10-Q 1 tenqsecondqtr.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 29, 2003 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 25, 2003, 2,968,017,528 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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Controls and Procedures 30 Part II - Other Information Item 1 - Legal Proceedings 31 Item 4 - Submission of Matter to a Vote of Security Holders 35 Item 5 - Other Items 35 Item 6 - Exhibits and Reports on Form 8-K 36 Signatures 37 -2- PART I - FINANCIAL INFORMATION ITEM 1 - FINANCIAL STATEMENTS JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) ASSETS June 29, December 29, 2003 2002 Current Assets: Cash and cash equivalents $ 2,968 2,894 Marketable securities 4,894 4,581 Accounts receivable, trade, less allowances for doubtful accounts $188(2002 - $191) 6,426 5,399 Inventories (Note 4) 3,680 3,303 Deferred taxes on income 1,453 1,419 Prepaid expenses and other receivables 1,954 1,670 Total Current Assets 21,375 19,266 Marketable securities, non-current 124 121 Property, plant and equipment, at cost 15,565 14,314 Less accumulated depreciation 6,501 5,604 9,064 8,710 Intangible assets, gross (Note 5) 14,029 11,355 Less accumulated amortization 2,319 2,109 Intangible assets, net 11,710 9,246 Deferred taxes on income 381 236 Other assets 2,999 2,977 Total Assets $45,653 40,556 See Notes to Consolidated Financial Statements -3- JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) LIABILITIES AND SHAREHOLDERS' EQUITY June 29, December 29, 2003 2002 Current Liabilities: Loans and notes payable $ 3,254 2,117 Accounts payable 3,589 3,621 Accrued liabilities 4,494 3,820 Accrued salaries, wages and commissions 838 1,181 Taxes on income 661 710 Total Current Liabilities 12,836 11,449 Long-term debt 3,164 2,022 Deferred tax liability 1,208 643 Employee related obligations 2,248 1,967 Other liabilities 1,760 1,778 Total Liabilities 21,216 17,859 Shareholders' Equity: Preferred stock - without par value (authorized and unissued 2,000,000 shares) - - Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,548 shares) 3,120 3,120 Note receivable from employee stock ownership plan (18) (25) Accumulated other comprehensive income (Note 8) (690) (842) Retained earnings 28,200 26,571 30,612 28,824 Less common stock held in treasury, at cost (150,951,000 & 151,547,000 shares) 6,175 6,127 Total Shareholders' Equity 24,437 22,697 Total Liabilities and Shareholders' Equity $45,653 40,556 See Notes to Consolidated Financial Statements -4- JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; Dollars & Shares in Millions Except per Share Figures) Fiscal Second Quarter Ended June 29, Percent June 30, Percent 2003 to Sales 2002 to Sales Sales to customers (Note 6) $10,332 100.0 9,073 100.0 Cost of products sold 2,966 28.7 2,582 28.4 Gross profit 7,366 71.3 6,491 71.6 Selling, marketing and administrative expenses 3,396 32.9 3,017 33.3 Research and development 1,082 10.5 932 10.3 Purchased in-process research and development 900 8.7 189 2.1 Interest income (43) (.4) (74) (.8) Interest expense, net of portion capitalized 50 .4 44 .5 Other (income)expense, net (75) (.7) (45) (.5) 5,310 51.4 4,063 44.9 Earnings before provision for taxes on income 2,056 19.9 2,428 26.7 Provision for taxes on income (Note 3) 846 8.2 774 8.5 NET EARNINGS $1,210 11.7 1,654 18.2 NET EARNINGS PER SHARE (Note 7) Basic $ .41 .55 Diluted $ .40 .54 CASH DIVIDENDS PER SHARE $ .24 .205 AVG. SHARES OUTSTANDING Basic 2,967.7 3,003.4 Diluted 3,015.9 3,069.3 See Notes to Consolidated Financial Statements -5- JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; Dollars & Shares in Millions Except per Share Figures) Fiscal Six Months Ended June 29, Percent June 30, Percent 2003 to Sales 2002 to Sales Sales to customers (Note 6) $20,154 100.0 17,816 100.0 Cost of products sold 5,688 28.2 5,039 28.3 Gross profit 14,466 71.8 12,777 71.7 Selling, marketing and administrative expenses 6,649 33.0 5,860 32.9 Research and development 2,018 10.0 1,763 9.9 Purchased in-process research and development 918 4.6 189 1.1 Interest income (81) (.4) (150) (.8) Interest expense, net of portion capitalized 88 .4 78 .4 Other(income)expense, net (112) (.5) (12) (.1) 9,480 47.1 7,728 43.4 Earnings before provision for taxes on income 4,986 24.7 5,049 28.3 Provision for taxes on income (Note 3) 1,705 8.4 1,561 8.7 NET EARNINGS $3,281 16.3 3,488 19.6 NET EARNINGS PER SHARE (Note 7) Basic $ 1.11 1.15 Diluted $ 1.09 1.13 CASH DIVIDENDS PER SHARE $ .445 .385 AVG. SHARES OUTSTANDING Basic 2,967.9 3,022.2 Diluted 3,015.2 3,086.9 See Notes to Consolidated Financial Statements -6- JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Six Months Ended June 29, June 30, 2003 2002 Cash Flows from Operations Net earnings $ 3,281 $ 3,488 Adj. to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 868 832 Purchased in-process research and development 918 189 Accounts receivable reserves (9) (36) Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (756) (549) Increase in inventories (186) (207) Changes in other assets and liabilities (423) (224) Net Cash Flows from Operating Activities 3,693 3,493 Cash Flows from Investing Activities Additions to property, plant and equipment (914) (802) Proceeds from the disposal of assets 333 128 Acquisition of businesses, net of cash acquired (2,781) (466) Purchases of investments (2,868) (3,126) Sales of investments 2,580 3,942 Other (96) (213) Net Cash Used by Investing Activities (3,746) (537) Cash Flows from Financing Activities Dividends to shareholders (1,321) (1,163) Repurchase of common stock (842) (5,255) Proceeds from short-term debt 1,441 2,189 Retirement of short-term debt (436) (219) Proceeds from long-term debt 1,009 20 Retirement of long-term debt (43) (16) Proceeds from the exercise of stock options 195 227 Net Cash Provided/(Used) by Financing Activities 3 (4,127) Effect of Exchange Rate Changes on Cash and Cash Equivalents 124 109 Increase/(Decrease) in Cash and Cash Equivalents 74 (1,152) Cash and Cash Equivalents, Beginning of Period 2,894 3,758 Cash and Cash Equivalents, End of Period $ 2,968 $ 2,606 Acquisition of Businesses Fair value of assets acquired 3,096 535 Fair value of

liabilities assumed (315) (69) Net cash paid for acquisitions $ 2,781 $ 466 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 29, 2002. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair presentation of such statements. NOTE 2 - FINANCIAL INSTRUMENTS As of June 29, 2003 the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $158 million after tax. For additional information, see Note 8. The Company expects that $155 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 is 18 months. For the first fiscal six months ended June 29, 2003 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the first fiscal six months ended June 29, 2003 the Company recorded a net gain of $9 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 fiscal six months of 2003 and 2002 were 34.2% and 30.9%, respectively, as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate was 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. The increase in the effective tax rate for the first fiscal six months of 2003 compared with the same period a year ago is due to acquisition related In-process Research and Development charges that are non-deductible for tax purposes. For further details on acquisitions, see Note 9. NOTE 4 - INVENTORIES (Dollars in Millions) June 29, 2003 Dec. 29, 2002 Raw materials and supplies $ 931 835 Goods in process 894 803 Finished goods 1,855 1,665 $ 3,680 3,303 -8- NOTE 5 - INTANGIBLE ASSETS 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. Intangible assets that have finite useful lives continued to be amortized over their useful lives. SFAS No. 142 requires that goodwill and non-amortizable intangible assets be assessed annually for impairment. The required initial assessment was completed at June 30, 2002 and no impairment was determined. This initial impairment assessment