

PACKAGING CORP OF AMERICA
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

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 1-15399

(Exact Name of Registrant as Specified in its Charter)

Delaware

36-4277050

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

1955 West Field Court, Lake Forest, Illinois

60045

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code
(847) 482-3000

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 29, 2016 the Registrant had outstanding 94,230,654 shares of common stock, par value \$0.01 per share.

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All reports we file with the Securities and Exchange Commission (SEC) are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC website at www.sec.gov. We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our website at www.packagingcorp.com as soon as reasonably practicable after filing such material with the SEC.

PART I
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Packaging Corporation of America
Consolidated Statements of Income and Comprehensive Income
(unaudited, dollars in millions, except per-share data)

	Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
	2016	2015	2016	2015
Statements of Income:				
Net sales	\$1,417.4	\$1,454.3	\$2,818.4	\$2,880.0
Cost of sales	(1,097.3)	(1,136.6)	(2,199.3)	(2,285.3)
Gross profit	320.1	317.7	619.1	594.7
Selling, general, and administrative expenses	(114.8)	(115.9)	(229.1)	(233.2)
Other expense, net	(5.1)	(4.2)	(9.0)	(6.8)
Income from operations	200.2	197.6	381.0	354.7
Interest expense, net	(22.5)	(22.2)	(44.1)	(41.4)
Income before taxes	177.7	175.4	336.9	313.3
Income tax provision	(61.8)	(61.4)	(117.3)	(108.5)
Net income	\$115.9	\$114.0	\$219.6	\$204.8
Net income per common share:				
Basic	\$1.23	\$1.16	\$2.32	\$2.09
Diluted	\$1.23	\$1.16	\$2.32	\$2.08
Dividends declared per common share	\$0.55	\$0.55	\$1.10	\$1.10
Statements of Comprehensive Income:				
Net income	\$115.9	\$114.0	\$219.6	\$204.8
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	—	4.2	—	2.8
Reclassification adjustments to cash flow hedges included in net income, net of tax of \$0.6 million, \$0.5 million, \$1.1 million, and \$1.1 million	0.8	0.9	1.7	1.7
Amortization of pension and postretirement plans actuarial loss and prior service cost, net of tax of \$1.0 million, \$1.4 million, \$2.0 million, and \$2.8 million	1.6	2.2	3.2	4.4
Changes in unfunded employee benefit obligations net of tax of \$2.0 million and \$2.0 million	3.1	—	3.1	—
Other comprehensive income	5.5	7.3	8.0	8.9
Comprehensive income	\$121.4	\$121.3	\$227.6	\$213.7

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Packaging Corporation of America
 Consolidated Balance Sheets
 (unaudited, dollars and shares in millions, except per-share data)

	June 30, 2016	December 31, 2015	
ASSETS			
Current assets:			
Cash and cash equivalents	\$213.6		
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
(Dollars in Millions)			
Derivatives designated as hedging instruments under SFAS 133:			
Other Assets:			
Foreign exchange contracts		\$ 488	
Cross currency interest rate swaps		75	
Total		563	
Other Liabilities:			
Foreign exchange contracts		579	
Cross currency interest rate swaps		576	
Total		1,155	
Derivatives not designated as hedging instruments under SFAS 133:			
Other Assets:			
Foreign exchange contracts		22	
Other Liabilities:			
Foreign exchange contracts		\$ 22	

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The following financial asset and liabilities are held at carrying amount on the consolidated balance sheet:

(Dollars in Millions)	Carrying Amount	Estimated Fair Value
Financial Assets		
Current Investments		
Cash	\$ 3,256	3,256
Government securities and obligations	9,792	9,793
Corporate debt securities	256	256
Money market funds	913	913
Time deposits	499	499
Total cash, cash equivalents and current marketable securities	\$ 14,716	14,717
Non-Current Investments		
Marketable securities	\$ 18	18
Financial Liabilities		
Current Debt		
Non-Current Debt		
5.15% Debentures due 2012	600	657
3.80% Debentures due 2013	500	524
5.55% Debentures due 2017	1,000	1,096
5.15% Debentures due 2018	898	972
4.75% Notes due 2019 (1B Euro 1.3902)	1,381	1,408
3% Zero Coupon Convertible Subordinated Debentures due in 2020	186	160
6.73% Debentures due 2023	250	273
5.50% Notes due 2024 (500 GBP 1.6238)	805	849
6.95% Notes due 2029	294	351
4.95% Debentures due 2033	500	490
5.95% Notes due 2037	995	1,076
5.86% Debentures due 2038	700	777
Other (Includes Industrial Revenue Bonds)	70	70
Total Non-Current Debt	\$ 8,179	8,703

The weighted average effective rate on non-current debt is 5.42%.

