10-Q 1 tenq.txt UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q (X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 1, 2007 or ( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to Commission file number 1-3215 JOHNSON & JOHNSON (Exact name of registrant as specified in its charter) NEW JERSEY 22-1024240 (State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.) One Johnson & Johnson Plaza New Brunswick, New Jersey 08933 (Address of principal executive offices) Registrant's telephone number, including area code (732) 524-0400 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (X) Yes ( )No Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( ) Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ( ) Yes (X) No Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On April 29, 2007 2,896,558,402 shares of Common Stock, $1.00 par value, were outstanding. JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS Part I - Financial Information Page No. Item 1. Financial Statements (unaudited) Consolidated Balance Sheets - April 1, 2007 and December 31, 2006 3 Consolidated Statements of Earnings for the Fiscal First Quarters Ended April 1, 2007 and April 2, 2006 5 Consolidated Statements of Cash Flows for the Fiscal First Quarters Ended April 1, 2007 and April 2, 2006 6 Notes to Consolidated Financial Statements 8 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 24 Item 3. 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Controls and Procedures 35 Part II - Other Information Item 1 - Legal Proceedings 35 Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds 36 Item 6 - Exhibits 36 Signatures 37 Part I - FINANCIAL INFORMATION Item 1 - FINANCIAL STATEMENTS JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) ASSETS April 1, December 31, 2007 2006 Current Assets: Cash & cash equivalents $5,175 $4,083 Marketable securities 16 1 Accounts receivable, trade, less allowances for doubtful accounts $164 (2006,$160) 9,293 8,712 Inventories (note 4) 5,047 4,889 Deferred taxes on income 2,088 2,094 Prepaid expenses and other receivables 3,054 3,196 Total current assets 24,673 22,975 Marketable securities, non-current 14 16 Property, plant and equipment at cost 24,239 24,028 Less: accumulated depreciation (11,059) (10,984) Property, plant and equipment, net 13,180 13,044 Intangible assets, net (note 5) 15,568 15,348 Goodwill, net (note 5) 13,663 13,340 Deferred taxes on income 3,273 3,210 Other assets 2,695 2,623 Total Assets $73,066 $70,556 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited; Dollars in Millions) LIABILITIES AND SHAREHOLDERS' EQUITY April 1, December 31, 2007 2006 Current Liabilities: Loans and notes payable $4,682 $4,579 Accounts payable 5,643 5,691 Accrued liabilities 4,483 4,587 Accrued rebates, returns and promotions 2,352 2,189 Accrued salaries, wages and commissions 1,125 1,391 Accrued taxes on income 1,378 724 Total current liabilities 19,663 19,161 Long-term debt 2,012 2,014 Deferred taxes on income 1,375 1,319 Employee related obligations 5,660 5,584 Other liabilities 3,428 3,160 Total liabilities 32,138 31,238 Shareholders' Equity: Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,548 shares) 3,120 3,120 Accumulated other comprehensive income (note 8) (2,124) (2,118) Retained earnings 50,850 49,290 Less: common stock held in treasury, at cost (225,826,000 and 226,612,000 shares) 10,918 10,974 Total shareholders' equity 40,928 39,318 Total liabilities and shareholders' equity $73,066 $70,556 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited; dollars & shares in millions except per share amounts) Fiscal Quarters Ended April Percent April Percent 1, 2007 to 2, 2006 to Sales Sales Sales to customers $15,037 100.0% $12,992 100.0% Cost of products sold 4,385 29.1 3,612 27.8 Gross profit 10,652 70.9 9,380 72.2 Selling, marketing and administrative expenses 4,802 31.9 4,095 31.5 Research expense 1,652 11.0 1,532 11.8 In-process research & development 807 5.4 37 0.3 Interest Income (95) (0.6) (197) (1.5) Interest Expense, net of portion capitalized 62 0.4 16 0.1 Other(income)expense, net (228) (1.5) (718) (5.5) Earnings before provision for taxes on income 3,652 24.3 4,615 35.5 Provision for taxes on income (Note 3) 1,079 7.2 1,310 10.1 NET EARNINGS $2,573 17.1% $3,305 25.4% NET EARNINGS PER SHARE Basic $0.89 $1.11 Diluted $0.88 $1.10 CASH DIVIDENDS PER SHARE $0.375 $0.33 AVG. SHARES OUTSTANDING Basic 2,894.2 2,974.5 Diluted 2,924.3 2,992.7 See Notes to Consolidated Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Quarters Ended April 1, April 2, 2007 2006 CASH FLOW FROM OPERATING ACTIVITIES Net earnings $2,573 $3,305 Adjustment to reconcile net earnings to cash flow: Depreciation and amortization of property and intangibles 622 521 Stock based compensation 164 153 Purchased in-process research and development 807 37 Deferred tax provision (5) (153) Accounts receivable allowances 3 (4) Changes in assets and liabilities, net of effects from acquisitions: Increase in accounts receivable (562) (568) Increase in inventories (120) (219) Decrease in accounts payable and accrued liabilities (229) (633) Increase in other current and non-current assets (373) (207) Increase in other current and non-current liabilities 957 1,242 NET CASH FLOWS FROM OPERATING ACTIVITIES 3,837 3,474 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equipment (446) (446) Proceeds from the disposal of assets 214 1 Acquisitions, net of cash acquired (1,368) (811) Purchases of investments (52) (327) Sales of investments 6 69 Other (primarily intangibles) (40) (63) NET CASH USED BY INVESTING ACTIVITIES (1,686) (1,577) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareholders (1,085) (982) Repurchase of common stock (295) (401) Proceeds from short-term debt 8,117 357 Retirement of short-term debt (8,051) (267) Proceeds from long-term debt - - Retirement of long-term debt (5) (7) Proceeds from the exercise of stock 234 136 Options and related excess tax benefits (1,085) (1,164) NET CASH USED BY FINANCING ACTIVITIES Effect of exchange rate changes on cash and cash equivalents 26 34 Increase in cash and cash equivalents 1,092 767 Cash and Cash equivalents, beginning of period 4,083 16,055 CASH AND CASH EQUIVALENTS, END OF PERIOD $5,175 $16,822 Acquisitions Fair value of assets acquired $1,599 $850 Fair value of liabilities assumed (231) (39) Net cash paid for acquisitions $1,368 $811 See Notes to Consolidated Financial Statements NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Johnson & Johnson and its Subsidiaries (the "Company") and related notes as contained in the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2006. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented. During the

fiscal first quarter of 2007, the Company adopted FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No 109". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification and other matters. See Note 3 for more details. NOTE 2 - FINANCIAL INSTRUMENTS The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) 133, SFAS 138 and SFAS 149 requiring that all derivative instruments be recorded on the balance sheet at fair value. As of April 1, 2007, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $29 million after-tax. For additional information, see Note 8. The Company expects that substantially all of this amount will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. Transactions with third parties will cause the amount in accumulated other comprehensive income to affect net earnings. The maximum length of time over which the Company is hedging is 18 months. The Company also uses currency swaps to manage currency risk primarily related to borrowings, which may exceed 18 months. For the fiscal first quarters ended April 1, 2007 and April 2, 2006, the net impact of the hedges' ineffectiveness, transactions not qualifying for hedge accounting and discontinuance of hedges to the Company's financial statements was insignificant. Refer to Note 8 for disclosures of movements in Accumulated Other Comprehensive Income. NOTE 3 - INCOME TAXES The worldwide effective income tax rates for the fiscal first quarters of 2007 and 2006 were 29.5% and 28.4%, respectively. In 2007 the increase in the effective tax rate of 1.1% was primarily due to the in-process research and development (IPR&D) charge of $807 million, which is not tax deductible. This was partially offset by increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions along with the benefit of the Research and Development (R&D) tax credit in 2007 which was not in effect in the fiscal first quarter of 2006. The Company adopted FIN No 48, "Accounting for Uncertainty in Income Taxes" effective January 1, 2007 which resulted in the recognition of an additional $19 million of previously unrecognized tax benefits, with the corresponding adjustment to retained earnings. The Company had $1.1 billion of unrecognized tax benefits as of January 1, 2007 including the previous adjustment mentioned above. The Company classifies interest expense and penalties related to unrecognized tax benefits as income tax expense. The total amount of accrued interest on January 1, 2007 was $0.2 billion. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The U.S. Internal Revenue Service (IRS)has completed their audit for tax years through 1999; however, the years 1996 through 1999 remain open while a limited number of issues are being considered at the IRS appeals level. In other major jurisdictions where the Company conducts business, the tax years remain open generally back to the year 2000 with some jurisdictions remaining open back to 1995. NOTE 4 - INVENTORIES (Dollars in Millions) April 1, December 31, 2007 2006 Raw materials and supplies $1,046 $980 Goods in process 1,627 1,253 Finished goods 2,374 2,656 Total $5,047 $4,889 NOTE 5 - INTANGIBLE ASSETS & GOODWILL Intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and indefinite lived intangible assets are assessed annually for impairment. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2006 and no impairment was determined. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if conditions warranted. (Dollars in Millions) April 1, December 31, 2007 2006 Trademarks (non- amortizable) - gross $6,692 $6,609 Less accumulated amortization 136 134 Trademarks (non- amortizable) - net 6,556 6,475 Patents and trademarks - gross 5,333 5,282 Less accumulated amortization 1,774 1,695 Patents and trademarks - net 3,559 3,587 Other intangibles - gross 7,177 6,923 Less accumulated amortization 1,724 1,637 Other intangibles - net 5,453 5,286 Total intangible assets - gross 19,202 18,814 Less accumulated amortization 3,634 3,466 Total intangible assets - net 15,568 15,348 Goodwill - gross 14,405 14,075 Less accumulated amortization 742 735 Goodwill - net 13,663 13,340 Goodwill as of April 1, 2007 as allocated by segment of business is as follows: (Dollars in Millions) Consumer Pharm Med Dev Total & Diag Goodwill, net of accumulated amortization at December 31, 2006 $7,866 $902 $4,572 $13,340 Acquisitions - - 437 437 Translation & Other (118) 2 2 (114) Goodwill, net as of April 1, 2007 $7,748 $904 $5,011 $13,663 The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 27 years, respectively. The amortization expense of amortizable intangible assets for the fiscal first quarter ended April 1, 2007 was $175 million and the estimated amortization expense for the five succeeding years approximates $740 million before tax, per year. NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS SALES BY SEGMENT OF BUSINESS(1) (Dollars in Millions) Fiscal First Quarters April 1, April 2, Percent 2007 2006 Change Consumer U.S. $1,629 $1,150 41.7% International 1,867 1,205 54.9 3,496 2,355 48.5 Pharmaceutical U.S. 4,034 3,701 9.0 International 2,187 1,925 13.6 6,221 5,626 10.6 Medical Devices & Diagnostics U.S. 2,584 2,520 2.5 International 2,736 2,491 9.8 5,320 5,011 6.2 U.S. 8,247 7,371 11.9 International 6,790 5,621 20.8 Worldwide $15,037 $12,992 15.7% (1) Export and intersegment sales are not significant. OPERATING PROFIT BY SEGMENT OF BUSINESS (Dollars in Millions) Fiscal First Quarters April 1, April 2, Percent 2007 2006 Change Consumer $760 $465 63.4% Pharmaceutical 2,281 1,927 18.4 Medical Devices & Diagnostics (1) 715 2,160 (66.9) Segments total 3,756 4,552 (17.5) Income/(expense) not allocated to segments (104) 63 Worldwide total $3,652 $4,615 (20.9)% (1) Includes $807 million of IPR&D charges related to the acquisition of Conor Medsystems, Inc. completed in the fiscal first quarter of 2007. The fiscal first quarter of 2006 included the Guidant acquisition agreement termination fee, less associated expenses, of $622 million. SALES BY GEOGRAPHIC AREA (Dollars in Millions) Fiscal First Quarters April 1, April 2, Percent 2007 2006 Change U.S. $8,247 $7,371 11.9% Europe 3,812 3,071 24.1 Western Hemisphere, excluding U.S. 1,046 822 27.3 Asia-Pacific, Africa 1,932 1,728 11.8 Total $15,037 $12,992 15.7% 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 first quarters ended April 1, 2007 and April 2, 2006. (Shares in Millions) Fiscal Quarters Ended April 1, April 2, 2007 2006 Basic net earnings per share $.89 $1.11 Average shares outstanding - basic 2,894.2 2,974.5 Potential shares exercisable under stock option plans 209.4 233.2 Less: shares which could be repurchased under treasury stock method (183.2) (218.9) Convertible debt shares 3.9 3.9 Adjusted average shares outstanding - diluted 2,924.3 2,992.7 Diluted earnings per share $.88 $1.10 The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $1 million for both the fiscal first quarters ended April 1, 2007 and April 2, 2006. The diluted earnings per share calculation excluded 68 million and 47 million shares related to options for the fiscal first quarters ended April 1, 2007 and April 2, 2006, respectively, as the exercise price per share of these options was greater than the average market value, which would have resulted in an anti-dilutive effect on diluted earnings per share if included in the calculation. NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the fiscal first quarter ended April 1, 2007 was $2.6 billion, compared with $3.4 billion for the same period a year ago. Total

comprehensive income included net earnings, net unrealized currency gains and losses on translation, adjustments related to Employee Benefit Plans, net unrealized gains and losses on securities available for sale and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The following table sets forth the components of accumulated other comprehensive income. (Dollars in Millions) Total Unrld Gains/ Accum For. Gains/ Pens (Losses) Other Cur. (Losses) Liab on Deriv Comp Trans. on Sec Adj. & Hedg Inc/ (Loss) December 31, 2006 $ (158) 61 (2,030) 9 (2,118) 2007 Three Months changes Net change associated with current period hedging transactions (83) Net amount reclassed to net earnings 103* Net three months changes (96) 32 38 20 (6) April 1, 2007 $(254) 93 (1,992) 29 (2,124) Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in international subsidiaries. *Primarily offset in net earnings by changes in value of the underlying transactions. NOTE 9 - MERGERS, ACQUISITIONS AND DIVESTITURES During the fiscal first quarter of 2007, the Company acquired Conor Medsystems, Inc. for a purchase price of $1.4 billion in cash. Conor Medsystems, Inc., is a cardiovascular device company, which currently markets the CoStar Drug Eluting Stent. In the fiscal first quarter of 2007 the Company recorded an in-process research & development (IPR&D) charge of $807 million before and after tax related to the acquisition of Conor Medsystems, Inc. The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management. The completion of the purchase price allocation may result in adjustments to the carrying value of the Conor Medsystems, Inc. recorded assets and liabilities, revisions of the useful lives of intangible assets and the determination of any residual amount that will be allocated to goodwill. The related depreciation and amortization from the acquired assets is also subject to revision based on the final allocation. During the fiscal first quarter of 2007, the Company completed the divestiture of the KAOPECTATE(R), UNISOM(R), CORTIZONE(R), BALMEX(R) and ACT(R) consumer products to Chattem, Inc. for $410 million in cash. The 2006 acquisitions included Animas Corporation, a leading maker of insulin infusion pumps and related products; Hand Innovations LLC, a privately held manufacturer of fracture fixation products for the upper extremities; Future Medical Systems S.A., a company that primarily develops, manufactures and markets arthroscopic fluid management systems; Vascular Control Systems, Inc., a company focused on developing medical devices to treat fibroids and to control bleeding in obstetric and gynecologic applications; Groupe Vendome