was updated in the fourth quarter of 2002 and no impairment was determined. Future impairment tests will be performed in the fourth quarter, annually. (Dollars in Millions) June 29, December 29, 2003 2002 Goodwill-gross $ 6,040 $ 5,320 Less accumulated amortization 681 667 Goodwill - net 5,359 4,653 Trademarks (non-amortizable)- gross 1,086 1,021 Less accumulated amortization 133 138 Trademarks (non-amortizable)- net 953 883 Patents and trademarks 3,713 2,016 Less accumulated amortization 621 534 Patents and trademarks - net 3,092 1,482 Other amortizable intangibles - gross 3,190 2,998 Less accumulated amortization 884 770 Other intangibles - net 2,306 2,228 Total intangible assets - gross 14,029 11,355 Less accumulated amortization 2,319 2,109 Total intangibles - net $ 11,710 $ 9,246 Goodwill as of June 29, 2003 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 29, 2002 $ 821 244 3,588 4,653 Acquisitions - 528 118 646 Translation & Other 36 18 6 60 Goodwill at June 29, 2003 $ 857 790 3,712 5,359 The weighted average amortization periods for patents and trademarks and other intangible assets were 16 years and 18 years, respectively. The amortization expense of amortizable intangible assets for the first fiscal six months of 2003 was $162 million before tax and the estimated amortization expense for the five succeeding years approximates $551 million before tax, per year, respectively. -9- NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Fiscal Second Quarter Amount Percent 2003 2002 Change Change Consumer Domestic $ 931 907 24 2.6% International 888 742 146 19.7 1,819 1,649 170 10.3 Pharmaceutical Domestic $ 3,278 2,934 344 11.7 International 1,606 1,324 282 21.3 4,884 4,258 626 14.7 Med Dev & Diag Domestic $ 1,903 1,758 145 8.3 International 1,726 1,408 318 22.6 3,629 3,166 463 14.6 Total Domestic $ 6,112 5,599 513 9.2 International 4,220 3,474 746 21.5 Worldwide $10,332 9,073 1,259 13.9% % OF TOTAL COMPANY Consumer 17.6% 18.2% Pharmaceutical 47.3 46.9 Med. Dev. & Diag. 35.1 34.9 Total 100.0% 100.0% -10- (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Fiscal Six Months Amount Percent 2003 2002 Change Change Consumer Domestic $ 1,931 1,807 124 6.8% International 1,679 1,446 233 16.2 3,610 3,253 357 11.0 Pharmaceutical Domestic $ 6,541 5,892 649 11.0 International 3,009 2,547 462 18.1 9,550 8,439 1,111 13.2 Med Dev & Diag Domestic $ 3,652 3,421 231 6.8 International 3,342 2,703 639 23.6 6,994 6,124 870 14.2 Total Domestic $12,124 11,120 1,004 9.0 International 8,030 6,696 1,334 19.9 Worldwide $20,154 17,816 2,338 13.1% % OF TOTAL COMPANY Consumer 17.9% 18.2% Pharmaceutical 47.4 47.4 Med. Dev. & Diag. 34.7 34.4 Total 100.0% 100.0% -11- OPERATING PROFIT BY SEGMENT OF BUSINESS Fiscal Second Quarter Percent 2003 2002 Change Consumer $ 372 339 9.7% Pharmaceutical(1) 1,091 1,577 (30.8) Med. Dev. & Diag.(2) 671 564 19.0 Segments total 2,134 2,480 (14.0) Expenses not allocated to segments (78) (52) - Worldwide total $ 2,056 2,428 (15.3)% Fiscal Six Months Percent 2003 2002 Change Consumer $ 784 654 19.9% Pharmaceutical(3) 2,951 3,241 (8.9) Med. Dev. & Diag.(4) 1,401 1,226 14.2 Segments total 5,136 5,121 .3 Expenses not allocated to segments (150) (72) - Worldwide total $ 4,986 5,049 (1.3)% (1) Includes $730 million and $150 million of In-process Research and Development (IPR&D) charges related to acquisitions for the fiscal second quarter of 2003 and 2002, respectively. (2) Includes $170 million and $39 million of IPR&D charges related to acquisitions for the fiscal second quarter of 2003 and 2002, respectively. (3) Includes $737 million and $150 million of IPR&D charges related to acquisitions for the first fiscal six months of 2003 and 2002, respectively. (4) Includes $181 million and $39 million of IPR&D charges related to acquisitions for the first fiscal six months of 2003 and 2002, respectively. -12- SALES BY GEOGRAPHIC AREA Fiscal Second Quarter Percent 2003 2002 Change U.S. $ 6,112 5,599 9.2% Europe 2,451 1,923 27.4 Western Hemisphere Excluding U.S. 555 521 6.5 Asia-Pacific, Africa 1,214 1,030 17.9 International Total 4,220 3,474 21.5 Worldwide Total $ 10,332 9,073 13.9% Fiscal Six Months Percent 2003 2002 Change U.S. $ 12,124 11,120 9.0% Europe 4,669 3,687 26.6 Western Hemisphere Excluding U.S. 1,027 1,002 2.5 Asia-Pacific, Africa 2,334 2,007 16.3 International Total 8,030 6,696 19.9 Worldwide Total $ 20,154 17,816 13.1% -13- NOTE 7 - EARNINGS PER SHARE The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal second quarters ended June 29, 2003 and June 30, 2002. (Shares in Millions) Fiscal Second Quarter Ended June 29, June 30, 2003 2002 Basic net earnings per share $ .41 .55 Average shares outstanding - basic 2,967.7 3,003.4 Potential shares exercisable under

stock option plans 177.9 199.6 Less: shares which could be repurchased under treasury stock method (144.6) (148.1) Convertible debt shares 14.9 14.4 Adjusted average shares outstanding - diluted 3,015.9 3,069.3 Diluted earnings per share $ .40 .54 Diluted earnings per share calculation included the dilution effect of convertible debt that was offset by the related decrease in interest expense of $3 million after tax each for the fiscal second quarter ended June 29, 2003 and June 30, 2002, respectively. Diluted earnings per share excluded 46.4 million and 0.3 million shares related to options for the fiscal second quarter ended June 29, 2003 and June 30, 2002, respectively as the exercise price per share of these options was greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share. The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal six months ended June 29, 2003 and June 30, 2002. (Shares in Millions) Fiscal Six Months Ended June 29, June 30, 2003 2002 Basic net earnings per share $ 1.11 1.15 Average shares outstanding - basic 2,967.9 3,022.2 Potential shares exercisable under stock option plans 177.9 199.5 Less: shares which could be repurchased under treasury stock method (145.5) (149.2) Convertible debt shares 14.9 14.4 Adjusted average shares outstanding - diluted 3,015.2 3,086.9 Diluted earnings per share $ 1.09 1.13 Diluted earnings per share calculation included the dilution effect of convertible debt that was offset by the related decrease in interest expense of $7 million after tax each for the first fiscal six months ended June 29, 2003 and June 30, 2002, respectively. Diluted earnings per share excluded 46.3 million and 0.3 million shares related to options for the first fiscal six months ended June 29, 2003 and June 30, 2002, respectively as the exercise price per share of these options was greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share. -14- NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the first fiscal six months ended June 29, 2003 was $3,433 million, compared with $3,366 million for the same period a year ago. Total comprehensive income included net earnings, net unrealized currency gains and losses on translation, net unrealized gains and losses on available for sale securities, 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 29, 2002 $ (707) (2) (33) (100) (842) 2003 Six Months Gains/(Losses) Net change associated to current period hedging transactions - - - (224) Net amount reclassed to net earnings - - - 166* Net Six Months Gains/(Losses) 193 17 - (58) 152 June 29, 2003 $ (514) 15 (33) (158) (690) 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. -15- NOTE 9 - MERGERS & ACQUISITIONS On January 29, 2003, Johnson & Johnson acquired certain assets of Orquest, Inc., a privately held biotechnology company focused on developing biologically based implants for orthopedic and spine surgery. Orquest's principal product, HEALOST Bone Graft Substitute, is designed to reduce the time and pain associated with standard bone graft harvesting and represents a therapeutic advance for patients requiring bone graft material for spine fusion or other surgery. On February 10, 2003, Johnson & Johnson acquired OraPharma, Inc., a specialty pharmaceutical company