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Fair value of government securities and obligations and non-current marketable securities was estimated using quoted broker prices in active markets.

Fair value of the non-current debt was estimated using market prices, which was corroborated by quoted broker prices in active markets.

NOTE 3 INCOME TAXES

The worldwide effective income tax rates for the first fiscal six months of 2009 and 2008 were 24.6% and 24.1%, respectively. The increase in the effective tax rate was primarily due to a decline in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions partially offset by the U.S. Research and Development tax credit which was not in effect in the first fiscal six months of 2008.

NOTE 4 INVENTORIES

(Dollars in Millions)	June 28, 2009	December 28, 2008
Raw materials and supplies	\$ 948	\$ 839
Goods in process	1,613	1,372
Finished goods	2,911	2,841
Total	\$ 5,472	\$ 5,052

NOTE 5 INTANGIBLE ASSETS AND GOODWILL

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2008.

Future impairment tests for goodwill and indefinite lived intangible assets will be performed annually in the fiscal fourth quarter, or sooner if warranted.

(Dollars in Millions)	June 28, 2009	December 28, 2008
Trademarks (non-amortizable)- gross	\$ 5,912	\$ 5,879
Less accumulated amortization	145	145
Trademarks (non-amortizable)- net	5,767	5,734
Patents and trademarks gross	5,553	5,119
Less accumulated amortization	1,968	1,820
Patents and trademarks net	3,585	3,299
Other amortizable intangibles gross	7,945	7,376
Less accumulated amortization	2,595	2,433
Other intangibles net	5,350	4,943
Purchased in process research and development(non-amortizable)- gross*	18	
Total intangible assets gross	19,428	18,374
Less accumulated amortization	4,708	4,398
Total intangible assets net	\$ 14,720	\$ 13,976

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* Purchased in process research and development was capitalized as per the adoption of SFAS No. 141(R). Amortization will begin upon commercialization.

Goodwill as of June 28, 2009 was allocated by segment of business as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev & Diag	Total
Goodwill, net at December 28, 2008	\$7,474	\$963	\$5,282	\$13,719
Acquisitions			376	376
Translation & Other**	215	(2)	(156)	57
Goodwill, net as of June 28, 2009	\$7,689	\$961	\$5,502	\$14,152

** Includes reclassification between segments, currency translation and other adjustments.

The weighted average amortization periods for patents and trademarks and other intangible assets are 16 years and 28 years, respectively. The amortization expense of amortizable intangible assets for the fiscal six months ended June 28, 2009 was \$365 million, and the estimated amortization expense for the five succeeding years approximates \$775 million, per year.

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NOTE 6 SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS

(Dollars in Millions)

SALES BY SEGMENT OF BUSINESS (1)

(Dollars in Millions)	Fiscal Quarters Ended		Percent Change
	June 28, 2009	June 29, 2008	
Consumer			
U.S.	\$ 1,708	\$ 1,694	0.8%
International	2,146	2,342	(8.4)
Total	3,854	4,036	(4.5)
Pharmaceutical			
U.S.	3,172	3,793	(16.4)
International	2,326	2,547	(8.7)
Total	5,498	6,340	(13.3)
Medical Devices & Diagnostics			
U.S.	2,776	2,723	1.9
International	3,111	3,351	(7.2)
Total	5,887	6,074	(3.1)
Worldwide			
U.S.	7,656	8,210	(6.7)
International	7,583	8,240	(8.0)
Total	\$ 15,239	\$ 16,450	(7.4)%
(Dollars in Millions)	Fiscal Six Months Ended		Percent Change
	June 28, 2009	June 29, 2008	
Consumer			
U.S.	\$ 3,434	\$ 3,513	(2.2)%
International	4,131	4,587	(9.9)
Total	7,565	8,100	(6.6)
Pharmaceutical			
U.S.	6,846	7,863	(12.9)
International	4,432	4,906	(9.7)
Total	11,278	12,769	(11.7)
Medical Devices & Diagnostics			
U.S.	5,428	5,311	2.2
International	5,994	6,464	(7.3)
Total	11,422	11,775	(3.0)
Worldwide			
U.S.	15,708	16,687	(5.9)
International	14,557	15,957	(8.8)
Total	\$ 30,265	\$ 32,644	(7.3)%

(1) Export sales are not significant.