S.A., a French marketer of adult and baby skin care products; ColBar LifeScience Ltd., a company specializing in reconstructive medicine and tissue engineering; Ensure Medical, Inc., a company that develops devices for post-catheterization closure of the femoral artery; and the Consumer Healthcare business of Pfizer Inc., which included brands such as LISTERINE(R), NICORETTE(R), NEOSPORIN(R), SUDAFED(R), BENADRYL(R) and VISINE(R). The Company recorded the Guidant acquisition agreement termination fee, less associated expenses, of $622 million before tax in other income during the fiscal first quarter of 2006. NOTE 10 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS Components of Net Periodic Benefit Cost Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the fiscal first quarters of 2007 and 2006 included the following components: (Dollars in Millions) Retirement Plans Other Benefit Plans April 1, April 2, April 1, April 2, 2007 2006 2007 2006 Service cost $ 135 126 $ 37 18 Interest cost 160 140 37 26 Expected return on plan assets (197) (173) (1) (1) Amortization of prior service cost 2 3 (2) (2) Recognized actuarial losses 47 63 17 10 Net periodic benefit cost $ 147 159 $ 88 51 *Includes other post employment benefits as per the adoption of SFAS No. 158. Company Contributions The Company contributed $11 million during the fiscal first quarter of 2007 to its U.S. and international retirement plans. The Company does not expect a minimum statutory funding requirement for its U.S. retirement plans in 2007. International plans will be funded in accordance with local regulations. NOTE 11 - LEGAL PROCEEDINGS PRODUCT LIABILITY The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet and, where available, by third-party product liability insurance. Multiple products of Johnson & Johnson subsidiaries are subject to numerous product liability claims and lawsuits, including ORTHO EVRA(R), RISPERDAL(R), DURAGESIC(R) and the CHARITE(TM) Artificial Disc. There are approximately 1,800 claimants who have filed lawsuits or made claims regarding injuries allegedly due to ORTHO EVRA(R), 700 claimants with respect to RISPERDAL(R), 120 with respect to CHARITE(TM) and 100 with respect to DURAGESIC(R). These claimants seek substantial compensatory and, where available, punitive damages. Numerous claims and lawsuits in the United States relating to the drug PROPULSID(R), withdrawn from general sale by the Company's Janssen Pharmaceutica Inc. (Janssen) subsidiary in 2000, have been resolved or are currently enrolled in settlement programs with an aggregate cap below $100 million in payments by the Company. Litigation concerning PROPULSID(R) is pending in Canada, where a class action of persons alleging adverse reactions to the drug was recently certified. The Johnson & Johnson subsidiaries responsible for marketing the above products are vigorously defending against these claims except where settlement is deemed appropriate. AFFIRMATIVE STENT PATENT LITIGATION In patent infringement actions tried in Delaware Federal District Court in late 2000, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards against Boston Scientific Corporation (Boston Scientific) and Medtronic AVE, Inc. (Medtronic) based on a number of Cordis vascular stent patents. In December 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and the jury in the Medtronic action returned a verdict of $271 million. Multiple post-trial proceedings and appeals have ensued with respect to these verdicts, with the ultimate outcome still subject to uncertainty. Cordis also has an arbitration claim against Medtronic accusing Medtronic of infringement by sale of stent products introduced by Medtronic subsequent to its products subject to the earlier action referenced above. Those subsequent products were found to have been licensed to Medtronic pursuant to a 1997 license by an arbitration panel in March 2005. Further arbitration proceedings will determine whether royalties are owed for those products. In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2(TM), Taxus(R) and Liberte(R) stents of infringing the Palmaz patent that expired in November 2005. The Liberter stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2(TM), Taxus(R) and Liberte(R) stents infringed the Palmaz patent and that the Liberte(R) stent also infringed the Gray patent. Motions filed by Boston Scientific seeking to vacate the verdict or obtain a new trial were denied in June 2006. Cordis expects Boston Scientific will appeal to the U.S. Court of Appeals for the Federal Circuit. PATENT LITIGATION AGAINST VARIOUS JOHNSON & JOHNSON SUBSIDIARIES The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties. With respect to all of these matters,

the Johnson & Johnson subsidiary involved is vigorously defending against the claims of infringement and disputing, where appropriate, the validity and enforceability of the patent claims asserted against it. In July 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER(R) stent infringed Boston Scientific's Ding '536 patent and that the Cordis CYPHER(R) and BX VELOCITY(R) stents also infringed Boston Scientific's Jang '021 patent. The jury also found both of those patents valid. Boston Scientific seeks substantial damages and an injunction in that action. In June 2006, the District Court denied motions by Cordis to overturn the jury verdicts or grant a new trial. Cordis has moved for re-consideration of those decisions. If reconsideration is denied, Cordis will appeal to the Court of Appeals for the Federal Circuit. The District Court indicated it will consider damages, willfulness and injunctive relief after the appeals have been decided. The Federal District Court in Delaware granted Cordis' motion for summary judgement of non-infringement in Boston Scientific's case asserting infringement by the CYPHER(R) stent of Boston Scientific's Grainger patent. Boston Scientific is expected to appeal that decision. Boston Scientific has brought actions in Belgium and the Netherlands under its Kastenhofer patent to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. The Belgian case is pending and no hearing date has been set. A decision by the lower court in the Netherlands in Boston Scientific's favor was reversed on appeal in April 2007. Boston Scientific is expected to appeal further. In Germany, Boston Scientific has several actions based on its Ding patents pending against the Cordis CYPHER(R) stent. Cordis was successful in these actions at the trial level, but Boston Scientific has appealed. The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries that have yet to proceed to trial: J&J Plaintiff/ Product Company Patents Patent Holder Court Trial Date Filed Two-layer Cordis Kasten- Boston Scientific N.D. Cal 10/07 02/02 Catheters hofer Corp. Belgium * 12/03 Forman Stents Cordis Israel Medinol Multiple E.U. * 05/03 jurisdictions Catheters and Cordis Fitzmaurice Medtronic AVE E.D. Tex 09/07 06/03 stent delivery systems Contact Lenses Vision Nicolson CIBA Vision M.D. Fla. * 09/03 Care Drug Eluting Conor Jang Boston Scientific D. Del. 09/07 12/03 Stents Medsystems Corp. Drug Eluting Cordis Ding Boston Scientific Germany * 04/04 Stents Corp. 11/04 Stents Cordis Ricci Medtronic and E.D. Tex * 03/07 Evysio * Trial date to be established. LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAS) The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event the subsidiary of the Company involved is not successful in these actions, or the statutory 30-month stay expires before a ruling from the district court is obtained, the firms involved will have the ability, upon FDA approval, to introduce generic versions of the product at issue resulting in very substantial market share and revenue losses for the product of the Company's subsidiary. As noted in the following chart, 30-month stays expired during 2006 and will expire in 2007 or 2008 with respect to ANDA challenges regarding various products: Brand Name Patent/NDA Generic Trial Date 30-Month Product Holder Challenger Court Date Filed Stay Expires ACIPHEX(R) 20 Eisai Teva S.D.N.Y. 03/07 11/03 02/07 mg delay release (for Janssen) Dr.Reddy's S.D.N.Y. 03/07 11/03 02/07 tablet Mylan S.D.N.Y. 03/07 01/04 02/07 AXERT(R) 6.25 Almirall Teva S.D.N.Y. * 03/06 11/08 and 12.5 mg Ortho-McNeil Neurologics CONCERTA(R) McNeil-PPC Andrx D.Del. * 09/05 None 18,27,36 and 54 mg ALZA controlled release tablet ORTHO TRI CYCLEN(R) LO