable gastric band. The transaction is valued at approximately $110 million in cash. Johnson & Johnson incurred an after-tax charge of approximately $39 million, or $0.01 per share, in the second quarter associated with in-process research and development costs relating to this acquisition. The adjustable gastric band is used in Europe during laparoscopic surgery for the treatment of morbid obesity. NOTE 10 - 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. 13 NOTE 11 - NEW ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company is currently assessing the impact of this new standard that will become effective for fiscal years beginning after June 15, 2002. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which was effective for the first quarter of 2002. The Company's adoption of SFAS No. 144 did not have a material effect on the Company's results of operations, cash flows or financial position. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SALES AND EARNINGS Consolidated sales for the fiscal first six months of 2002 were $17.82 billion, which exceeded sales of $16.03 billion for the fiscal first six months of 2001 by 11.1%. Excluding the impact of the stronger value of the dollar, worldwide sales increased 12.0%. Consolidated net earnings for the first six months of fiscal year 2002 were $3.49 billion, compared with $3.03 billion for the same period a year ago, an increase of 15.0%. Earnings for the fiscal six months of 2002 included special charges of after-tax in-process research and development (IPR&D) costs associated with the acquisitions of Tibotec-Virco and Obtech Medical AG which in total were $189 million. Other income and expense items for the period included the gain on the sale of ORTHO PREFEST, losses on certain equity securities, other corporate expenses and litigation accruals. In 2001, other income and expense included special charges of $109 million pre-tax ($102 million after tax) related to the restructuring and deal costs for the ALZA merger and the amortization of goodwill, that was discontinued in 2002 in connection with the adoption of SFAS No. 142. Worldwide basic net earnings per share for the fiscal six months of 2002 were $1.15 compared with the $1.00 for the same period in 2001, an increase of 15.0%. Excluding special charges relating to IPR&D in 2002 and the ALZA restructuring and deal costs in 2001, basic net earnings per share were $1.22 an increase of 17.3% compared to $1.04 for the same period in 2001. Worldwide diluted net earnings per share for the fiscal six months of 2002 were $1.13, compared with $.98 for the same period in 2001, an increase of 15.3%. Excluding special charges for IPR&D and ALZA merger costs as noted above, diluted earnings per share were $1.19 compared with $1.01 for the same period in 2001, an increase of 17.8%. Consolidated sales for the fiscal second quarter of 2002 were $9.07 billion, an increase of 10.9% over 2001 fiscal quarter sales of $8.18 billion. Consolidated earnings for the fiscal second quarter of 2002 were $1.65 billion, compared with $1.48 billion for the same period a year ago, an increase of 11.6%. Worldwide basic net earnings per share for the fiscal second quarter of 2002 rose 12.2% to $.55, compared with $.49 in the 2001 period. Excluding special charges for IPR&D and ALZA merger costs as noted above, worldwide basic net earnings per share for the fiscal second quarter were $.61 compared with $.52 for the same period a year ago, an increase of 17.3%. Worldwide diluted net earnings per share for the fiscal second quarter of 2002 rose 12.5% to $.54 compared with $.48 in 2001. Excluding special charges for IPR&D and ALZA merger costs as noted above, worldwide diluted net earnings per share for the fiscal second quarter were $.60, compared to $.51 for the same period a year ago, an increase of 17.6%. Domestic sales for the fiscal six months of 2002 were $11.12 billion, an increase of 13.8% over 2001 domestic sales of $9.77 billion for the same period a year ago. Sales of international subsidiaries were $6.70 billion for the fiscal six months of 2002 compared with $6.26 billion for the same period a year ago, an increase of 7.0%. Excluding the impact of the stronger value of the dollar, international sales increased by 9.4%. 14 Worldwide Consumer sales for the fiscal second quarter of 2002 were $1.65 billion, an increase of 7.8% versus the same period a year ago. Domestic sales increased by 12.4% while international sales gains were 2.6%. Consumer sales achieved strong growth in skin care products (NEUTROGENA, CLEAN & CLEAR and AVEEN0), McNeil Consumer's over-the-counter analgesic, upper respiratory and anti- diarrheal products and McNeil Nutritional's SPLENDA sweetener products. Worldwide Pharmaceutical sales of $4.26