focused on the development and commercialization of unique therapeutics. OraPharma's initial product, ARESTINT, is the first locally administered, time-released antibiotic encapsulated in microspheres that effectively controls the germs that can cause periodontal disease. The transaction was valued at approximately $85 million, net of cash. The Company incurred a charge for In- process Research and Development (IPR&D) of approximately $11 million before tax and $8 million after tax. On March 28, 2003, Johnson & Johnson acquired 3-Dimensional Pharmaceuticals, Inc., a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for the treatment of cardiovascular diseases, oncology and inflammation. The transaction was valued at approximately $88 million, net of cash. The Company incurred an IPR&D charge of approximately $7 million before and after tax. On April 17, 2003, Johnson & Johnson acquired the CORTAIDr brand business, the #3 brand in the anti-itch treatment segment of the first aid category. The transaction was valued at approximately $37 million. On May 9, 2003, Johnson & Johnson acquired Inscope, an intraluminal multiple clip applier technology. This transaction was valued at $26 million. On April 29, 2003, Johnson & Johnson acquired Scios Inc., a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto- immune diseases. Scios was acquired to strengthen the Company's business in key therapeutic areas and technology platforms. Scios' product NATRECORr is a novel agent approved for congestive heart failure and has several significant advantages over existing therapies. The transaction was valued at approximately $2.1 billion, net of cash, and the Company incurred a charge for IPR&D of $730 million before and after tax. On a preliminary basis, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $440 million and was allocated to goodwill. The Company expects that substantially all of the amount allocated to goodwill will not be deductible for tax purposes. On June 3, 2003, Johnson & Johnson acquired Link Spine Group, Inc., a privately owned corporation that will provide the Company with exclusive worldwide rights to the SB CharitеT Artificial Disc for the treatment of spine disorders. Under the terms of the agreement, the Company paid a $325 million upfront payment with further contingent payments due upon achievement of regulatory and other milestones and the Company incurred a charge for IPR&D of $170 million before and after tax. On a preliminary basis, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $84 million and was allocated to goodwill. The Company expects that substantially all of the amount allocated to goodwill will not be deductible for tax purposes. The supplemental pro forma information for the current interim period and the preceeding year per SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" are not provided as the impact of these aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position. -16- NOTE 10 - PRO FORMA STOCK BASED COMPENSATION At June 29, 2003, the Company had 26 stock-based employee compensation plans. The Company accounted for those plans under the recognition and measurement principles of Accounting Principle Board Opinion No. 25 "Accounting for Stock Issued to Employees" and its related Interpretations. Compensation costs were not recorded in net income for stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," the following table shows the estimated effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. (Dollars in Millions Except Per Share Data) Fiscal Second Quarter 2003 2002 Net income, as reported 1,210 1,654 Less: Compensation expense(1) 90 84 Pro forma 1,120 1,570 Earnings per share: Basic - as reported $.41 $.55 - pro forma .38 .52 Diluted - as reported $.40 $.54 - pro forma .37

.51 (1) Determined under fair value based method for all awards, net of tax. (Dollars in Millions Except Per Share Data) Fiscal Six Months 2003 2002 Net income, as reported 3,281 3,488 Less: Compensation expense(1) 174 157 Pro forma 3,107 3,331 Earnings per share: Basic - as reported $1.11 $1.15 - pro forma 1.05 1.10 Diluted - as reported $1.09 $1.13 - pro forma 1.04 1.08 (1) Determined under fair value based method for all awards, net of tax. -17- NOTE 11 - SCIOS DEBT GUARANTEE In August 2002, Scios Inc. issued $150 million of 5.5% convertible subordinated notes due August 15, 2009 through a private placement to qualified institutional buyers. This debt became publicly traded on January 10, 2002. Upon completion of the acquisition of Scios Inc. on April 29, 2003, Johnson & Johnson fully and unconditionally guaranteed these convertible subordinated notes. In accordance with SEC rules, the following presents condensed consolidating financial information for Johnson & Johnson, Scios Inc. (from the date of acquisition) and all other Johnson & Johnson subsidiaries. Consolidating Statement of Income Quarter Ended June 29, 2003 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide Sales to customers $ 32 - 10,300 - $10,332 Cost of products sold 21 - 2,945 - 2,966 Gross Profit 11 - 7,355 - 7,366 Selling, marketing and administration expenses 18 199 3,179 - 3,396 Research and development 15 2 1,065 - 1,082 Purchased in-process research and development 730 - 170 - 900 Interest (income) expense, net 1 9 (3) - 7 Equity in net income of subsidiaries - (1,163) - 1,163 - Other (income) expense, net (2) (18) (55) - (75) Corp. allocation - (260) 260 - - Earnings before provision for taxes on income (751) 1,231 2,739 (1,163) 2,056 Provision for taxes on income 1 (21) (826) - (846) Net earnings (loss) $(750) 1,210 1,913 (1,163) $ 1,210 Consolidating Statement of Income Quarter Ended June 30, 2002 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide Sales to customers $ - - 9,073 - $ 9,073 Cost of products sold - - 2,582 - 2,582 Gross Profit - - 6,491 - 6,491 Selling, marketing and administration expenses - 177 2,840 - 3,017 Research and development - 2 930 - 932 Purchased in-process research and development - - 189 - 189 Interest (income) expense, net - (6) (24) - (30) Equity in net income of subsidiaries - (1,688) - 1,688 - Other (income) expense, net - 5 (50) - (45) Corp. allocation - (178) 178 - - Earnings before provision for taxes on income - 1,688 2,428 (1,688) 2,428 Provision for taxes on income - (34) (740) - (774) Net earnings (loss) $ - 1,654 1,688 (1,688) $ 1,654 -18- Consolidating Statement of Income Six Months Ended June 29, 2003 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide Sales to customers $ 32 - 20,122 - $20,154 Cost of products sold 21 - 5,667 - 5,688 Gross Profit 11 - 14,455 - 14,466 Selling, marketing and administration expenses 18 392 6,239 - 6,649 Research and development 15 4 1,999 - 2,018 Purchased in-process research and development 730 - 188 - 918 Interest (income) expense, net 1 11 (5) - 7 Equity in net income of subsidiaries - (3,278) - 3,278 - Other (income) expense, net (2) (22) (88) - (112) Corp. allocation - (441) 441 - - Earnings before provision for taxes on income (751) 3,334 5,681 (3,278) 4,986 Provision for taxes on income 1 (53) (1,653) - (1,705) Net earnings (loss) $(750) 3,281 4,028 (3,278) $ 3,281 Consolidating Statement of Income Six Months Ended June 30, 2002 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide Sales to customers $ - - 17,816 - $17,816 Cost of products sold - - 5,039 - 5,039 Gross Profit - - 12,777 - 12,777 Selling, marketing and administration expenses - 356 5,504 - 5,860 Research and development - 3 1,760 - 1,763 Purchased in-process research and development - - 189 - 189 Interest (income) expense, net - (12) (60) - (72) Equity in net income of subsidiaries - (3,557) - 3,557 - Other (income) expense, net - 1 (13) - (12) Corp. allocation - (353) 353 - - Earnings before provision for taxes on income - 3,562 5,044 (3,557) 5,049 Provision for taxes on income - (74) (1,487) - (1,561) Net earnings (loss) $ - 3,488 3,557 (3,557) $ 3,488 -19- Consolidating Balance Sheet June 29, 2003 (Dollars in