Table of Contents**OPERATING PROFIT BY SEGMENT OF BUSINESS**

(Dollars in Millions)	Fiscal Quarters Ended		
	June 28, 2009	June 29, 2008	Percent Change
Consumer	\$ 695	\$ 683	1.8%
Pharmaceutical	1,701	2,143	(20.6)
Medical Devices & Diagnostics (2)	2,088	1,702	22.7
Segments total	4,484	4,528	(1.0)
Expense not allocated to segments (3)	(221)	(153)	
Worldwide total	\$4,263	\$4,375	(2.6)%

(Dollars in Millions)	Fiscal Six Months Ended		
	June 28, 2009	June 29, 2008	Percent Change
Consumer	\$1,495	\$1,411	6.0%
Pharmaceutical	3,958	4,510	(12.2)
Medical Devices & Diagnostics (2)	3,875	3,502	10.7
Segments total	9,328	9,423	(1.0)
Expense not allocated to segments (3)	(422)	(301)	
Worldwide total	\$8,906	\$9,122	(2.4)%

(2) Includes \$40 million of in-process research and development (IPR&D) charges related to the acquisition of Amic AB completed in the fiscal second quarter of 2008.

(3) Amounts not allocated to segments include interest income/(expense) and general corporate income/(expense).

SALES BY GEOGRAPHIC AREA

(Dollars in Millions)

(Dollars in Millions)	Fiscal Quarters Ended		
	June 28, 2009	June 29, 2008	Percent Change
U.S.	\$ 7,656	\$ 8,210	(6.7)%

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Europe	3,972	4,547	(12.6)
Western Hemisphere, excluding U.S.	1,215	1,280	(5.1)
Asia-Pacific, Africa	2,396	2,413	(0.7)
Total	\$15,239	\$16,450	(7.4)%

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(Dollars in Millions)	Fiscal Six Months Ended		
	June 28, 2009	June 29, 2008	Percent Change
U.S.	\$15,708	\$16,687	(5.9)%
Europe	7,643	8,855	(13.7)
Western Hemisphere, excluding U.S.	2,277	2,525	(9.8)
Asia-Pacific, Africa	4,637	4,577	1.3
Total	\$30,265	\$32,644	(7.3)%

NOTE 7 EARNINGS PER SHARE

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal second quarters ended June 28, 2009 and June 29, 2008.

(Shares in Millions)	Fiscal Quarters Ended	
	June 28, 2009	June 29, 2008
Basic net earnings per share	\$ 1.16	\$ 1.18
Average shares outstanding basic	2,756.2	2,809.8
Potential shares exercisable under stock option plans	80.8	197.4
Less: shares which could be repurchased under treasury stock method	(58.6)	(166.1)
Convertible debt shares	3.6	3.7
Average shares outstanding diluted	2,782.0	2,844.8
Diluted earnings per share	\$ 1.15	\$ 1.17

The diluted earnings per share calculation for the fiscal second quarters ended June 28, 2009 and June 29, 2008 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense.

The diluted earnings per share calculation for the fiscal second quarters ended June 28, 2009 and June 29, 2008 excluded 178 million shares and 61 million shares, respectively, related to stock options, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal six months ended June 28, 2009 and June 29, 2008.

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(Shares in Millions)	Fiscal Six Months Ended	
	June 28, 2009	June 29, 2008
Basic net earnings per share	\$ 2.43	\$ 2.45
Average shares outstanding basic	2,761.3	2,821.6
Potential shares exercisable under stock option plans	108.4	197.4
Less: shares which could be repurchased under treasury stock method	(87.8)	(166.6)
Convertible debt shares	3.6	3.7
Average shares outstanding diluted	2,785.5	2,856.1
Diluted earnings per share	\$ 2.41	\$ 2.43

The diluted earnings per share calculation for both the fiscal six months ended June 28, 2009 and June 29, 2008 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense.