billion for the fiscal quarter resulted in an increase of 10.2% over the same period in 2001. Domestic and international sales increased 7.8% and 15.9%, respectively. Sales growth reflects the strong performance of PROCRIT/EPREX, for the treatment of anemia; DURAGESIC, a transdermal patch for chronic pain; REMICADE, a treatment for rheumatoid arthritis and Crohn's disease; TOPAMAX, an antiepileptic, and ACIPHEX/PARIET, a proton pump inhibitor for gastrointestinal disorders. During the quarter, the Company announced the completion of the acquisition of Tibotec-Virco NV, a privately-held biopharmaceutical company focused on developing anti-viral treatments. The acquisition, valued at approximately $320 million in cash and debt, will expand drug discovery and development capabilities, particularly in the field of anti-viral therapies. Johnson & Johnson incurred an after-tax charge of approximately $150 million, or $0.05 per share, in the second quarter associated with in-process research and development costs relating to this acquisition. Also in the quarter, the Company received regulatory approval in the United Kingdom (UK) for DUROGESIC for the indication of chronic intractable pain. Previously available only to treat cancer pain patients, DUROGESIC is the UK's first skin patch to treat strong pain. The Company also received U.S. Food and Drug Administration (FDA) approval for a synthetic oral solution of REMINYL for the treatment of Alzheimer's disease. In July, the Company received U.S. Food and Drug Administration (FDA) approval for an additional indication for REMICADE in Crohn's disease to include maintenance therapy. Previously the drug was approved only for a one-time use to reduce signs and symptoms of Crohn's disease. REMICADE can now be used to induce and maintain clinical remission in patients with moderate to severe Crohn's disease on an on-going basis. REMICADE is the only biologic approved to provide long-term, remission-level control of the debilitating symptoms of Crohn's disease, a gastrointestinal disorder. Additionally during the quarter, Centocor, Inc., received FDA approval for its bulk manufacturing facility in Malvern PA., for the production of REMICADE. This facility supplements the existing manufacturing plant in Leiden, the Netherlands. Worldwide sales for the Medical Devices and Diagnostics segment were $3.17 billion in the second quarter of 2002, which represented an increase of 13.7% as compared to the same period in 2001. Domestic and international sales increased 14.9% and 12.2%, respectively. Strong sales growth from Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal products; Ethicon's wound closure, surgical sports medicine and women's health products; LifeScan's blood glucose monitoring products; Ethicon Endo-Surgery's minimally invasive surgical products and Vistakon's disposable contact lenses were the primary contributors to the Medical Devices and Diagnostics segment growth. During the quarter, Ethicon Endo-Surgery, Inc., acquired Obtech Medical AG, a privately held Swiss company that markets an adjustable gastric band, used in Europe during laparoscopic surgery for the treatment of morbid obesity. The transaction is valued at approximately $110 million in cash. Johnson & Johnson incurred an after-tax charge of approximately $39 million, or $0.01 per share, in the second quarter associated with in-process research and development costs relating to this acquisition. Additionally, Ortho Clinical Diagnostics acquired Micro Typing Systems, Inc., a manufacturer of a line of reagents and supplies distributed instruments known as the ID-MICRO TYPING SYSTEM (ID-MTS). ID-MTS is used in hospitals and donor centers to help ensure safe and effective blood transfusions. The transaction is valued at approximately $30 million in cash. 15 LIQUIDITY AND CAPITAL RESOURCES Cash generated from operations and selected borrowings provides the major source of funds for the growth of the business, including working capital, additions to property, plant and equipment, acquisitions and stock repurchase programs. Cash and current marketable securities totaled $6.9 billion at June 30, 2002 as compared with $8.0 billion at the end of 2001. For the year ended December 30, 2001, there was a change in the timing of salary increases and bonuses to employees from December 2001 to February 2002. This change was enacted to have 2001 results finalized in order to align compensation and performance. The result of this change was a decrease of approximately $450 million in cash flows from operating activities due to the payment in 2002. Total borrowings increased during the fiscal six months of 2002 from $2.8 billion