10-Q 1 qonetenq.txt 10Q 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 March 31, 2002 or ( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the for the transition period from to Commission file number 1-3215 JOHNSON & JOHNSON (Exact name of registrant as specified in its charter) NEW JERSEY 22-1024240 (State or other jurisdiction of (I.R.S. Employer Incorporation or organization) Identification No.) One Johnson & Johnson Plaza New Brunswick, New Jersey 08933 (Address of principal executive offices) Registrant's telephone number, including area code (732) 524-0400 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On April 26, 2002, 3,011,205,232 shares of Common Stock, $1.00 par value, were outstanding. 1 JOHNSON & JOHNSON AND SUBSIDIARIES TABLE OF CONTENTS Part I - Financial Information Page No. Item 1. 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Quantitative and Qualitative Disclosures About Market Risk 13 Part II - Other Information Item 1 - Legal Proceedings 13 Item 5 - Exhibits and Reports on Form 8-K 15 Signatures 16 2 Part I - FINANCIAL INFORMATION Item 1 - Financial Statements JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) ASSETS March 31, December 30, 2002 2001 Current Assets: Cash and cash equivalents $ 3,437 3,758 Marketable securities 3,976 4,214 Accounts receivable, trade, less allowances for doubtful accounts $203(2001 - $197) 4,740 4,630 Inventories (Note 4) 3,103 2,992 Deferred taxes on income 1,246 1,192 Prepaid expenses and other receivables 1,913 1,687 Total current assets 18,415 18,473 Marketable securities, non-current 937 969 Property, plant and equipment, at cost 12,561 12,458 Less accumulated depreciation 4,906 4,739 7,655 7,719 Intangible assets, gross (Note 5) 10,905 10,910 Less accumulated amortization 1,844 1,833 Intangible assets, net 9,061 9,077 Deferred taxes on income 316 288 Other assets 1,912 1,962 Total assets $38,296 38,488 See Notes to Consolidated Financial Statements 3 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET (Unaudited; Dollars in Millions) LIABILITIES AND SHAREOWNERS' EQUITY March 31, December 30, 2002 2001 Current Liabilities: Loans and notes payable $ 669 565 Accounts payable 2,358 2,838 Accrued liabilities 3,447 3,135 Accrued salaries, wages and commissions 647 969 Taxes on income 1,180 537 Total current liabilities 8,301 8,044 Long-term debt 2,225 2,217 Deferred tax liability 500 493 Employee related obligations 1,869 1,870 Other liabilities 1,678 1,631 Shareowners' equity: Preferred stock - without par value (authorized and unissued 2,000,000 shares) - - Common stock - par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,000 shares) 3,120 3,120 Note receivable from employee stock ownership plan (25) (30) Accumulated other comprehensive income (Note 8) (643) (530) Retained earnings 24,059 23,066 26,511 25,626 Less common stock held in treasury, at cost (94,280,000 & 72,627,000 shares) 2,788 1,393 Total shareowners' equity 23,723 24,233 Total liabilities and shareowners' equity $38,296 38,488 See Notes to Consolidated Financial Statements 4 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF EARNINGS (Unaudited; dollars & shares in millions except per share figures) Fiscal Quarter Ended March 31, Percent April 1, Percent 2002 to Sales 2001 to Sales Sales to customers (Note 6) $8,743 100.0 7,855 100.0 Cost of products sold 2,457 28.1 2,311 29.4 Gross Profit 6,286 71.9 5,544 70.6 Selling, marketing and administrative expenses 2,843 32.5 2,666 34.0 Research expense 831 9.5 759 9.7 Interest income (76) (.9) (125) (1.6) Interest expense, net of portion capitalized 34 .4 33 .4 Other (income)expense, net 33 .4 (6) (.1) 3,665 41.9 3,327 42.4 Earnings before provision for taxes on income 2,621 30.0 2,217 28.2 Provision for taxes on income (Note 3) 787 9.0 665 8.4 NET EARNINGS $1,834 21.0 1,552 19.8 NET EARNINGS PER SHARE (Note 7) Basic $ .60 .51 Diluted $ .59 .50 CASH DIVIDENDS PER SHARE $ .18 .16 AVG. SHARES OUTSTANDING Basic 3,042.0 3,020.4 Diluted 3,115.4 3,106.9 See Notes to Consolidated Financial Statements 5 JOHNSON & JOHNSON AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited; Dollars in Millions) Fiscal Quarter Ended March 31, April 1, 2002 2001 CASH FLOWS FROM OPERATING ACTIVITIES Net earnings $ 1,834 1,552 Adj. to reconcile net earnings to cash flows: Depreciation and amortization of property and intangibles 412 412 Accounts receivable reserves (13) 6 Changes in