Ortho-McNeil Barr D.N.J. * 10/03 02/06 0.18 mg/0.025 mg 0.215 mg/0.025 mg and 0.25 mg/0.025 mg PEPCID(R) Complete McNeil-PPC Perrigo S.D.N.Y. 02/07 02/05 06/07 RAZADYNE(TM) Janssen Teva D. Del 05/07 07/05 01/08 Mylan D. Del 05/07 07/05 01/08 Dr. Reddy's D. Del 05/07 07/05 01/08 Purepac D. Del 05/07 07/05 01/08 Barr D. Del 05/07 07/05 01/08 Par D. Del 05/07 07/05 01/08 AlphaPharm D. Del 05/07 07/05 01/08 RAZADYNE(TM) ER Janssen Barr D.N.J. * 06/06 11/08 RISPERDAL(R) Tablets Janssen Mylan D.N.J. 06/06 12/03 05/06 .25, 0.5, 1, 2, 3, 4 Dr. Reddy's D.N.J. 06/06 12/03 06/06 mg tablets Apotex D.N.J. * 06/06 11/08 RISPERDAL(R) M-Tab Janssen Dr. Reddy's D.N.J. 06/06 02/05 07/07 0.5,1,2,3, 4 mg RISPERDAL(R) Oral Janssen Apotex D.N.J. * 03/06 08/08 Solution, 1 mg/ml TOPAMAX(R) Ortho-McNeil Mylan D.N.J. * 04/04 09/06 25,50,100, 200 mg tablet Cobalt D.N.J. * 10/05 03/08 TOPAMAX(R) SPRINKLE Ortho-McNeil Cobalt D.N.J. * 12/05 05/08 15, 25 mg capsule Mylan D.N.J. * 10/06 03/09 * Trial date to be established Trial in the action against Teva, Dr. Reddy's and Mylan with respect to their ANDA challenges to the patent on Aciphex of Esai Pharmaceutical, Inc., Ortho McNeil Pharmaceutical's marketing partner, proceeded before the district court in New York in April. The court indicated it would issue its decision in the case on or before May 15, 2007. In the action against Mylan and Dr. Reddy's Laboratories regarding RISPERDAL(R) (risperidone) tablets and M-Tabs, the District Court in New Jersey ruled, on October 13, 2006, that the RISPERDAL(R) patent was valid, enforceable, and infringed by the generic products at issue, and entered an injunction prohibiting Mylan and Dr. Reddy's from marketing their generic risperidone products until a date no earlier than patent expiration in December 2007. Mylan has appealed that ruling and argument is scheduled at the Court of Appeals for May 10, 2007. Dr. Reddy's withdrew its appeal. In the action against Mylan with respect to the patent on TOPAMAX(R), the District Court in New Jersey, on October 24, 2006, granted the Company's subsidiary Ortho-McNeil Pharmaceutical, Inc.'s (Ortho-McNeil) motion for a preliminary injunction barring launch by Mylan of its generic version of TOPAMAX(R). On February 2, 2007, the district court granted Ortho- McNeil's motion for summary judgment dismissing Mylan's claim the patent was obvious, the only remaining issue in the case. The Court entered judgment in the case for Ortho-McNeil, and entered an injunction prohibiting Mylan from marketing its generic topiramate products until a date no earlier than patent expiration in September 2008. Mylan has appealed and requested a stay of the trial court's order. In the weeks following the adverse ruling in the DITROPAN XL(R) ANDA litigation against Mylan in September 2005, Johnson & Johnson and ALZA received seven antitrust class action complaints filed by purchasers of the product. They allege that Johnson & Johnson and ALZA violated federal and state antitrust laws by knowingly pursuing baseless patent litigation, and thereby delaying entry into the market by Mylan and Impax. With respect to all of the above matters, the Johnson & Johnson subsidiary involved is vigorously defending the validity and enforceability and asserting the infringement of its own or its licensor's patents. AVERAGE WHOLESALE PRICE (AWP) LITIGATION Johnson & Johnson and several of its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. Most of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in Federal District Court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. In the MDL proceeding in Boston, plaintiffs moved for class certification of all or some portion of their claims. On August 16, 2005, the trial judge certified Massachusetts-only classes of private insurers providing "Medi-gap" insurance coverage and private payers for physician-

administered drugs where payments were based on AWP. The judge also allowed plaintiffs to file a new complaint seeking to name proper parties to represent a national class of individuals who made co-payments for physician- administered drugs covered by Medicare. The Court of Appeals declined to allow an appeal of those issues and in January 2006, the court certified the national class as noted above. A trial of the two Massachusetts-only class actions concluded before the Massachusetts District Court in December 2006. A decision is expected in the third or fourth quarter of 2007. The trial judge has scheduled jury trials to begin in June 2007 in the national class action on behalf of individuals who paid co-payments for Medicare Part B drugs. Trial in the action brought by the Attorney General of the State of Alabama making allegations related to AWP is set for November 2007. Additional AWP cases brought by various Attorney Generals are expected to be set for trial in 2008. OTHER In July 2003, Centocor Corporation received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Subsequent requests for documents have been received from the U.S. Attorney's Office. Both the Company and Centocor responded, or are in the process of responding, to these requests for documents and information. In December 2003, Ortho-McNeil received a subpoena from the U.S. Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX(R) (topiramate). Additional subpoenas for documents have been received. Ortho-McNeil is cooperating in responding to the subpoenas. In October 2004, the U.S. Attorney's Office in Boston asked attorneys for Ortho- McNeil to cooperate in facilitating the subpoenaed testimony of several present and former Ortho-McNeil employees before a federal grand jury in Boston. Cooperation in securing the testimony of additional witnesses before the grand jury has been requested and is being provided. In January 2004, Janssen received a subpoena from the Office of the Inspector General of the U.S. Office of Personnel Management seeking documents concerning sales and marketing of, any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL(R) (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. An additional subpoena seeking information about marketing of and adverse reactions to RISPERDAL(R) was received from the U.S. Attorney's Office for the Eastern District of Pennsylvania in November 2005. Janssen is cooperating in responding to these subpoenas. In August 2004, Johnson & Johnson Health Care Systems, Inc. (HCS), a Johnson & Johnson subsidiary, received a subpoena from the Dallas, Texas U.S. Attorney's Office seeking documents relating to the relationships between the group purchasing organization, Novation, and HCS and other Johnson & Johnson subsidiaries. The Company's subsidiaries involved have responded to the subpoena. In September 2004, Ortho Biotech Inc. (Ortho Biotech), received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to sales and marketing of PROCRIT(R) (Epoetin alfa) from 1997 to the present, as well as to dealings with U.S. Oncology Inc., a healthcare services network for oncologists. Ortho Biotech has responded to the subpoena. In March 2005, DePuy Orthopaedics, Inc. (DePuy), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of New Jersey, seeking records concerning contractual relationships between DePuy Orthopaedics and surgeons or surgeons-in- training involved in hip and knee replacement and reconstructive surgery. Other leading orthopaedic companies are known to have received a similar subpoena. DePuy Orthopaedics is responding to the subpoena as well as several follow-on subpoenas for documents. A number of employees of DePuy have been subpoenaed to testify before a grand jury in connection with this investigation. In June 2005, the U.S. Senate Committee on Finance requested the Company to produce information regarding use by several of its pharmaceutical subsidiaries of educational grants. A similar request was sent to other major pharmaceutical companies. In July 2005, the Committee specifically requested information about educational grants in connection with the drug PROPULSID(R). A follow up request was received from the Committee for additional information in January 2006. In July 2005, Scios Inc. (Scios), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR(R). Scios is responding to the subpoena. In early August 2005, Scios was advised that the investigation would be handled by the U.S. Attorney's Office for the Northern District of California in San Francisco. In September 2005, Johnson & Johnson received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to sales and marketing of eight drugs to Omnicare, Inc., a manager of pharmaceutical benefits for long-term care facilities. The Johnson & Johnson subsidiaries involved are responding to the subpoena. Several employees of the Company's pharmaceutical subsidiaries have been subpoenaed to testify before a grand jury in connection with this investigation. In January 2006, Janssen received a civil investigative demand from the Texas Attorney General seeking broad categories of documents related to the sales and marketing of RISPERDAL(R). Janssen is responding to the request. In October 2006, the Texas Attorney General joined a qui tam action filed against Janssen in Texas state court alleging off label marketing of RISPERDAL(R) and seeking compensation for alleged adverse reactions due to RISPERDAL(R). In February 2006, Johnson & Johnson received a subpoena from the U.S. Securities & Exchange Commission (SEC) requesting documents relating to the participation by several Johnson & Johnson subsidiaries in the United Nations Iraq Oil For Food Program. The subsidiaries are cooperating with the SEC in producing responsive documents. In June 2006, DePuy received a subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents related to the manufacture, marketing and sale of orthopaedic devices, and had search warrants executed in connection with the investigation. DePuy is responding to the request for documents. In the wake of publicity about the subpoena, DePuy was served with five civil antitrust class actions. In September 2006, Janssen received a subpoena from the Attorney General of the State of California seeking documents regarding sales and marketing and side- effects of RISPERDAL(R), as well as interactions with State officials regarding the State's formulary for Medicaid-reimbursed drugs. Janssen is in the process of responding to the subpoena. On November 27, 2006, Centocor received a subpoena seeking documents in connection with an investigation being conducted by the Office of the United States Attorney for the Central District of California regarding Centocor's Average Selling Price (ASP) calculations for REMICADE(R) under the company's Contract Purchase Program. Centocor is producing material responsive to the subpoena and cooperating with the investigation. On February 12, 2007, Johnson & Johnson voluntarily disclosed to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) that subsidiaries outside the United States are believed to have made improper payments in connection with the sale of medical devices in two small-market countries, which payments may fall within the jurisdiction of the Foreign Corrupt Practices Act. The Company has provided and will continue to provide additional information to DOJ and SEC, and will cooperate with the agencies' reviews of these matters. On March 5, 2007, Cordis Corporation received a letter request for documents from the Committee on Oversight and Government Reform of the U.S. House of Representatives regarding marketing and safety of drug- eluting stents. Cordis is cooperating in responding to the request. On March 12, 2007, the Company announced that it had received separate subpoenas from the U.S. Attorney's Office in Philadelphia, the U.S. Attorney's Office in Boston and the U.S. Attorney's Office in San Francisco. The subpoenas relate to investigations by these three offices referenced above concerning, respectively, sales and marketing of RISPERDAL(R) by

Janssen, TOPAMAX(R) by Ortho-McNeil and NATRECOR(R) by Scios. The subpoenas request information regarding the Company's corporate supervision and oversight of these three subsidiaries, including their sales and marketing of these drugs. The Company is cooperating in responding to these requests. On March 21, 2007, the Company received a letter from the Committee on Energy and Commerce of the U.S. House of Representatives seeking answers to several questions regarding marketing and safety of PROCRIT(R), the erythropoietin product sold by the Company's Ortho- Biotech subsidiary. The Company is responding to these questions. In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in Federal District Court in New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the U.S., who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Court denied plaintiffs' class certification motion in December 2006 and their motion for reconsideration in April 2007. Plaintiffs have indicated that they will appeal these decisions. The Company disputes the allegations in the lawsuit and is vigorously defending against them. In late December of 2005 and early 2006, three purported class actions were filed on behalf of purchasers of endo-mechanical instruments against the Company and its wholly-owned subsidiaries, Ethicon, Inc., Ethicon Endo-Surgery, Inc., and Johnson & Johnson Health Care Systems, Inc. These challenge suture and endo-mechanical contracts with Group Purchasing Organizations and hospitals,in which discounts are predicated on a hospital achieving specified market share targets for both categories of products. These actions have been filed in the Federal District Court for the Central District of California. In November 2005, Amgen filed suit against Hoffmann- LaRoche, Inc. in the U.S. District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it will seek to introduce into the United States, infringes a number of Amgen patents concerning EPO. Amgen licenses EPO for sale in the United States to the Company's Ortho Biotech Inc. subsidiary for non- dialysis indications. The suit is in its preliminary stages. In October 2006, Wyeth, Inc. initiated litigation in Delaware against Cordis Corporation alleging that Cordis breached the license and supply agreement pursuant to which Wyeth supplies Cordis the drug Rapamycin which is used in connection with Cordis' CYPHER(R) Sirolimus-eluting Stent. Cordis has commenced its own action in Delaware seeking a declaration that no breach has occurred. The Company is also involved in a number of other patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations and cash flows for that period. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Results of Operations Analysis of Consolidated Sales For the fiscal first quarter of 2007, worldwide sales were $15.0 billion, with a total increase of 15.7% and an operational increase of 13.3% over 2006 fiscal first quarter sales of $13.0 billion. Currency had a positive 2.4% impact on total reported fiscal first quarter 2007 sales. The acquisition of Pfizer Inc.'s Consumer Healthcare business net of related divestitures increased both total sales growth and operational growth by 7.0%. Sales by U.S. companies were $8.2 billion in the fiscal first quarter of 2007, which represented a total increase of 11.9% over the same period last year. Sales by international companies were $6.8 billion, which represented a total increase of 20.8%, an operational increase of 15.4%, and a positive impact from currency of 5.4% over 2006 fiscal first quarter sales. Sales by companies in the Western Hemisphere, excluding the U.S., achieved growth of 27.3%, operational growth of 26.9% and a positive impact from currency of 0.4%. Sales by companies in Europe experienced an increase of 24.1%, with operational growth of 15.0% and a positive impact from currency of 9.1%. Sales by companies in the Asia-Pacific, Africa region posted sales growth of 11.8%, with operational growth of 10.4% and a positive impact from currency of 1.4%. Analysis of Sales by Business Segments Consumer Consumer segment sales in the fiscal first quarter of 2007 were $3.5 billion, an increase of 48.5% over the same period a year ago, with 45.7% of operational growth and a positive impact from currency of 2.8%. U.S. consumer segment sales increased 41.7%, while international sales increased 54.9%, including operational growth of 49.4% and a positive currency impact of 5.5%. Major Consumer Franchise Sales (Dollars in Millions) Fiscal Quarters Ended April 1, April 2, Total Operations Currency 2007 2006 Change Change Change OTC Pharm & Nutr $1,257 $653 92.5% 90.4% 2.1% Skin Care 764 659 16.0 12.8 3.2 Baby & Kids Care 447 406 9.9 6.4 3.5 Women's Health 421 399 5.6 2.5 3.1 Oral Care Products 359 93 * * 1.7 Other 248 145 71.4 69.3 2.1 Total $3,496 $2,355 48.5% 45.7% 2.8% *Percentages greater than 100% The acquisition of Pfizer Inc.'s Consumer