The diluted earnings per share calculation for the fiscal six months ended June 28, 2009 and June 29, 2008, excluded 151 million shares and 61 million shares, respectively, related to stock options as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

NOTE 8 ACCUMULATED OTHER COMPREHENSIVE INCOME

Total comprehensive income for the first fiscal six months ended June 28, 2009 was \$7.2 billion, compared with \$8.2 billion for the same period a year ago. Total comprehensive income for the fiscal second quarter ended June 28, 2009 was \$3.9 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)	For. Cur. Trans.	Unrld Gains/ (Losses) on Sec	Employee Benefit Plans	Gains/ (Losses) on Deriv & Hedges	Total Accum Other Comp Inc/ (Loss)
December 28, 2008	\$(1,871)	25	(3,230)	121	(4,955)
2009 six months change					
Net change associated with current period hedging transactions				138	
Net amount reclassified to net earnings				(51)*	
Net six months change	410	2	(25)	87	474
June 28, 2009	\$(1,461)	27	(3,255)	208	(4,481)

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* Substantially offset in net earnings by changes in value of the underlying transactions.

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.

NOTE 9 MERGERS, ACQUISITIONS AND DIVESTITURES

During the fiscal second quarter of 2009, there were no significant acquisitions or divestitures.

During the fiscal first quarter of 2009, the Company acquired Mentor Corporation, a leading supplier of medical products for the global aesthetic market, for a net purchase price of \$1.1 billion. The purchase price for the acquisition was allocated primarily to amortizable intangible assets for \$0.9 billion and goodwill for \$0.4 billion.

During the fiscal second quarter of 2008 the Company acquired Amic AB for a purchase price of \$44 million in cash and debt. Amic AB is a Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings (outside the physical facilities of the clinical laboratory). An in-process research & development (IPR&D) charge of \$40 million before and after tax was recorded related to the acquisition of Amic AB.

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 second quarters of 2009 and 2008 include the following components:

	Retirement Plans		Other Benefit Plans	
	Fiscal Quarters Ended			
(Dollars in Millions)	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Service cost	\$ 116	126	36	35
Interest cost	182	178	42	42
Expected return on plan assets	(227)	(222)		
Amortization of prior service cost	3	3	(1)	(2)
Amortization of net transition asset	1	1		
Recognized actuarial losses	41	16	14	17
Net periodic benefit cost	\$ 116	102	91	92

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Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the first fiscal six months of 2009 and 2008 include the following components:

(Dollars in Millions)	Retirement Plans		Other Benefit Plans	
	Fiscal Six Months Ended			
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Service cost	\$ 234	255	70	71
Interest cost	367	357	85	83
Expected return on plan assets	(455)	(446)	(1)	(1)
Amortization of prior service cost	5	6	(2)	(3)
Amortization of net transition asset	1	1		
Recognized actuarial losses	82	35	28	33
Net periodic benefit cost	\$ 234	208	180	183

Company Contributions

For the fiscal six months ended June 28, 2009, the Company contributed \$568 million and \$13 million to its U.S. and international retirement plans, respectively. In 2006, Congress passed the Pension Protection Act of 2006. The Act amended the Employee Retirement Income Security Act (ERISA) for plan years beginning after 2007 and established new minimum funding standards for U.S. employer defined benefit plans. The Company plans to continue to fund its U.S. defined benefit plans to comply with the Pension Protection Act of 2006. International plans are funded in accordance with local regulations.

NOTE 11 RESTRUCTURING

In the third quarter of 2007, the Company announced restructuring initiatives in an effort to improve its overall cost structure. This action was taken to offset the anticipated negative impacts associated with generic competition in the Pharmaceutical segment and challenges in the drug-eluting stent market. The Company's Pharmaceuticals segment has reduced its cost base by consolidating certain operations, while continuing to invest in recently launched products and its late-stage pipeline of new products. The Cordis franchise has moved to a more integrated business model to address the market changes underway with drug-eluting stents and to better serve the broad spectrum of its patients cardiovascular needs, while reducing its cost base. This program allowed the Company to accelerate steps to standardize and streamline certain aspects of its enterprise-wide functions such as human resources, finance and information technology to support growth across the business, while also leveraging its scale more effectively in areas such as procurement to benefit its operating companies. Additionally, as part of this initiative, the Company planned to eliminate approximately 4,400 positions of which 4,100 have been

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eliminated since this restructuring initiative was announced in 2007.