Millions) Scios Johnson All Other Consolidating Assets Inc. & Johnson Subsidiaries Adjustments Worldwide Current Assets Cash and cash equiv. $ 9 80 2,879 - $ 2,968 Marketable securities - - 4,894 - 4,894 Accounts receivable, trade, less allowances for doubtful accounts 22 - 6,404 - 6,426 Inventories 13 - 3,667 - 3,680 Other current assets 20 - 3,387 - 3,407 Total Current Assets 64 80 21,231 - 21,375 Property, plant and equipment, net 20 395 8,649 - 9,064 Intangible assets, net 1,958 16 9,736 - 11,710 Invest. in subsidiaries - 32,522 - (32,522) - Intercompany loans receivable 101 - 3,674 (3,775) - Other assets 232 564 2,708 - 3,504 Total Assets $ 2,375 33,577 45,998 (36,297) $ 45,653 Liabilities and Shareholders' Equity Current Liabilities Loans and notes payable 21 2,865 368 - 3,254 Accounts payable 10 260 3,319 - 3,589 Accrued liabilities 51 354 4,089 - 4,494 Accrued salaries, wages, and commissions 11 15 812 - 838 Taxes on income - 315 346 - 661 Total Current Liabilities 93 3,809 8,934 - 12,836 Intercompany payables - 2,032 1,743 (3,775) - Other liabilities 731 3,299 4,350 - 8,380 Total Liabilities 824 9,140 15,027 (3,775) 21,216 Shareholders' Equity Common stock - 3,120 - - 3,120 Other shareholders' Equity 1,551 21,317 30,971 (32,522) 21,317 Total Shareholders' Equity 1,551 24,437 30,971 (32,522) 24,437 Total Liabilities and Shareholders' Equity $ 2,375 33,577 45,998 (36,297) $ 45,653 -20- Consolidating Balance Sheet December 29, 2002 (Dollars in Millions) Scios Johnson All Other Consolidating Assets Inc. & Johnson Subsidiaries Adjustments Worldwide Current Assets Cash and cash equiv. $ - 98 2,796 - $ 2,894 Marketable securities - - 4,581 - 4,581 Accounts receivable, trade, less allowances for doubtful accounts - - 5,399 - 5,399 Inventories - - 3,303 - 3,303 Other current assets - 112 2,977 - 3,089 Total Current Assets - 210 19,056 - 19,266 Property, plant and equipment, net - 359 8,351 - 8,710 Intangible assets, net - 16 9,230 - 9,246 Invest. in subsidiaries - 27,798 - (27,798) - Intercompany loans receivable - - 2,947 (2,947) - Other assets - 525 2,809 - 3,334 Total Assets $ - 28,908 42,393 (30,745) $ 40,556 Liabilities and Shareholders' Equity Current Liabilities Loans and notes payable - 1,652 465 - 2,117 Accounts payable - 347 3,274 - 3,621 Accrued liabilities - 233 3,587 - 3,820 Accrued salaries, wages, commissions - 14 1,167 - 1,181 Taxes on income - 157 553 - 710 Total Current Liabilities - 2,403 9,046 - 11,449 Intercompany payables - 1,707 1,240 (2,947) - Other liabilities - 2,101 4,309 - 6,410 Total Liabilities - 6,211 14,595 (2,947) 17,859 Shareholders' Equity Common stock - 3,120 - - 3,120 Other shareholders' Equity - 19,577 27,798 (27,798) 19,577 Total Shareholders' Equity - 22,697 27,798 (27,798) 22,697 Total Liabilities and Shareholders' Equity $ - 28,908 42,393 (30,745) $ 40,556 -21- Consolidating Statement of Cash Flows Six Months Ended June 29, 2003 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide NET CASH FLOWS FROM OPERATIONS: $ 59 (34) 3,668 - $ 3,693 CASH FLOWS FROM INVESTING ACTIVITIES: Additions to property, plant and equipment (8) (67) (839) - (914) Proceeds from the disposal of assets - - 333 - 333 Acquisition of businesses, net of cash acquired - (2,781) - - (2,781) Purchases of investments (130) - (2,738) - (2,868) Sales of investments 131 - 2,449 - 2,580 Net proceeds from intercompany accounts - 1,410 - (1,410) - Increase in investment in subsidiaries - (643) - 643 - Other - (10) (86) - (96) NET CASH USED BY INVESTING ACTIVITIES (7) (2,091) (881) (767) (3,746) CASH FLOWS FROM FINANCING ACTIVITIES: Dividends to shareholders - (1,321) - - (1,321) Repurchase of common stock - (842) - - (842) Proceeds from short- term debt - 1,214 227 - 1,441 Retirement of short- term debt - (82) (354) - (436) Proceeds from long- term debt - 1,000 9 - 1,009 Retirement of long- term debt (43) - - - (43) Proceeds from the exercise of stock options - 195 - - 195 Capital infusion from subsidiary - 1,943 - (1,943) - Net capital distributions from parent - - (1,300) 1,300 - Net repayments of intercompany accounts - - (1,410) 1,410 - NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES (43) 2,107

(2,828) 767 3 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS - - 124 - 124 INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS 9 (18) 83 - 74 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD - 98 2,796 - 2,894 CASH AND CASH EQUIVALENTS, END OF PERIOD $ 9 80 2,879 - $ 2,968 -22- Consolidating Statement of Cash Flows Six Months Ended June 30, 2002 (Dollars in Millions) Scios Johnson All Other Consolidating Inc. & Johnson Subsidiaries Adjustments Worldwide NET CASH FLOWS FROM OPERATIONS: $ - 161 3,332 - $ 3,493 CASH FLOWS FROM INVESTING ACTIVITIES: Additions to property, plant and equipment - (61) (741) - (802) Proceeds from the disposal of assets - - 128 - 128 Acquisition of businesses, net of cash acquired - (466) - - (466) Purchases of investments - - (3,126) - (3,126) Sales of investments - - 3,942 - 3,942 Net proceeds from intercompany accounts - 1,876 - (1,876) - Decrease in investment In subsidiaries - 12 - (12) - Other - 163 (376) - (213) NET CASH USED BY INVESTING ACTIVITIES - 1,524 (173) (1,888) (537) CASH FLOWS FROM FINANCING ACTIVITIES: Dividends to shareholders - (1,163) - - (1,163) Repurchase of common stock - (5,255) - - (5,255) Proceeds from short- term debt - 1,912 277 - 2,189 Retirement of short- term debt - - (219) - (219) Proceeds from long- term debt - - 20 - 20 Retirement of long- term debt - - (16) - (16) Proceeds from the exercise of stock options - 227 - - 227 Capital infusion from Subsidiary - 1,488 - (1,488) - Net capital distributions to parent - - (1,500) 1,500 - Net repayments of intercompany accounts - - (1,876) 1,876 - NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES - (2,791) (3,314) 1,888 (4,217) EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS - - 109 - 109 INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS - (1,106) (46) - (1,152) CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD - 1,183 2,575 - 3,758 CASH AND CASH EQUIVALENTS, END OF PERIOD $ - 77 2,529 - $ 2,606 -23- NOTE 12 - 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. ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OPERATING RESULTS Sales Consolidated sales for the first fiscal six months of 2003 were $20.2 billion, exceeding sales for the first fiscal six months of 2002 of $17.8 billion by 13.1%, with 8.5% of the growth from operations, and the remaining 4.6% due to a positive currency impact. Domestic sales for the first fiscal six months of 2003 were $12.1 billion, an increase of 9.0% over 2002 domestic sales of $11.1 billion for the same period a year ago. Sales of international subsidiaries grew to $8.0 billion, an increase of 19.9% over the same period a year ago, with operational sales growth accounting for 7.6% of the reported growth and 12.3% due to the positive impact of currency. For the fiscal second quarter of 2003, worldwide sales were $10.3 billion, an increase of 13.9% over 2002 fiscal second quarter sales of $9.1 billion with 8.9% of the growth from operations, and 5.0% of the reported growth due to the positive impact of currency. Sales by domestic companies were $6.1 billion in the fiscal second quarter of 2003, which represented an increase of 9.2%. International sales were $4.2 billion, which represented a total increase of 21.5% over the same period a year ago, with 8.4% of the growth from operations and the remaining 13.1% due to a positive currency impact. For geographic areas throughout the world, sales increased 27.4% in Europe, 17.9% in Asia-Pacific/Africa, and 6.5% in the Western Hemisphere (excluding the U.S.) for the fiscal second quarter 2003. Consumer segment sales in the quarter were $1.8 billion, an increase of 10.3% over the same period a year ago with 6.4% of the increase resulting from operational growth and a positive currency impact of 3.9%. Domestic sales increased by 2.6% over the same period a