Healthcare business net of the related divestitures increased total sales growth for the total Consumer Segment by 39.1%. The corresponding impact by franchise is; OTC Pharm & Nutr 77.5%, Skin Care 6.3%, Baby & Kids Care 2.2%, Women's Health 5.3%, Oral Care Products greater than 100% and Other 62.0%. Consumer segment sales growth was attributable to solid sales performance, and the impact of new products from acquisitions net of divestitures in the major franchises in this segment, including OTC Pharmaceutical & Nutritionals, Oral Care Products, Skin Care and Baby & Kids Care. The OTC Pharmaceuticals and Nutritionals franchise achieved operational growth of 90.4%. This was attributable to new products from acquisitions, strong growth in the upper respiratory product lines reformulated with phenylephrine instead of pseudoephedrine, as well as growth in IMODIUM(R) and SPLENDA(R) products. The impact on OTC Pharmaceuticals and Nutritionals total sales growth due to newly acquired brands from Pfizer Inc. is 77.5%. The Skin Care franchise operational growth of 12.8% was driven by strong performances from the AVEENO(R), CLEAN & CLEAR(R), and Suncare product lines. Solid operational growth related to new products launched and new brands acquired as well as strong promotional activity. These gains were partially offset by softer sales of RoC(R) products. The impact on Skin Care sales growth due to newly acquired brands from Pfizer Inc. is 6.3%. The Baby & Kids Care franchise operational growth of 6.4% was the result of the strong performances by cleanser, lotion and cream product lines. The impact on Baby & Kids Care sales growth due to newly acquired brands from Pfizer Inc. and divestitures related to the acquisition is 2.2%. The Women's Health franchise achieved operational growth of 2.5%, which was attributable to new products related to acquisitions. The impact on Women's Health sales growth due to newly acquired brands from Pfizer Inc. is 5.3%. The Oral Care franchise strong results were driven by LISTERINE(R) products and the relaunch of REMBRANDT(R) Whitening Products. The impact on Oral Care sales growth due to newly acquired brands from Pfizer Inc. and divestitures related to the acquisition is greater than 100%. Pharmaceutical Pharmaceutical segment sales in the fiscal first quarter of 2007 were $6.2 billion, an increase of 10.6% over the same period a year ago with 8.6% of operational growth and a positive impact from currency of 2.0%. U.S. Pharmaceutical sales increased by 9.0%, while international Pharmaceutical sales increased by 13.6%, including operational growth of 7.7% and a positive impact from currency of 5.9%. Major Pharmaceutical Product Revenues (Dollars in Millions) Fiscal Quarters Ended April 1, April 2, Total Operations Currency 2007 2006 Change Change Change Anti-

psychotics $1,178 $1,018 15.7% 13.2% 2.5% PROCRIT(R)/EPREX(R) 817 786 3.9 1.5 2.4 REMICADE(R) 731 681 7.4 7.4 - TOPAMAX(R) 610 471 29.7 28.4 1.3 LEVAQUIN(R)/FLOXIN(R) 479 401 19.4 19.5 (0.1) ACIPHEX(R)/PARIET(R) 336 306 9.8 6.8 3.0 DURAGESIC(R)/ Fentanyl Transdermal 303 325 (6.8) (10.2) 3.4 CONCERTA(R) 252 235 7.3 6.0 1.3 Hormonal Contraceptives 237 254 (6.5) (7.6) 1.1 Other 1,278 1,149 11.2 8.1 3.1 Total $6,221 $5,626 10.6% 8.6% 2.0% Sales growth within the segment was led by strong performances from RISPERDAL(R) CONSTA(R) (risperidone), the launch of INVEGA(TM) (Paliperdone), REMICADE(R) (infliximab), TOPAMAX(R) (topiramate) and LEVAQUIN(R) (levofloxacin). Generic competition related to DURAGESIC(R) (fentanyl transdermal system), oral contraceptives and DITROPAN XL(R) continued to negatively impact sales during the fiscal first quarter of 2007. The anti-psychotic franchise which includes RISPERDAL(R) oral (risperidone), a medication that treats the symptoms of schizophrenia and bipolar mania, RISPERDAL(R) CONSTA(R) (risperidone) a long acting injectable and INVEGA(TM) (paliperdone) Extended-Release tablets for the treatment of schizophrenia, achieved operational growth of 13.2% in the fiscal first quarter of 2007. Sales growth was positively impacted by the U.S. launch of INVEGA(TM) and the global success of RISPERDAL(R) CONSTA(R). In March, the U.S. Food and Drug Administration (FDA) granted pediatric exclusivity for RISPERDAL(R), which extends the marketing exclusivity in the U.S. for RISPERDAL(R) oral to the end of June 2008 and RISPERDAL(R) CONSTA(R) to May 2014. PROCRIT(R) (Epoetin alfa) and EPREX(R) (Epoetin alfa) combined had operational sales growth of 1.5%. PROCRIT(R)'s increase was due to market growth coupled with market share gains in the hospital and retail markets offset by softer demand in the oncology clinics. Contributors to the EPREX(R) results were the indication for once weekly dosing and the restoration to the label of subcutaneous administration. In the U.S., Epoetin alfa products are now subject to a label change, which may negatively impact future sales. The label for Epoetin alfa products is also under review in jurisdictions outside the U.S. REMICADE(R) (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, psoriasis, psoriatic arthritis, ulcerative colitis and use in the treatment of rheumatoid arthritis, achieved operational growth of 7.4% over prior year fiscal first quarter. This continued growth was driven by expanded indications and overall market growth. REMICADE(R) is experiencing increased competition which may negatively impact the future rate of sales growth. TOPAMAX(R) (topiramate), which has been approved for adjunctive and monotherapy use in epilepsy, as well as for the prophylactic treatment of migraines, achieved strong operational growth of 28.4%. The primary driver of increased demand was in the focus area of migraine prescriptions written by primary care physicians. LEVAQUIN(R) (levofloxacin)/FLOXIN(R) achieved strong operational growth of 19.5% over prior year. This was primarily due to strong seasonal market growth in the U.S. In March the FDA granted pediatric exclusivity in the U.S. for LEVAQUIN(R), which will extend the marketing exclusivity by six months to June 2011. ACIPHEX(R)/PARIET(R) a proton pump inhibitor, achieved operational growth of 6.8% primarily due to strong market growth in the U.S. Depending on an imminent court decision related to the ACIPHEX(R) patent of Eisai Pharmaceutical, Inc., the Company's marketing partner, future sales may be negatively impacted due to earlier than anticipated generic competition. DURAGESIC(R)/Fentanyl Transdermal (fentanyl transdermal system) experienced an operational sales decline of 10.2%. Although U.S. sales grew, operational sales outside the U.S. declined due to the continued impact of generic competition in certain international markets. CONCERTA(R) (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, achieved operational sales growth of 6.0% over the fiscal first quarter of 2006. Although the original CONCERTA(R) patent expired in 2004, the FDA has not approved any generic version that is substitutable for CONCERTA(R). Two parties have filed Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA(R) which are pending and may be approved at any time. The hormonal contraceptive franchise experienced an operational sales decline of 7.6% primarily resulting from generic competition in oral contraceptives. ORTHO EVRA(R) (norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, experienced a significant decline in sales as a result of labeling changes and negative media coverage concerning product safety. This was partially offset by growth in ORTHO TRI- CYCLEN(R) LO (norgestimate/ethinyl estradiol), a low dose oral contraceptive. NATRECOR(R) (nesiritide), a product for the treatment of patients with acutely decompensated congestive heart failure who have dyspnea at rest or with minimal activity, experienced a decline in demand due to negative media coverage regarding a meta analysis of selected historical clinical trials. The Company believes that the data does not support the conclusions of these medical and consumer publications. Medical Devices and Diagnostics Medical Devices and Diagnostics segment sales in the fiscal first quarter of 2007 were $5.3 billion, an increase of 6.2% over the same period a year ago with 3.7% of this change due to operational growth and a positive impact from currency of 2.5%. The U.S. Medical Devices and Diagnostics sales increase was 2.5%, while the growth in international Medical Devices and Diagnostics