assets and liabilities, net of effects from acquisition of businesses: Increase in accounts receivable (139) (246) Increase in inventories (128) (59) Changes in other assets and liabilities (31) (5) NET CASH FLOWS FROM OPERATING ACTIVITIES 1,935 1,660 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant and equip (350) (271) Proceeds from the disposal of assets 18 29 Acquisition of businesses, net of cash acquired (28) (17) Purchases of investments (1,689) (1,631) Sales of investments 2,023 1,553 Other (58) (77) NET CASH USED BY INVESTING ACTIVITIES (84) (414) CASH FLOWS FROM FINANCING ACTIVITIES Dividends to shareowners (549) (447) Repurchase of common stock (1,899) (257) Proceeds from short-term debt 272 116 Retirement of short-term debt (156) (645) Proceeds from long-term debt 17 4 Retirement of long-term debt (12) (19) Proceeds from the exercise of stock options 164 96 NET CASH USED BY FINANCING ACTIVITIES (2,163) (1,152) EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (9) (32) INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS (321) 62 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 3,758 4,278 CASH AND CASH EQUIVALENTS, END OF PERIOD $ 3,437 4,340 SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: CONVERSION OF DEBT - 460 ACQUISITION OF BUSINESSES Fair value of assets acquired 39 22 Fair value of liabilities assumed (11) (5) Net Cash Payment $ 28 17 See Notes to Consolidated Financial Statements 6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - The accompanying unaudited interim financial statements and related notes should be read in conjunction with the Consolidated Financial Statements of Johnson & Johnson and Subsidiaries (the "Company") and related notes as contained in the Annual Report on Form 10-K for the fiscal year ended December 30, 2001. The Company has adopted EITF Issue No. 01-09 "Accounting for Consideration given by a Vendor to a Customer or Reseller of the Vendor's Products" effective December 31, 2001. All periods have been restated primarily to reclassify sales incentives and trade promotional allowances from expense to a reduction of sales as such, sales for the first quarter of 2001 were reduced by $166 million. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair presentation of such statements. Certain other prior year amounts have been reclassified to conform with the current year presentation. NOTE 2 - FINANCIAL INSTRUMENTS Effective January 1, 2001, the Company adopted SFAS 133 requiring that all

derivative instruments be recorded on the balance sheet at fair value. As of March 31, 2002 the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $74 million (after tax). Of this amount, the Company expects that $74 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. The primary types of underlying transactions which will cause the amount in accumulated other comprehensive income to affect net earnings primarily consist of sales to third parties. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 15 months. For the fiscal quarter ended March 31, 2002 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the fiscal quarter ended March 31, 2002 the Company has recorded a net gain of $1 million (after tax) in the "other (income) expense, net" category of the consolidated statement of earnings, representing the impact of discontinuance of cash flow hedges because it is probable that the originally forecasted transactions will not occur by the end of the originally specified time period. Refer to Note 8 for disclosures of movements in Accumulated Other Comprehensive Income. NOTE 3 - INCOME TAXES The effective income tax rate for the first fiscal three months of 2002 and 2001 is 30.0% as compared to the U.S. federal statutory rate of 35%. The difference from the statutory rate is primarily the result of subsidiaries manufacturing in Ireland under an incentive tax rate effective through the year 2010 and domestic subsidiaries operating in Puerto Rico under a tax incentive grant expiring in 2014. 