year ago, with international sales gains of 19.7% consisting of an operational sales growth of 11.1% and a positive currency impact of 8.6%. Consumer sales achieved strong growth in skin care products led by the AVEENOr brand. SPLENDAr, the no-calorie sweetener, had positive growth in both the ingredient business and the tabletop category. The Wound Care franchise continues to be a positive contributor to the overall results in the Consumer segment. LIQUID BANDAGET continues to show strong growth in the U.S., while the COMPEEDr foot care line is a key growth driver outside the U.S. During the second quarter of 2003, the Consumer Wound Care franchise acquired the CORTAIDr anti-itch brand business from Pharmacia. The transaction was valued at approximately $37 million. Pharmaceutical segment sales in the quarter were $4.9 billion, an increase of 14.7% over the same period a year ago with 10.1% of this change due to operational growth and the remaining 4.6% increase related to the positive impact of currency. The domestic Pharmaceutical sales increase was 11.7%. International Pharmaceutical sales increased 21.3% which included 6.6% growth operationally, and 14.7% related to the positive impact of currency. Sales growth reflects the strong performance of RISPERDALr, an antipsychotic medication; TOPAMAXr, an anti- epileptic medication; DURAGESICr, a transdermal patch for chronic pain; ACIPHEX/PARIETr, a proton pump inhibitor that is co-marketed with Eisai; REMICADEr, a treatment for rheumatoid arthritis and Crohn's disease; LEVAQUINr, an anti-infective treatment, and ORTHO- EVRAr, a contraceptive patch. -24- PROCRITr (epoetin alfa) sales have declined due to the entry of a new competitor. The Company's positioning on PROCRIT continues to focus on its clinical benefits. EPREXr (epoetin alfa) experienced a sharp decline versus the prior year due to rare reports of Pure Red Cell Aplasia (PRCA) in chronic renal failure (CRF) patients when administered subcutaneously. The Company implemented steps to ensure that health care providers use the safest method of administering EPREX. Actions taken include a label change recommending intravenous versus subcutaneous dosing for CRF patients and the education of health care providers and patients in the proper handling of EPREX to preserve product integrity.. The data suggests that the incidence rate of PRCA has stabilized. During the second quarter of 2003, Johnson & Johnson acquired Scios Inc., a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto- immune diseases. Scios was acquired to strengthen the Company's business in key therapeutic areas and technology platforms. Scios' product NATRECORr is a novel agent approved for congestive heart failure and has several significant advantages over existing therapies. The transaction was valued at approximately $2.1 billion, net of cash, and the Company incurred a charge for IPR&D of $730 million before and after tax. On a preliminary basis, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $440 million and was allocated to goodwill. The Company also received U.S. Food and Drug Administration (FDA) approval for the use of LEVAQUIN in the treatment of chronic bacterial prostatitis. Medical Devices & Diagnostics (MD&D) segment worldwide sales for the fiscal second quarter of 2003 were $3.6 billion, representing an increase of 14.6% over the same period a year ago with operational sales growth of 8.5% and a positive currency impact of 6.1%. Domestic sales were up 8.3% and the international sales increase of 22.6% over the same period a year ago included a solid 8.8% operational growth, and a positive currency impact of 13.8%. Strong sales growth was achieved in several franchises within the MD&D segment. The DePuy franchise had success with the joint reconstruction product line, strong double-digit growth in the spine category, and Mitek line of sports medicine products. Ethicon Endo-Surgery, Inc. also reported solid growth with key drivers from the endoscopy and mechanical business, particularly the endocutter product line, used in performing bariatric procedures. During the fiscal second quarter of 2003, Cordis Corporation received approval from the FDA to market the CYPHERT

Sirolimus- eluting Coronary Stent, making it the first U.S. approved combination drug and device intended to help reduce restenosis or reblockage of a treated coronary artery. Cordis shipped the product immediately after approval with the objective of providing access to patients and customers as quickly as possible. The demand for the CYPHER product has exceeded supply, and the Company is currently working to improve manufacturing yield to ensure that all orders are filled promptly. Also during the fiscal second quarter of 2003, Johnson & Johnson acquired Link Spine Group, Inc., a privately owned corporation that will provide the Company with exclusive worldwide rights to the SB ChariteT Artificial Disc for the treatment of spine disorders. Under the terms of the agreement, the Company paid a $325 million upfront payment with further contingent payments due upon achievement of regulatory and other milestones and the Company incurred a charge for IPR&D of approximately $170 million before and after tax. On a preliminary basis, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $84 million and was allocated to goodwill. On May 9, 2003, Johnson & Johnson acquired Inscope, an intraluminal multiple clip applier technology. This transaction was valued at $26 million. In May of 2003, Ethicon-Endo Surgery completed the divestiture of the Vascular Access product line to Medex Inc., to better align its product portfolio with its principal area of focus. -25- Gross Profit Gross profit margin for the fiscal second quarter of 2003 declined 0.3% to 71.3% versus the fiscal second quarter of 2002 while the gross profit margin for the first fiscal six months of 2003 improved to 71.8%, an increase of 0.1% from the first fiscal six months of 2002. Gross profit margin reflects the impact of continued cost improvements and efficiencies as well as the impact of the mix of products within the Pharmaceutical segment. Selling, Marketing and Administrative Expenses Selling, marketing and administrative (SM&A) expenses for the fiscal second quarter of 2003 increased 12.6% over the second fiscal quarter of 2002 and increased 13.5% for the first fiscal six months of 2003 over the same period a year ago. These increases are primarily due to increases in advertising, marketing and selling expenses. The SM&A expenses as a percent to sales remained relatively unchanged for the fiscal second quarter and first fiscal six months of 2003 as compared to the equivalent periods a year ago. In-Process Research & Development In the fiscal second quarter of 2003, the Company recorded In- process Research & Development (IPR&D) charges of $900 million before and after tax related to acquisitions. These acquisitions included Scios Inc., and the Link Spine Group, Inc. Scios Inc., is a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto- immune diseases. The acquisition of Scios Inc. accounted for $730 million before and after tax of the IPR&D charges incurred in the fiscal second quarter of 2003. Link Spine Group, Inc., was acquired to provide the Company with exclusive worldwide rights to the SB Charite Artificial Disc for the treatment of spine disorders. The acquisition of Link Spine Group, Inc. accounted for $170 million before and after tax of the IPR&D charges incurred in the fiscal second quarter of 2003. In the fiscal first quarter of 2003, the Company recorded IPR&D charges of $18 million before tax and $15 million after tax related to acquisitions. These acquisitions included Orquest, Inc., and 3-Dimensional Pharmaceuticals, Inc. Orquest, Inc., is a biotechnology company focused on developing biologically-based implants for orthopedic spine surgery. The acquisition of Orquest, Inc. accounted for $11 million before tax and $8 million after tax of the IPR&D charges incurred in the fiscal first quarter of 2003. 