During the fiscal third quarter of 2007, the Company recorded \$745 million in pre-tax charges of which, approximately, \$500 million of the pre-tax restructuring charges are expected to require cash payments. The \$745 million of restructuring charges included severance costs of \$450 million, asset write-offs of \$272 million and \$23 million related to leasehold obligations. The \$272 million of asset write-offs relate to property, plant and equipment of \$166 million, intangible assets of \$48 million and other assets of \$58 million.

The following table summarizes the severance reserve and the associated spending under this initiative through the second quarter of 2009:

(Dollars in Millions)	Severance
Reserve balance as of:	
December 28, 2008	\$ 178
Cash outlays	(81)
June 28, 2009*	\$ 97

* Substantially all cash payments related to the remaining reserve balance for severance is expected to be paid out over the remainder of the year in accordance with the Company's plans and local laws.

NOTE 12 LEGAL PROCEEDINGS PRODUCT LIABILITY

The Company's subsidiaries are involved in numerous product liability cases in the United States, many of which concern alleged 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 product 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[®], RISPERDAL[®], DURAGESIC[®], LEVAQUIN[®], the CYPHER[®] Stent and the CHARITÉ Artificial Disc. There are approximately 565 claimants who have pending lawsuits or claims regarding injuries allegedly due to ORTHO EVRA[®], 452 with respect to RISPERDAL[®], 279 with respect to CHARITÉ, 152 with respect to LEVAQUIN[®], 101 with respect to DURAGESIC[®] and 56 with respect to CYPHER[®]. These claimants seek substantial compensatory and, where available, punitive damages.

With respect to RISPERDAL[®], the Attorneys General of eight states and the Office of General Counsel of the Commonwealth of

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Pennsylvania have filed actions seeking reimbursement of Medicaid or other public funds for RISPERDAL® prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL®, civil fines or penalties, punitive damages, or other relief. The Attorney General of Texas has joined a qui tam action in that state seeking similar relief. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL®. The Attorneys General of more than 40 other states have indicated a potential interest in pursuing similar litigation against the Company's Janssen subsidiary (now Ortho-McNeil-Janssen Pharmaceuticals Inc.) (OMJPI), and have obtained a tolling agreement staying the running of the statute of limitations while they inquire into the issues. In addition, there are six cases filed by union health plans seeking damages for alleged overpayments for RISPERDAL®, several of which seek certification as class actions. In the case brought by the Attorney General of West Virginia, based on claims for alleged consumer fraud as to DURAGESIC® as well as RISPERDAL®, Janssen (now OMJPI) was found liable and damages were assessed at \$4.5 million. OMJPI intends to appeal.

Numerous claims and lawsuits in the United States relating to the drug PROPULSID®, withdrawn from general sale by the Company's Janssen (now OMJPI) subsidiary in 2000, have been resolved or are currently enrolled in settlement programs with an aggregate cap below \$100 million. Litigation concerning PROPULSID® is pending in Canada, where a class action of persons alleging adverse reactions to the drug has been certified.

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. The Court of Appeals for the Federal Circuit has upheld liability in these cases, and on September 30, 2008, the district court entered judgments, including interest, in the amounts of \$702 million and \$521 million against Boston Scientific and Medtronic, respectively. Medtronic paid \$472 million in October 2008, representing the judgment, net of amounts exchanged in settlement of a number of other litigations between the companies. The net settlement of \$472 million was recorded as a credit to other (income) expense, net in the 2008 consolidated statement of earnings. The \$702 million judgment against Boston Scientific is not reflected in the Company's financial statements as Boston Scientific has appealed the judgments, and no amounts have been received to date. In May 2009, Medtronic paid \$270 million to settle additional patent infringement claims asserted by Cordis based on its vascular stent patents.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its

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Express2[®], Taxu[®] and Liberte[®] stents of infringing the Palmaz patent that expired in November 2005. The Liberte[®] stent was also accused of infringing Cordis Gray patent that expires in 2016. In June 2005, a jury found that the Express2[®], Taxu[®] and Liberte[®] stents infringed the Palmaz patent and that the Liberte[®] stent also infringed the Gray patent. On March 31, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed this judgment. The case has been remanded to the district court for a trial on damages and willfulness. Cordis also filed a lawsuit in Delaware Federal District Court in October of 2008 alleging that Boston Scientific's sale of Taxu[®] Liberte[®] since June of 2005 infringes Cordis Gray patent.