to $4.7 billion which related primarily to the stock repurchase program described below. Net cash (cash and current marketable securities net of debt) as of June 30, 2002 was $2.2 billion, compared with $5.2 billion at the end of 2001. Total debt represented 17.6% of total capital (shareowners' equity and total debt) at fiscal quarter end compared with 10.3% at the end of 2001. Additions to property, plant and equipment were $802 million for the fiscal six months of 2002, compared with $571 million for the same period in 2001. On February 13, 2002, the Company announced a stock repurchase program of up to $5 billion with no time limit on this program. This program was completed on August 1, 2002, with 83,612,822 shares repurchased for an aggregate price of $5.0 billion. In association with the stock repurchase program, the Company issued approximately $2 billion of commercial paper during the second quarter of 2002. On July 15, 2002, the Board of Directors approved a regular quarterly dividend of $.205 per share, payable on September 10, 2002 to shareowners of record as of August 20, 2002. 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 30, 2001 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. 16 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 30, 2001. 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 Pharmaceutica product PROPULSID, which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about

those events, numerous lawsuits have been filed against Janssen, which is a wholly owned subsidiary of the Company, and the Company regarding PROPULSID in state and federal courts across the country. There are approximately 950 such cases currently pending, including the claims of approximately 3,500 plaintiffs. Of those plaintiffs 417 are alleged to have died from the use of PROPULSID. These actions seek substantial compensatory and punitive damages and accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of over-promotion. In addition, Janssen and the Company have entered into agreements with various plaintiffs' counsel halting the running of the statutes of limitations with respect to the potential claims of a significant number of individuals while those attorneys evaluate whether or not to sue Janssen and the Company on their behalf. In September 2001, the first ten plaintiffs in the Rankin case, which comprises the claims of 155 PROPULSID plaintiffs, went to trial in state court in Claiborne County, Mississippi. The jury returned compensatory damage verdicts for each plaintiff in the amount of $10 million, for a total of $100 million. The trial judge thereafter dismissed the claims of punitive damages. On March 4, 2002, the trial judge reduced these verdicts to a total of $48 million, and denied the motions of Janssen and the Company for a new trial. Janssen and the Company believe these verdicts, even as reduced, are insupportable and have appealed. In the view of Janssen and the Company, the proof at trial demonstrated that none of these plaintiffs was injured by PROPULSID and that no basis for liability existed. In April 2002, a state court judge in New Jersey denied plaintiffs' motion to certify a national class of PROPULSID users for purposes of medical monitoring and refund of the costs of purchasing PROPULSID. In June 2002 the federal judge presiding over the PROPULSID Multi-District Litigation in New Orleans, Louisiana similarly denied plaintiffs' motion there to certify a national class of PROPULSID users. Plaintiffs in both venues are pursuing or preserving their rights to appeal those rulings and other complaints filed against Janssen and the Company including class action allegations which could be the basis for future attempts to have classes certified. 17 With respect to all the various PROPULSID actions against them, Janssen and the Company dispute the claims in those lawsuits and are vigorously defending against them except where, in their judgment, settlement is appropriate. Janssen and the Company believe they have adequate self-insurance reserves and commercially available excess insurance with respect to these cases. 