7 NOTE 4 - INVENTORIES (Dollars in Millions) March 31, 2002 Dec. 30, 2001 Raw materials and supplies $ 973 842 Goods in process 635 605 Finished goods 1,495 1,545 $ 3,103 2,992 NOTE 5 - INTANGIBLE ASSETS In accordance with SFAS No. 142, effective July 1, 2002, the Company discontinued the amortization of goodwill and identifiable assets that have been determined by the Company to have indefinite useful lives. Goodwill and non-amortizable trademarks will be assessed annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The impact of discontinuing amortization of goodwill and indefinite lived intangible assets will be a reduction from the prior year of amortization expense of approximately $30 million after tax or $0.01 per share and $120 million after tax or $0.04 per share for the quarter and the year, respectively. The amortization of intangible assets for the fiscal three months ended March 31, 2002, is $93 million pre-tax and the estimated amortization expense for the full year 2002 and for each of the five succeeding years approximates $375 million pre tax, per year respectively. (Dollars in Millions) March 31, 2002 Goodwill-gross $ 5,048 Less accumulated amortization 629 Goodwill - net 4,419 Trademarks (non-amortizable)- gross 656 Less accumulated amortization 110 Trademarks (non-amortizable)- net 546 Patents 2,271 Less accumulated amortization 437 Patents - net 1,834 Other intangible - gross 2,930 Less accumulated amortization 668 Other intangibles - net 2,262 Total intangible assets - gross 10,905 Less accumulated amortization 1,844 Total intangibles - net $ 9,061 8 NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS (Dollars in Millions) SALES BY SEGMENT OF BUSINESS Fiscal First Quarter Percent 2002 2001 Change Consumer Domestic $ 900 896 .4 International 704 735 (4.2) 1,604 1,631 (1.7)% Pharmaceutical Domestic $ 2,958 2,356 25.6 International 1,223 1,133 7.9 4,181 3,489 19.8% Med Dev & Diag Domestic $ 1,663 1,463 13.7 International 1,295 1,272 1.8 2,958 2,735 8.2% Domestic $ 5,521 4,715 17.1 International 3,222 3,140 2.6 Worldwide $ 8,743 7,855 11.3% OPERATING PROFIT BY SEGMENT OF BUSINESS Fiscal First Quarter Percent 2002 2001 Change Consumer $ 315 286 10.1 Pharmaceutical 1,664 1,366 21.8 Med. Dev. & Diag. 662 553 19.7 Segments total 2,641 2,205 19.8 Expenses not allocated to segments (20) 12 Worldwide total $ 2,621 2,217 18.2% SALES BY GEOGRAPHIC AREA Fiscal First Quarter Percent 2002 2001 Change U.S. $ 5,521 4,715 17.1 Europe 1,765 1,697 4.0 Western Hemisphere Excluding U.S. 481 506 (4.9) Asia-Pacific, Africa 976 937 4.2 Total $ 8,743 7,855 11.3% 9 NOTE 7 - EARNINGS PER SHARE The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal three months ended March 31, 2002 and April 1, 2001. Earnings per share figures and shares outstanding reflect the two-for-one stock split effective during the second quarter of 2001. (Shares in Millions) Fiscal Quarter Ended March 31, April 1, 2002 2001 Basic net earnings per share $ .60 .51 Average shares outstanding - basic 3,042.0 3,020.4 Potential shares exercisable under stock option plans 204.1 115.1 Less: shares which could be repurchased under treasury stock method (150.9) (67.4) Convertible debt shares 20.2 38.8 Adjusted average shares outstanding - diluted 3,115.4 3,106.9 Diluted earnings per share $ .59 .50 NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME The total comprehensive income for the fiscal three months ended March 31, 2002 is $1,719 million, compared with $1,456 million for the same period a year ago. Total comprehensive income includes net earnings, net unrealized currency gains and losses on translation, net unrealized gains and losses on available for sale securities, pension liability adjustments and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The following table sets forth the components of accumulated other comprehensive income. Total Unrld Gains/ Accum For. Gains/ Pens (Losses) Other Cur. (Losses) Liab on Deriv Comp Trans. on Sec Adj. & Hedg Inc/(Loss) December 30, 2001 $ (697) 84 (15) 98 (530) 2002 Three Months changes Net change associated to current period hedging transactions - - - (3) Net amount reclassed to net earnings - - - (21)* Net Three Months changes (46) (43) - (24) (113) March 31, 2002 $ (743) 41 (15) 74 (643) 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. 