3-Dimensional Pharmaceuticals, Inc., is a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for the treatment of cardiovascular disorders, oncology and inflammation. The acquisition of 3-Dimensional Pharmaceuticals, Inc. accounted for $7 million before and after tax of the IPR&D charges incurred in the fiscal first quarter of 2003. Interest (Income) Expense Interest income decreased in both the fiscal second quarter and fiscal six months of 2003 as compared to the same periods a year ago. The decrease is due primarily to the continuing decline in U.S. interest rates. Interest expense remained relatively constant for both the fiscal second quarter and first fiscal six months of 2003 as compared to the same periods a year ago despite the increase in debt associated with the acquisition of Scios Inc., due to lower interest rates. Other (Income) Expense, Net Other (income) expense included gains and losses related to the sale and write-down of certain equity securities of Johnson & Johnson Development Corporation, losses on the disposal of fixed assets, currency gains & losses, minority interests, litigation settlement expense, as well as, royalty income. The favorable change of $30 million for the fiscal second quarter of 2003 as compared to the fiscal second quarter of 2002 was due primarily to the sale of the Vascular Access product line. Additionally, the favorable change of $100 million for the first fiscal six months of 2003 as compared to the same period a year ago was due primarily to a lower level of non-recurring expenses in 2003. -26- Earnings Before Provision for Taxes on Income Consolidated earnings before provision for taxes on income decreased in both the fiscal second quarter and fiscal six months of 2003 by 15.3% and 1.2%, respectively. The $372 million decrease in earnings before provision for taxes for the fiscal second quarter of 2003 as compared to the same period a year ago was due to a $711 million increase in IPR&D charges. The $63 million decrease in earnings before provision for taxes for the first fiscal six months of 2003 as compared to the same period a year ago was due to a $729 million increase in IPR&D charges. Refer to Note 9 of the Notes to Consolidated Financial Statements for further detail on these acquisitions. Operating Profit by Segment The Consumer segment operating profit increased in both the fiscal second quarter and first fiscal six months of 2003 by 9.7% and 19.9%, respectively. These improvements were due primarily to volume growth, leveraging of selling, promotion and administrative expenses offset by increases in advertising. The Pharmaceutical segment operating profit decreased in both the fiscal second quarter and first fiscal six months of 2003 by 30.8% and 8.9%, respectively. The Pharmaceutical segment operating profit was negatively impacted in both periods by the IPR&D charges incurred in connection with the acquisition of Scios Inc. and an increase in spending related to a sales force expansion. The Medical Devices and Diagnostics segment operating profit increased in both the fiscal second quarter and first fiscal six months of 2003 by 19.0% and 14.2%, respectively. These improvements were due primarily to volume growth offset by IPR&D charges incurred in connection with the acquisition of Link Spine Group, Inc. The increase in expenses not allocated to segments for both the fiscal second quarter and first fiscal six months of 2003 was due primarily to financing expenses as discussed previously in the Interest (Income) Expense section. Provision For Taxes on Income The effective income tax rates for the first fiscal six months of 2003 and 2002 were 34.2% and 30.9%, respectively, as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate was 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. The increase in the tax rate from prior year is due to the acquisition related In-process Research and Development charges, which are non-deductible for tax purposes. Net Income and Earnings Per Share Worldwide net earnings and earnings per share for the fiscal second quarter of 2003 were $1.2 billion and $0.40 per share, respectively, representing a decline of 26.8% and 25.9%, respectively versus the same period a year ago. For the first fiscal six months of 2003, worldwide net earnings and earnings per share were $3.3 billion and $1.09 per share, respectively, representing a decline of 5.9% and 3.5%, respectively versus the same period a year ago. Net earnings and earnings per share decrease in both the fiscal second quarter and first fiscal six months is due to an increase

in IPR&D charges incurred in conjunction with acquisitions. Cash Flows and Liquidity Cash generated from operations and selected borrowings provided the major sources of funds for the growth of the business, including working capital, capital expenditures, acquisitions, share repurchases, dividends and debt repayments. Cash and current marketable securities were $7.9 billion at the end of the first fiscal six months of 2003 as compared with $7.5 billion at year- end 2002. Capital Expenditures Additions to property, plant and equipment were $914 million for the first fiscal six months of 2003, compared with $802 million for the same period in 2002. -27- Dividends On April 24, 2003, the Board of Directors declared a regular cash dividend of $0.24 per share, payable on June 10, 2003 to shareholders of record as of May 20, 2003. This represented an increase of 17.1% and was the 41st consecutive year of cash dividend increases. The Company expects to continue the practice of paying regular cash dividends. Financial Position & Capital Resources Total Assets & Returns Total assets increased $5.1 billion or 12.6% in the first fiscal six months of 2003 versus year-end 2002. Net intangible assets in the first six months of 2003 increased 26.6% over year-end 2002 and represented 25.7% of total assets versus 22.8% of total assets at year-end 2002. The increase was primarily due to intangible assets associated with acquisitions. Net property, plant and equipment increased to $9.1 billion or 4.1% and represented 19.9% of total assets versus 21.5% of total assets at year-end 2002. Shareholders' equity per share at the end of the first fiscal six months of 2003 was $8.23 compared with $7.65 at year-end 2002, an increase of 7.6%. Financing & Market Risk Total borrowings at the end of the first fiscal six months of 2003 were $6.4 billion, an increase of $2.3 billion from year-end 2002. The increase was due primarily to the acquisition of Scios Inc. as the Company issued approximately $1.1 billion of short-term commercial paper, and $1.1 billion of long-term debt during the fiscal second quarter of 2003. For the first fiscal six months of 2003, net cash (cash and current marketable securities net of debt) was $1.4 billion. At year-end 2002, net cash (cash and current marketable securities net of debt) was $3.3 billion. Total debt represented 20.8% of total capital (shareholders' equity and total debt) for the first fiscal six months of 2003 and 15.4% of total capital at year-end 2002. As of June 29, 2003, there were no material cash commitments. -28- New Accounting Standards In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company adopted this standard in 2003 that was effective for fiscal years beginning after June 15, 2002 and it has not had a material impact on the Company's results of operations, cash flows or financial position. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which was effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted SFAS No. 146 in the first quarter of 2003 and it has not had a material effect on the Company's results of operations, cash flows or financial position. On November 25, 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34." FIN 45 clarified the requirements of FASB Statement No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002 and have been adopted by the Company. There is no disclosure required for the fiscal second quarter and fiscal six months of 2003. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company's adoption of FIN 45 in 2003 has not had a material effect on the Company's results of operations, cash flows or financial position. In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51," which addresses consolidation of variable interest entities. FIN 46 expanded the criteria for consideration in determining whether a variable interest entity should be consolidated by a business entity, and requires existing unconsolidated variable interest entities (which include, but are not limited to, Special Purpose Entities, or SPEs) to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation applied immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 has not had a material effect on the Company's results of operations, cash flows or financial position. -29- 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 29, 2002 contains, in Exhibit 99(b), a discussion of various factors that could cause actual results to differ from expectations. In furtherance of that discussion, the Company notes that pending Federal Legislation, including Medicare drug coverage legislation, a drug importation bill and amendments to the Hatch-Waxman Act, 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 29, 2002. ITEM 4 - CONTROLS AND PROCEDURES Disclosure Controls and Procedures. At the end of the fiscal second quarter of 2003, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are the controls and other procedures that the Company has designed to ensure that it records, processes, summarizes and reports in a timely manner the information the Company must disclose in its reports filed under the Securities Exchange Act. William C. Weldon, Chairman and Chief Executive Officer, and Robert J. Darretta, Executive Vice President and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Weldon and Darretta concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective. Internal Controls. Since the date of the evaluation described above, there have not been any significant changes in the Company's internal controls over financial reporting or in other factors that could materially affect, or is reasonably likely to

materially affect, those controls, including any corrective actions with regard to significant deficiencies and material weaknesses. -30- 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, Inc. product PROPULSIDr, 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 509 such cases currently pending, including the claims of approximately 6,100 plaintiffs. In the active cases, 456 individuals are alleged to have died from the use of PROPULSID. These actions seek substantial compensatory and punitive damages and accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of overpromotion. 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. An effort to appeal that ruling has been denied. In June 2002 the federal judge presiding over the PROPULSID Multi-District Litigation in New Orleans, Louisiana similarly denied plaintiffs' motion there to certify a national class of PROPULSID users. Plaintiffs in the Multi-District Litigation have said they are preserving their right to appeal that ruling and other complaints filed against Janssen and the Company include class action allegations, which could be the basis for future attempts to have classes certified. 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. In communications to the Company, the excess insurance carriers have raised certain defenses to their liability under the policies. However, in the opinion of the Company, those defenses are pro forma and lack substance and the carriers will honor their obligations under the policies either voluntarily or after litigation. -31- In patent infringement actions tried in Delaware federal court in late 2000, Cordis Corporation, a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis 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 were unenforceable owing to alleged inequitable conduct before the patent office. In March and May 2002, the district judge issued post trial rulings that confirmed the validity and enforceability of the main Cordis stent patent claims but found certain other Cordis patents unenforceable. Further, the district judge granted Boston Scientific a new trial on liability and damages and vacated the verdict against Medtronic AVE on legal grounds. Appeals to the Federal Circuit Court of Appeals are underway. In early June 2003, an arbitration panel in Chicago, in a preliminary ruling, found in favor of Cordis in its arbitration against ACS/Guidant involving infringement by ACS/Guidant of a Cordis stent patent. On or before August 19, 2003, the panel will rule on ACS/Guidant's further challenge to that preliminary ruling. If the panel adheres to its ruling, ACS/Guidant is obligated 90 days thereafter to make a one time payment of $425 million to Cordis in satisfaction if its obligations under the arbitration agreement. No continuing royalties and no injunction are Involved. The products of various Johnson & Johnson operating companies are the subject of various patent lawsuits which could potentially affect the ability of those operating companies to sell those products, require the payment of past damages and future royalties or, with respect to patent challenges by generic pharmaceutical firms, result in the introduction of generic versions of the products in question and the ensuing loss of market share. The following patent lawsuits concern important products of Johnson & Johnson operating companies: Medtronic AVE v. Cordis Corporation: This action, filed in April 2002 in federal district court in Texas and thereafter transferred to the federal district court in Delaware, asserts certain patents owned by Medtronic AVE against the Cordis BX VELOCITYT stent, which is also the stent structure used in the CYPHERT drug eluting product. No trial date has been set for this action. ACS/Guidant v. Cordis Corporation: This is an arbitration in which ACS/Guidant has asserted its Lau patents against the Cordis BX VELOCITY stent. In the event ACS/Guidant prevails, Cordis would pay a pre-negotiated royalty with respect to past and future BX VELOCITY sales; no injunction would be issued. The arbitration hearings commence in the fall of 2003. Boston Scientific Corporation (BSC) v. Cordis Corporation: This action, filed in Delaware federal court in March of 2003, asserts that the CYPHERT drug-eluting stent infringes several patents assigned to BSC. BSC seeks damages and a permanent injunction and in addition has moved for a preliminary injunction, a hearing on which was held in late July of 2003. Medinol Ltd. v. Cordis Europa NV (Netherlands) and Medinol Ltd. v. Cordis Holding Belgium BVBA and Janssen Pharmaceutica NV (Belgium): On July 3, 2003 the Appeal Court of the Hague overturned a lower court and granted Medinol, an Israeli stent manufacturer, a preliminary injunction based on patent infringement prohibiting Cordis from making or selling the BX Velocity and CYPHER stents in the Netherlands. Cordis has moved to block the effect of the injunction but, even if it were to become effective, it is not expected to significantly affect sales outside the Netherlands, which is a small market. In Belgium, Medinol has filed a patent infringement suit based on the same patent it asserted in the Netherlands, and moved for a preliminary injunction prohibiting the defendants from making or -32- selling the BX Velocity and CYPHER stents there. Cordis currently uses a Janssen Pharmaceutica facility in Belgium to coat CYPHER stents with SIROLIMUS principally for the ex-US market. A hearing on Medinol's preliminary injunction motion in Belgium is currently scheduled for October. Because of the availability of other coating facilities outside Belgium and the likely availability of different stent architecture for use with Sirolimus in Europe, Medinol's actions in the Netherlands and