sales was 9.8%, including operational growth of 4.7% and an increase of 5.1% related to the positive impact of currency. Major Medical Devices and Diagnostics Franchise Sales (Dollars in Millions) Fiscal Quarters Ended April 1, April 2, Total Operations Currency 2007 2006 Change Change Change DEPUY(R) $1,157 $1,039 11.3% 8.4% 2.9% CORDIS(R) 928 1,075 (13.6) (15.3) 1.7 ETHICON ENDO-SURGERY(R) 891 794 12.3 9.4 2.9 ETHICON(R) 870 774 12.4 8.8 3.6 LIFESCAN(R) 549 504 8.9 6.0 2.9 Vision Care 513 441 16.4 15.2 1.2 ORTHO-CLINICAL DIAGNOSTICS(R) 393 370 6.2 4.1 2.1 Other 19 14 38.6 37.8 0.8 Total $5,320 $5,011 6.2% 3.7% 2.5% The DePuy franchise's operational growth of 8.4% was primarily due to DePuy's orthopaedic joint reconstruction products including the hip and knee product lines. Strong performance was also reported in Mitek sports medicine products. The Cordis franchise experienced an operational sales decline of 15.3% as compared to the prior year. These results were impacted by lower sales of CYPHER(R) Sirolimus-eluting Coronary Stent primarily due to a global contraction of the drug-eluting stent market following reports of a potential risk of late stent thrombosis associated with the use of drug-eluting stents. These results were partially offset by very strong sales growth achieved by the Biosense Webster and Cordis Endovascular businesses which were driven by the sales of AcuNav Ultrasound Catheters, newly launched carotid systems and the continued growth of the chronic total occlusion devices. In April and July of 2004, the Cordis Cardiology Division of Cordis Corporation received Warning Letters from the FDA regarding Good Manufacturing Practice regulations and Good Clinical Practice regulations. In response to the Warning Letters, Cordis has made improvements to its quality systems and has provided periodic updates to the FDA. The Clinical Warning Letter issues have been resolved to the FDA's satisfaction. With respect to the Quality System Warning Letter, in addition to the improvement updates, the Cordis Juarez, Mexico and stent supplier locations were inspected with acceptable results. The FDA inspected the Miami site and the Global Quality system, including Design Control System, in August 2006, with acceptable results; Cordis received no observations from the FDA during this inspection. The FDA inspections were completed in Cordis LLC in San German, Puerto Rico and Cordis laboratory operations in Warren, New Jersey in January 2007, thereby completing all scheduled follow up inspections. Cordis has met with the FDA to review the results of the inspections and the FDA is in the final review of the inspection report from the Puerto Rico District Office. Cordis anticipates that the FDA final review will be completed in the second quarter. The Ethicon Endo-Surgery franchise achieved operational growth of 9.4% over prior year. This growth was

mainly driven by endocutter sales that include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise. Additionally, strong results were achieved with the continued success of the HARMONIC ACE(R), an ultrasonic cutting and coagulating surgical device. Ethicon worldwide sales grew operationally by 8.8% from the same period in the prior year. Sales of VICRYL(R)PLUS sutures, DERMABOND(R), Meshes and women's health products had strong results in the first quarter of 2007 as compared to the same period in the prior year. The LifeScan franchise achieved operational growth of 6.0% with the ONETOUCH(R) ULTRA(R) product line being the major contributor to growth outside the U.S. Sales related to the acquisition of Animas Corporation, acquired in the middle of fiscal first quarter 2006 also contributed to this growth. The Vision Care franchise operational sales growth of 15.2% was led by the continued success of ACUVUE(R) OASYS(TM), 1-DAY ACUVUE(R) moist, and ACUVUE(R) ADVANCE(TM) for Astigmatism. The Ortho-Clinical Diagnostics franchise achieved operational growth of 4.1% with the Immunodiagnostics product line being a major contributor. Included in first quarter sales was the launch of the Chagas screening assay. Cost of Products Sold and Selling, Marketing and Administrative Expenses Consolidated costs of goods sold increased to 29.1% from 27.8% of sales over the same period a year ago. The increase is due to the impact of newly acquired consumer brands as well as unfavorable product mix in the pharmaceutical and medical devices and diagnostic segments. Consolidated selling, marketing and administrative expenses increased 17.3% over the same period a year ago. Selling, marketing and administrative expenses as a percent to sales were 31.9% versus 31.5% in the fiscal first quarter of 2006. The increase is attributable to the addition of the newly acquired consumer brands to our mix of businesses partially offset by continued cost containment efforts primarily in our pharmaceutical business. Research & Development Research activities represent a significant part of the Company's business. These expenditures relate to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of consumers and patients. Worldwide costs of research activities for the fiscal first quarter of 2007 were $1.7 billion, an increase of 7.8% over the same period a year ago. This increase reflects both the significant number of pharmaceutical projects in late stage development and higher levels of investment in research projects in our Medical Devices and Diagnostics segment. As a percent to sales, the level of research and development spending decreased to 11.0% in the fiscal first quarter of 2007, from 11.8% during the same period a year ago. This decrease as a percent to sales in research and development is primarily due to the change in the mix of businesses with the inclusion of the newly acquired consumer products. In-Process Research & Development In the fiscal first quarter of 2007 the Company recorded an in-process research & development (IPR&D) charge of $807 million before and after tax related to the acquisition of Conor Medsystems Inc. The fiscal first quarter of 2006 IPR&D charge of $37 million before tax, and $29 million after tax related to the acquisitions of Hand Innovations LLC and Future Medical Systems S.A. Other (Income) Expense, Net Other (income) expense included gains and losses related to the sale and write-down of certain equity securities of the Johnson & Johnson Development Corporation, losses on the disposal of fixed assets, currency gains & losses, minority interests, litigation settlement expense, as well as, royalty income. The change in other (income) expense was the result of the net gain of $175 million before tax related to the divestiture of certain brands partially offset by the integration costs of newly acquired businesses recorded in the fiscal first quarter of 2007, as compared to the same period a year ago, which included a gain of $622 million recorded for the Guidant acquisition termination fee, less associated expenses. OPERATING PROFIT BY SEGMENT Consumer Segment Operating profit for the Consumer segment as a percent to sales in the fiscal first quarter of 2007 was 21.7% versus 19.7% over the same period a year ago. This increase was primarily due to the gain from the divestitures offset by integration costs and other operating expenses related to newly acquired products. Pharmaceutical Segment Operating profit for the Pharmaceutical segment as a percent to sales in the fiscal first quarter of 2007 was 36.7% versus 34.3% over the same period a year ago. Operating profit was positively impacted by cost containment efforts in selling, marketing and administrative expenses. Medical Devices and Diagnostics Segment Operating profit for the Medical Devices and Diagnostics segment as a percent of sales in the fiscal first quarter of 2007 was 13.4% versus 43.1% over the same period a year ago. Operating profit was negatively impacted by IPR&D charges of $807 million, associated with the Conor Medsystems acquisition in the fiscal first quarter of 2007. The fiscal first quarter 2006 included the Guidant acquisition termination fee, less associated expenses, of $622 million before tax. Interest (Income) Expense Interest income in the fiscal first quarter of 2007 decreased by $102 million over the fiscal first quarter of 2006, due to a lower cash balance. The cash balance, which included marketable securities, was $5.2 billion at the end of the fiscal first quarter of 2007. This is a