10 NOTE 9 - MERGERS & ACQUISITIONS On March 12, 2002, Johnson & Johnson acquired Micro Typing Systems, Inc. Micro Typing Systems manufactures a line of reagents and supplies distributed instruments known as the ID- MICRO TYPING SYSTEM (ID-MTS). ID-MTS is used in hospitals and donor centers to help to ensure safe and effective blood transfusions. On March 22, 2002, Johnson & Johnson announced it had signed a definitive agreement to acquire all of the assets of Tibotec-Virco NV, a privately held biopharmaceutical company focused on developing anti-viral treatments, with several promising compounds in development for the treatment of infectious diseases including HIV. On April 18, 2002, Johnson & Johnson announced the completion of the acquisition of Tibotec-Virco NV. The transaction is valued at approximately $320 million in cash and debt. Johnson & Johnson will incur an after-tax charge of approximately $145 million, or $0.05 per share, in the second quarter associated with in-process research and development costs relating to this acquisition. NOTE 10 - LEGAL PROCEEDINGS The information called for by this footnote is incorporated herein by reference to Item 1 ("Legal Proceedings") included in Part II of this Report on Form 10-Q. NOTE 11 - NEW ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company is currently assessing the impact of this new standard and it will become effective for the fiscal years beginning after June 15, 2002. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for the first quarter of 2002. The Company's adoption of SFAS No. 144 did not have a material effect on the Company's results of operations, cash flows or financial position. NOTE 12 - SUBSEQUENT EVENT On April 25, 2002, as previously announced, Mr. William C. Weldon became Chairman of

the Board, Chief Executive Officer and Chairman of the Executive Committee, and Mr. James T. Lenehan assumed additional responsibilities as President of the Company, in addition to serving as Vice Chairman. Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SALES AND EARNINGS Consolidated sales for the fiscal first quarter of 2002 were $8.74 billion, an increase of 11.3% over 2001 fiscal first quarter sales of $7.86 billion. The effect of the stronger dollar relative to foreign currencies decreased first quarter sales by 2.1%. Consolidated net earnings for the fiscal first quarter of 2002 were $1.83 billion, compared with $1.55 billion for the same period a year ago, an increase of 18.2%. Earnings for the quarter included the write down of certain equity investments and an increase of $30 million over the first quarter of 2001 due to the non-amortization of goodwill and certain other intangible assets. Worldwide basic net earnings per share for the period were $.60, compared with $.51 for the same period in 2001, an increase of 17.6%. Worldwide diluted net earnings per share for the period were $.59 compared with $.50 for the same period in 2001, an increase of 18.0% Domestic sales for the first fiscal three months of 2002 were $5.52 billion, an increase of 17.1% over 2001 domestic sales of $4.72 billion for the same period. Sales by international subsidiaries were $3.22 billion for the fiscal first quarter of 2002 compared with $3.14 billion for the same period a year ago, an increase of 2.6%. Excluding the impact of the higher value of the dollar, international sales increased by 8.0% for the quarter. 11 Worldwide Consumer sales for the fiscal first quarter of 2002 were $1.6 billion, an operational increase of .6% versus the same period a year ago. Domestic sales increased by .4%. International sales gains in local currency of .9% were offset by negative currency, resulting in a reported worldwide sales decline of 1.7%. Consumer sales experienced solid growth in NEUTROGENA and AVEENO skin care products, the JOHNSON'S line of baby skin care products and McNeil Nutritional's SPLENDA sweetener products. Worldwide Pharmaceutical sales of $4.2 billion for the fiscal quarter resulted in an operational increase of 21.3% over the same period in 2001. Domestic sales increased 25.6%. International sales increased operationally 12.6% but were partially offset by a negative currency impact of 4.7%. Worldwide reported sales growth including a 1.5% negative currency impact was 19.8%. Sales growth reflects the strong performance of PROCRIT/EPREX, for the treatment of anemia; RISPERDAL, an antipsychotic medication; DURAGESIC, a transdermal patch for chronic pain; REMICADE, a treatment for rheumatoid arthritis and Crohn's disease; TOPAMAX, an antiepileptic, and ACIPHEX/PARIET, a proton pump inhibitor for gastrointestinal disorders. During the quarter, the Company received U.S. Food and Drug Administration (FDA) approval for RISPERDAL for the additional indication of delaying relapse in the long-term treatment of schizophrenia. Clinical trials demonstrate that RISPERDAL significantly reduces the risk of relapse as compared