Belgium, even if ultimately successful, are not expected significantly to disrupt sales in Europe of the CYPHER product. The following lawsuits are against generic firms that filed Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering these products. These ANDAs typically include allegations of non- infringement, invalidity and unenforceability of these patents. Ortho-McNeil and Daiichi, Inc. v. Mylan Laboratories and Ortho- McNeil and Daiichi, Inc. v. Teva Pharmaceutical: These matters, the first of which was filed in February 2002 in federal court in West Virginia and the second in June 2002 in federal court in New Jersey, concern the efforts of Mylan and Teva to invalidate and establish non-infringement of the patent covering LEVAQUINr levofloxacin tablets. The patent is owned by Daiichi and exclusively licensed to Ortho-McNeil. In the Mylan case trial has been set for October 2003. No trial date has been set in the Teva matter. Ortho-McNeil Pharmaceutical, Inc. and Daiichi v. Bedford Laboratories: This matter was filed in federal district court in New Jersey in April 2003 and involves the effort of Bedford to invalidate and assert non-infringement of the same Daiichi patent on LEVAQUIN involved in the above proceedings. In this case, however, Bedford is challenging the patent's application with respect to its products which it asserts are equivalent to LEVAQUIN injection pre-mix and injection vials, rather than tablets. Janssen Pharmaceutica, Inc. and ALZA Corporation v. Mylan Laboratories: This action, filed in federal district court in Vermont in January 2002, concerns Mylan's effort to invalidate and assert non- infringement and unenforceability of ALZA's patent covering the DURAGESICr product. Trial is scheduled for late August 2003. Janssen Pharmaceutica NV v. Eon Labs Manufacturing: This action was filed in federal court in the Eastern District of New York in April 2001 and concerns Eon's effort to invalidate and establish non- infringement of Janssen's patent covering SPORANOXr (itraconozole). No trial date has yet been scheduled. Ortho- McNeil Pharmaceutical, Inc. v. Kali Laboratories, Inc.: This lawsuit was filed in federal court in New Jersey in November 2002 and concerns the attempt of Kali to invalidate and establish non- infringement of Ortho-McNeil's patent covering ULTRACETr (tramadol- acetaminophen) tablets. No trial date has been set for this case. ALZA Corporation v. Mylan Laboratories: This action was filed in federal district court in West Virginia in May 2003 and concerns Mylan's effort to invalidate and assert non-infringement of an ALZA patent covering the DITROPAN XLr product. No trial date has been set for this case. With respect to all of the above matters, the Johnson & Johnson operating company involved is vigorously defending the validity and asserting the infringement of its own or its licensors' patents or, where its product is accused of infringing patents held by others, defending against those claims. The New York State Attorney General's office and the Federal Trade Commission issued subpoenas in January and February 2003 seeking documents relating to the marketing of sutures and endoscopic instruments by the Company's Ethicon, Inc. and Ethicon Endo-Surgery, Inc. subsidiaries. The Connecticut Attorney General's office has requested the same documents. These subpoenas focus on the bundling of sutures and endoscopic instruments in contracts offered to Group Purchasing Organizations and individual hospitals in which discounts are predicated on the hospital achieving specified market share targets for both categories of products. The operating companies involved are responding to the subpoenas. -33- On June 26, 2003, the Company received a request for records and information from the U.S. House of Representatives' Committee on Energy and Commerce in connection with its investigation into pharmaceutical reimbursements and rebates under Medicaid. The Committee's request focuses on the drug REMICADEr (infliximab), marketed by the Company's Centocor, Inc. subsidiary. On July 2, 2003, Centocor received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Both the Company and Centocor are responding to these requests for documents and information. The Company is also involved in a number of other patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the opinion of management, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of these legal proceedings, net of liabilities already accrued in the Company's consolidated balance sheet, is not expected to have a material adverse effect on the Company's consolidated financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations for that period. -34- 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 24, 2003. (b) The shareholders elected all the Company's nominees for director. The shareholders also approved the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year 2003. 1. Election of Directors: Shares For Shares Withheld G.N. Burrow 2,400,791,409 28,696,977 J.G. Cullen 2,316,670,236 112,818,150 R.J. Darretta 2,401,539,556 27,948,830 M.J. Folkman 2,269,079,196 160,409,190 A.D. Jordan 2,400,705,947 28,782,439 A.G. Langbo 2,316,480,480 113,007,906 J.T. Lenehan 2,401,471,830 28,016,556 L.F. Mullin 2,315,905,237 113,583,149 H.B. Schacht 2,313,640,140 115,848,246 W.C. Weldon 2,391,189,528 38,298,858 D. Satcher 2,401,681,903 27,806,483 2. Approval for Appointment of PricewaterhouseCoopers LLP: For 2,262,552,403 Against 145,780,086 Abstain 21,155,897 ITEM 5 - OTHER INFORMATION After a remand from the Federal Circuit Court of Appeals in January 2003, a partial retrial was recently scheduled for October in Boston, Massachusetts in the action Amgen v. Transkaryotic Therapies, Inc. (TKT) and Aventis Pharmaceutical, Inc. TKT, the developer of a gene-activated EPO product, and Aventis, which holds marketing rights to the TKT product, dispute infringement and are seeking to invalidate the Amgen patents asserted against them, which patents are exclusively licensed to Ortho Biotech in the U.S. for non-dialysis indications. Ortho Biotech is not a party to the action and is not in a position to express views as to its probable outcome. -35- ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits Exhibit 31 - Certifications Pursuant to Rule 13a-14 Under the Securities Exchange Act of 1934 Exhibit 32 - Certifications Pursuant to 18 U.S.C. Section 1350 (b) Reports on Form 8-K A report on Form 8-K was filed on January 30, 2003, which included the Press Release on Amgen arbitration fees and expenses. Also included in this filing are the unaudited comparative supplementary sales data and condensed consolidated statements of earnings for the fiscal fourth quarter and fiscal year ended December 29, 2002. A report on Form 8-K was filed on March 12, 2003, which included the audited consolidated financial statements for the three year period ended December 29, 2002. A report on Form 8-K was filed on April 16, 2003, which included the Press Release for the period ended March 30, 2003. Also included in this filing are the unaudited comparative supplementary sales data and condensed consolidated statement of earnings for the fiscal first quarter ended March 30, 2003. A report on Form 8-K was filed on April 29, 2003, which included a reconciliation of non-GAAP disclosures included in Form 10-K for the fiscal year ended December 29, 2002. A report on Form 8-K was filed on July 18, 2003, which included the Press Release for the period ended June 29, 2003. Also included in this filing are the unaudited comparative supplementary sales data and condensed consolidated statement of earnings for the fiscal second quarter and six month period ended June 29, 2003. -36- 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 11, 2003 By /s/

R. J. DARRETTA R. J. DARRETTA Executive Vice President and Chief Financial Officer Date: August 11, 2003 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Chief Accounting Officer) -37-