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 PROCRIT, in which Amgen seeks to terminate Ortho Biotech's U.S. license rights and collect substantial damages based on alleged deliberate PROCRIT 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 PROCRIT are material to the Company; thus, an unfavorable outcome on the termination issue could have a material adverse effect on the Company's consolidated results of operations, cash flows and financial position. The arbitration hearings have concluded and final arguments will be held in the fall of 2002 following the submission of post-hearing briefs by both sides. In patent infringement actions tried in Delaware Federal Court in late 2000, 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. In March and May 2002, the district judge issued post trial rulings which confirmed the validity and enforceability of the main Cordis stent patent claims but found certain other Cordis patents unenforceable. Further, the district judge granted Boston Scientific a new trial on liability and damages and vacated the verdict against Medtronic AVE on legal grounds. Appeals to the Federal Circuit Court of Appeals will follow. On July 19 2002, the New York Times reported on an investigation by the U.S. Food and Drug Administration's Office of Criminal Investigation in Puerto Rico related to allegations made by a former Ortho Biologics employee about supposed improprieties in completing records concerning equipment and training at the plant where bulk EPO sold by Ortho outside the U.S. is produced. The employee in question worked in the boiler and utility room of the plant and not in the manufacturing area. The New York Times reporter suggested the allegations of the former employee, if believed, could lead to the conclusion that the integrity of the EPO manufactured at the plant was compromised. However, the Company's review identified no evidence that any of the allegations could be confirmed or connected to any question of product integrity. The Company believes that the results of the government investigation will not have a material adverse effect on its results of operations, cash flows or financial position. 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. 18 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 25, 2002. (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 2,571,460,936 18,829,880 J. G. Cullen 2,556,838,414 33,452,402 R. J. Darretta 2,572,328,587 17,962,229 M. J. Folkman 2,571,681,532 18,609,284 A. D. Jordan 2,570,636,443 19,654,373 A. G. Langbo 2,556,797,906 33,492,910 J. T. Lenehan 2,572,534,911 17,755,905 L. F. Mullin 2,556,695,126 33,595,690 D. Satcher 2,573,109,231 17,181,585 H. B. Schacht 2,553.906,430 36,384,386 M. F. Singer 2,570,769,358 19,521,458 J. W. Snow 2,571,678,651 18,512,165 W. C. Weldon 2,572,468,676 17,822,140 R. N. Wilson 2,572,162,175 18,128,641 2. Approval of Appointment of PricewaterhouseCoopers LLP: For 2,480,749,005 Against 93,927,126 Abstain 15,614,685 (c) A shareowner proposal on pharmaceutical pricing was defeated. The vote on this proposal was as follows: For 60,717,813 Against 1,972,634,323 Abstain 85,910,449 Item 5 - EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibit None (b) Reports on Form 8-K A Report on Form 8-K was filed on April 16, 2002 and revised by amendment on April 30, 2002, which included certain unaudited financial information related to Johnson & Johnson and subsidiaries for the 11-year period ended December 30, 2001. This financial data gives retroactive effect for Johnson & Johnson's adoption of Emerging Issues Task Force ("EITF") Issue No. 01-09, "Accounting for Consideration given by a Vendor to a Customer or a Reseller of the Vendor's Products." Filed in this form 8-K are the unaudited consolidated statements of earnings of Johnson & Johnson and subsidiaries for the 11-year period ended December 30, 2001, together with the related data for segments of business for the three year period ended December 30, 2001. Also filed in the 8-K are selected unaudited quarterly financial data for fiscal year 2001. 19 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 9, 2002 By /s/ R. J. DARRETTA R. J. DARRETTA Executive Vice President, Finance and

Information Management (Chief Financial Officer) Date: August 9, 2002 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Chief Accounting Officer) 20 CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 The undersigned, William C. Weldon, the Chief Executive Officer of Johnson & Johnson, a New Jersey corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that: (1) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002 (the "Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. /s/ William C. Weldon William C. Weldon Chief Executive Officer Dated: August 9, 2002 This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. 21 CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 The undersigned, Robert J. Darretta, the Chief Financial Officer of Johnson & Johnson, a New Jersey corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that: (1) the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002 (the "Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. /s/ Robert J. Darretta Robert J. Darretta Chief Financial Officer Dated: August 9, 2002 This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. 22