to haloperidol, a conventional antipsychotic previously considered to be the "standard" for treatment of psychosis. The Company also received FDA approval for REMICADE for improvement in physical function in patients with rheumatoid arthritis. In February, the Medicines Control Agency (MCA) in the United Kingdom approved CONCERTA XL, a once-daily treatment for attention deficit hyperactivity disorder. The UK will serve as the reference member state for the mutual-recognition of CONCERTA XL in the European Union. In March, the Company announced a definitive agreement to acquire Tibotec-Virco NV, a privately held biopharmaceutical company focused on developing anti-viral treatments. The acquisition will expand drug discovery and development capabilities, particularly in the field of anti-viral therapies. On April 18, 2002, Johnson & Johnson announced the completion of the acquisition. The transaction is valued at approximately $320 million in cash and debt. In addition, Johnson & Johnson will incur an after-tax charge of approximately $145 million, or $0.05 per share, in the second quarter associated with in-process research and development costs. Worldwide sales for the Medical Devices and Diagnostics segment were $3.0 billion in the fiscal first quarter of 2002, which represented an operational increase of 11.1% in local currency as compared to the same period in 2001. Domestic sales were up 13.7%, while international sales increased 7.9% on an operational basis. Worldwide sales gains including the negative impact of currency were reported at 8.2%. Strong sales growth from Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal products; LifeScan's blood glucose monitoring products; Ethicon Endo-Surgery's minimally invasive surgical products and Vistakon's disposable contact lenses were the primary contributors to the Medical Devices and Diagnostics segment growth. During the quarter, LifeScan and Novo Nordisk A/S launched the INDUO System, a state-of-the art combined blood glucose monitor and insulin doser for people with diabetes. The INDUO System offers insulin users a more convenient approach to informed dosing decisions with the benefit of blood glucose tests. LIQUIDITY AND CAPITAL RESOURCES Cash generated from operations and selected borrowings provides the major source of funds for the growth of the business, including working capital, additions to property, plant and equipment, acquisitions and the stock repurchase progam. Cash and current marketable securities totaled $7.4 billion at March 31, 2002 as compared with $8.0 billion at the end of 2001. For the year ended December 30, 2001, there was a change in the timing of salary increases and bonuses to employees from December 2001 to February 2002. This change was enacted to have 2001 results finalized in order to align compensation and performance. The result of this change was a decrease of approximately $450 million in accrued salaries, wages and commissions in the balance sheet at March 31, 2002 12 and results in a corresponding decrease in cash flows from operating activities. Total borrowings increased slightly during the first fiscal three months of 2002 to $2.9 billion. Net cash (cash and current marketable securities net of debt) as of March 31, 2002 was $4.5 billion, compared with $5.2 billion at the end of 2001. Total debt represented 10.9% of total capital (shareowners' equity and total debt) at quarter end compared with 10.3% at the end of 2001. On February 13, 2002, the Company announced a stock repurchase program of up to $5 billion with no time limit on this program. As of May 3, 2002, 42,845,400 shares had been repurchased for an aggregate price of $2.7 billion. On April 25, 2002, the Board of Directors raised the quarterly dividend from 18 cents per share to 20.5 cents per share. The dividend is payable on June 11, 2002 to shareowners of record as of May 21, 2002. CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS This Form 10-Q contains "forward-looking statements." Forward- looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approvals, market position and expenditures. Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments. The Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2001 contains, in Exhibit 99(b), a discussion of various factors that could cause actual results to differ from expectations. That Exhibit from the Form 10-K is incorporated in this filing by reference.