Cordis has filed several lawsuits in New Jersey Federal District Court against Guidant Corporation (Guidant), Abbott Laboratories, Inc. (Abbott), Boston Scientific and Medtronic alleging that the Xience V[®] (Abbott), Promus[®] (Boston Scientific) and Endeavor[®] (Medtronic) drug eluting stents infringe several patents owned by or licensed to Cordis.

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.

In July 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER[®] Stent infringed Boston Scientific's Ding 536 patent and that the Cordis CYPHER[®] and BX VELOCITY[®] 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 those actions. Cordis appealed. On January 15, 2009, the Court of Appeals for the Federal Circuit held the Ding patent invalid. In March of 2009, the Court of Appeals for the Federal Circuit denied Boston Scientific's motion for reconsideration. On March 31, 2009, the Court of Appeals for the Federal Circuit upheld the judgment that Cordis CYPHER[®] stent infringed Boston Scientific's Jang patent. The Court of Appeals denied Cordis' application for reconsideration. The case has been remanded for a trial on the issues of damages and willfulness. Boston Scientific is not seeking injunctive relief.

In Germany, Boston Scientific has several actions based on its Ding patents pending against the Cordis CYPHER[®] Stent. Cordis was successful in these actions at the trial level, but Boston Scientific has appealed. Boston Scientific has brought actions in Belgium, the Netherlands, Germany, France and Italy under its Kastenhofer patent, which purports to cover two-layer catheters such as those used to deliver the CYPHER[®] Stent, to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. A decision by the lower court in the Netherlands in Boston Scientific's favor was reversed on

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appeal in April 2007. Boston Scientific has filed an appeal to the Dutch Supreme Court. In October 2007, Boston Scientific prevailed in the nullity action challenging the validity of the Kastenhofer patent filed by Cordis in Germany. Cordis has appealed. No substantive hearings have been scheduled in the French or Italian actions.

Trial in Boston Scientific's U.S. case based on the Kastenhofer patent in Federal District Court in California concluded in October 2007 with a jury finding that the patent was invalid. The jury also found for Cordis on its counterclaim that sale by Boston Scientific of its balloon catheters and stent delivery systems infringe Cordis Fontirroche patent. The Court has denied Boston Scientific's post trial motions. On April 9, 2009, the Court ruled that Boston Scientific will be required to pay Cordis a royalty of 5.1% of all infringing sales of catheters and stent delivery systems from October 2007 as long as they practice the patented invention. The Court entered judgment against Boston Scientific in the amount of \$26 million. Boston Scientific has filed an appeal.

In May 2008, Centocor, Inc. (now Centocor Ortho Biotech Inc. (COBI)) filed a lawsuit against Genentech, Inc. (Genentech) in U.S. District Court for the Central District of California seeking to invalidate the Cabilly II patent. Prior to filing suit, Centocor had a sublicense under this patent from Celltech (who was licensed by Genentech) for REMICADE® and had been paying royalties to Celltech. Centocor has terminated that sublicense and stopped paying royalties. Genentech has filed a counterclaim alleging that REMICADE® infringes its Cabilly II patents and that the manufacture of REMICADE®, ustekinumab, golimumab and ReoPro infringe various of its patents relating to the purification of antibodies made through recombinant DNA techniques.

In April 2009, a trial was held before the Federal District Court for the Middle District of Florida on the liability phase of Ciba's patent infringement lawsuit alleging that Johnson & Johnson Vision Care's ACUVUE® OASYS lenses infringe three of their Nicholson patents. The key issues were infringement and the validity of the patents in suit. Post trial briefs were filed in May 2009 and closing arguments were held in June 2009. If the court finds the patents valid and infringed there will be another trial to determine damages and Ciba's request for injunctive relief.

On May 1, 2009 Abbott Laboratories filed a patent infringement lawsuit against Centocor (now COBI) in the United States District Court for the District of Massachusetts. The suit alleges that Centocor's SIMPONI® product, a human anti TNF alpha antibody, which was recently approved by the FDA, infringes Abbott's 394 patent (the Salfeld patent). The case has been stayed pending the resolution of an arbitration filed by Centocor directed to its claim that it is licensed under the 394 patent.