decrease of $12.0 billion from the same period a year ago. This is primarily due to acquisition activity and the stock repurchase program during the fiscal year 2006. Interest expense in the fiscal first quarter of 2007 increased by $46 million over the fiscal first quarter of 2006 due to a higher debt position of $3.9 billion. This was due to acquisition activity and the stock repurchase program during the fiscal year 2006. Provision For Taxes on Income The worldwide effective income tax rates for the fiscal first quarters of 2007 and 2006 were 29.5% and 28.4%, respectively. The increase in the effective tax rate of 1.1% was primarily due to the IPR&D charge of $807 million recorded in the fiscal first quarter of 2007,which was non-deductible for tax purposes. This was partially offset by increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions along with the Research and development tax credit, which was not in effect in the fiscal first quarter of 2006. LIQUIDITY AND CAPITAL RESOURCES Cash Flows Cash generated from operations provided the major sources of funds for the growth of the business, including working capital, capital expenditures and acquisitions. Other uses of cash included share repurchases, dividend payments and debt repayments. In the fiscal first quarter of 2007, cash flow from operations was $3.8 billion, an increase of $0.4 billion over the same period a year ago. This increase was primarily due to a $0.4 billion increase in accounts payable. Net cash used by investing activities increased by $0.1 billion due to an increase of $0.6 billion in acquisition activity offset by $0.2 billion in proceeds from the disposal of assets and a decrease of $0.2 in the purchase of investments. Net cash used by financing activities decreased by $0.1 billion due to a $0.1 billion decrease in the repurchase of common stock and an increase of $0.1 billion in proceeds from the exercise of stock options offset by a $0.1 billion increase in dividends paid to shareholders. Cash and current marketable securities were $5.2 billion at the end of the fiscal first quarter of 2007 as compared with $17.2 billion at the end of fiscal first quarter 2006, a decrease of $12.0 billion, which was due to acquisition activity and the 2006 stock repurchase program. Dividends On January 2, 2007, the Board of Directors declared a regular cash dividend of $0.375 per share, paid on March 13, 2007 to shareholders of record as of February 27, 2007. This represented an increase of 13.6% from the fiscal first quarter of 2006 dividend. On April 26, 2007, the Board of Directors declared a regular cash dividend of $0.415 per share, payable on June 12, 2007 to shareholders of record as of May 29, 2007. This represented an increase of 10.7% in the quarterly dividend rate and was the 45th consecutive year of cash dividend increases. The Company expects to continue the practice of paying regular cash dividends. OTHER INFORMATION New Accounting Standards In September 2006, the FASB issued Statement of Financial Accounting Standards No 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value under

generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective in the fiscal first quarter of 2008 and the Company will adopt the statement at that time. The Company believes that the adoption of SFAS No 157 will not have a material effect on its results of operations, cash flows or financial position. In June 2006, the FASB issued FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No 109". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification and other matters. The statement was effective for the fiscal year 2007 and the Company adopted the Interpretation at that time. See Note 3 to the Unaudited Consolidated Financial Statements for more details. In February 2007, the FASB issued Statement No. 159, "Fair Value Option for Financial Assets and Financial Liabilities", which permits an entity to measure certain financial assets and financial liabilities at fair value. Statement 159 is effective for fiscal year 2008 but early adoption is permitted. The Company is currently in the process of evaluating this pronouncement and the impact of the adoption of FASB 159 would have on its results of operations, cash flows and financial position. Economic and Market Factors Johnson & Johnson is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concern about the rising cost of health care. Johnson & Johnson has a long-standing policy of pricing products responsibly. For the period 1996 through 2006 in the United States, the weighted average compound annual growth rate of Johnson & Johnson price increases for health care products (prescription and over-the- counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI). Inflation rates, even though moderate in many parts of the world during 2006, continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement. The Company also operates in an environment increasingly hostile to intellectual property rights. Generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending a lawsuit resulting from an Abbreviated New Drug Application filing, the generic firms will then introduce generic versions of the product at issue, resulting in very substantial market share and revenue losses. For further information see the discussion on "Litigation Against Filers of Abbreviated New Drug Applications" in Note 11 to the Unaudited Consolidated Financial Statements. CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS This Form 10-Q contains forward-looking statements. Forward- looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approval, market position and expenditures. Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward- looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or that unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments. Risks and uncertainties include general industry conditions and competition; economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approvals; challenges to patents; U.S. and foreign health care reforms and governmental laws and regulations; trends toward health care cost containment; increased scrutiny of the health care industry by government agencies; product efficacy or safety concerns resulting in product recalls or regulatory action. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 contains, as an Exhibit, a discussion of additional factors that could cause actual results to differ from expectations. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Item 4 - CONTROLS AND PROCEDURES Disclosure controls and procedures. At the end of the period covered by this report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. William C. Weldon, Chairman and Chief Executive Officer, and Dominic J. Caruso, Vice President, Finance and Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Weldon and Caruso concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Internal control. During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Part II - OTHER INFORMATION Item 1 - LEGAL PROCEEDINGS The information called for by this item is incorporated herein by reference to Note 12 included in Part I, Item 1. Financial Statements unaudited)-Notes to Consolidated Financial Statements. Item 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS (c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table provides information with respect to Common Stock purchases by the Company during the fiscal first quarter of 2007. Common Stock purchases on the open market are made as part of a systematic plan to meet the Company's compensation programs. Total Number of Average Price Fiscal Month Shares Purchased Paid per Share January 1, 2007 through January 28, 2007 1,303,500 $66.18 January 29, 2007 through February 25, 2007 1,153,800 $65.61 February 26, 2007 through April 1, 2007 2,139,500 $62.25 Total 4,596,800 $64.21 Item 6 - EXHIBITS Exhibit 31.1 Certifications under Rule 13a-14(a) of the Securities Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed with this document. Exhibit 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley

Act of 2002 - Furnished with this document. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. JOHNSON & JOHNSON (Registrant) Date: May 10, 2007 By /s/ D.J. CARUSO D.J. CARUSO Vice President, Finance; Chief Financial Officer (Principal Financial Officer) Date: May 10, 2007 By /s/ S.J. COSGROVE S. J. COSGROVE Controller (Principal Accounting Officer)