The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. Item 3. Quantitative and Qualitative Disclosures About Market Risk There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in its Annual Report on Form 10-K for the fiscal year ended December 30, 2001. Part II - OTHER INFORMATION Item 1. Legal Proceedings The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use which accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by reserves established under its self-insurance program and by commercially available excess liability insurance. One group of cases against the Company concerns the Janssen Pharmaceutica product PROPULSID, which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, more than 977 lawsuits, comprising the claims of more than 3,900 named individuals, 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. Of those plaintiffs 338 are alleged to have died from the use of PROPULSID. 13 A significant number of these cases also seek certification as class actions. These actions accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of over-promotion. These actions seek substantial compensatory and punitive damages. 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 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 will appeal. 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. 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 commercially available excess insurance with respect to these cases. The Company's Ortho Biotech subsidiary is party to an arbitration proceeding filed against it in 1995 by Amgen, Ortho Biotech's licensor of U.S. non-dialysis rights to PROCRIT, in which Amgen seeks to terminate Ortho Biotech's U.S. license rights and collect substantial damages based on alleged deliberate PROCRIT sales by Ortho Biotech during the early 1990's into Amgen's reserved dialysis market. The Company believes no basis exists for terminating Ortho Biotech's U.S. license rights or for obtaining damages and is vigorously contesting Amgen's claims. However, Ortho Biotech's U.S. license rights to PROCRIT are material to the Company; thus, an unfavorable outcome on the termination issue could have a material adverse effect on the Company's consolidated results of operations, cash flows and financial position. The arbitration began in January, 2002 and is expected to conclude in May, 2002. The arbitrator's decision will follow the submission of post-hearing briefs by both sides. In patent infringement actions tried in Delaware Federal Court in late 2000, Cordis, a Johnson & Johnson company, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis coronary stent patents. On December 15, 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and on December 21, 2000 the jury in the Medtronic AVE action returned a verdict of $271 million. These sums represent lost profit and reasonable royalty damages to compensate Cordis for infringement but do not include pre or post judgment interest. In February 2001 a hearing was held on the claims of Boston Scientific and Medtronic AVE that the patents at issue are unenforceable owing to alleged inequitable conduct before the patent office. On March 27, 2002, the district judge issued post trial rulings which confirmed the validity and enforceability of the main Cordis stent patent claims but found certain other Cordis patents unenforceable. She also confirmed the liability for infringement of the Boston Scientific stent but ordered a new trial on damages. She vacated the verdict against Medtronic AVE on legal grounds. Further post trial motions and appeals to the Federal Circuit Court of Appeals will follow. The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business. The Company believes that the above proceedings, except as noted above, would not have a material adverse effect on its results of operations, cash flows or financial position. 14 Item 5. Exhibits and Reports on Form 8-K (a) Exhibit None (b) Reports on Form 8-K A Report on Form 8-K was filed on April 16, 2002 and revised by amendment on April 30, 2002, which included certain unaudited financial information related to Johnson & Johnson and subsidiaries for the 11-year period ended December 30, 2001. This financial data gives retroactive effect for Johnson & Johnson's adoption of Emerging Issues Task Force ("EITF") Issue No. 01-09, "Accounting for Consideration given by a Vendor to a Customer or a Reseller of the Vendor's Products." Filed in this form 8-K are the unaudited consolidated statements of earnings of Johnson & Johnson and subsidiaries for the 11-year period ended December 30, 2001, together with the related data for segments of business for the three year period ended December 30, 2001. Also filed in the 8-K are selected unaudited quarterly financial data for fiscal year 2001. 15 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 13, 2002 By /s/ R. J. DARRETTA R. J. DARRETTA Executive Vice President, Finance and Information Management (Chief Financial Officer) Date: May 13, 2002 By /s/ S. J. COSGROVE S. J. COSGROVE Controller (Chief Accounting Officer) 16