In June of 2009, Centocor's (COBI) lawsuit alleging that Abbott's HUMIRA anti TNF alpha product infringes Centocor's 775 patent went to trial in Federal District Court in the Eastern District of

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Texas. On June 28, 2009 a jury returned a verdict finding the patent valid and willfully infringed, and awarded Centocor damages of approximately \$1.7 billion. A bench trial on Abbott's defenses, of inequitable conduct and prosecution laches, will be held on August 4, 2009. Post trial motions and an appeal are likely to follow. The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries that have yet to proceed to trial:

J&J Product	Company	Patents	Plaintiff/ Patent Holder	Court	Trial Date	Date Filed
Two-layer Catheters	Cordis	Kastenhofer	Boston Scientific Corp.	Multiple European	*	09/07
CYPHER® Stent	Cordis	Wall	Wall	E.D. TX	04/11	11/07
CYPHER® Stent	Cordis	Saffran	Saffran	E.D. TX	06/11	10/07
Blood Glucose Meters and Strips	Lifescan	Wilsey	Roche Diagnostics	D. DE	*	11/07
REMICADE®, ustekinumab, golimumab, ReoPro	Centocor/ COBI	Cabilly II	Genentech	C.D. CA	*	05/08
SIMPONI®	Centocor/ COBI	Salfeld	Abbott Laboratories	MA	*	05/09

* Trial date to be scheduled.

LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAs)

The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering 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, 2007 and 2008, and will expire in 2009, 2010 and 2011 with respect to ANDA challenges regarding various products:

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Brand Name Product	Patent/NDA Holder	Generic Challenger	Court	Trial Date	Date Filed	30-Month Stay Expiration
CONCERTA® 18, 27, 36 and 54 mg controlled release tablet	McNeil-PPC ALZA	Andrx	D. DE	12/07	09/05	None
LEVAQUIN® 250, 500, 750 mg tablet	Ortho-McNeil	Lupin	D. NJ	*	10/06	03/09
ORTHO TRI-CYCLEN® LO 0.18 mg/0.025 mg, 0.215 mg/ 0.025 mg and 0.25 mg/0.025 mg	Ortho-McNeil	Barr	D. NJ	*	10/03	02/06
		Watson	D. NJ	*	10/08	03/11
		Sandoz	D. NJ	*	06/09	10/11
RAZADYNE®	Janssen	Teva	D. DE	05/07	07/05	08/08
		Mylan	D. DE	05/07	07/05	08/08
		Dr. Reddy s	D. DE	05/07	07/05	08/08
		Purepac	D. DE	05/07	07/05	08/08
		Barr	D. DE	05/07	07/05	08/08
		AlphaPharm	D. DE	05/07	07/05	08/08
ULTRAM® ER 100, 200, 300 mg tablet	Ortho- McNeil/Biovail	Par	D. DE	01/09	05/07	09/09
					06/07	11/09
					10/07	03/10
ULTRAM® ER 100, 200, 300 mg tablet	Ortho- McNeil/Biovail	Impax	D. DE	06/10	08/08	01/11
					11/08	03/11

* Trial date to be scheduled.

In the action against Barr Pharmaceuticals, Inc. (Barr)(now a wholly-owned subsidiary of Teva Pharmaceutical Industries LTD.) regarding ORTHO TRI-CYCLEN® LO, on January 22, 2008, the Company s subsidiary Ortho Women s Health & Urology, a Division of Ortho-McNeil-Janssen Pharmaceuticals, Inc., and Barr agreed to a non-binding term sheet to settle the litigation, which settlement discussions are still underway. The trial court postponed the January 22, 2008 trial without setting a new trial date. On June 30, 2009, Barr launched its generic product at risk before trial. OMJPI sought a preliminary injunction and recall of Barr product which the Court granted on July 21, 2009. On July 23, 2009, the parties entered into a definitive agreement to settle the lawsuit. Under the terms of the settlement, Barr obtained a release for its sales of its generic product in exchange for an undisclosed royalty payment. Barr also obtained a non-exclusive, royalty-bearing license to re-enter the market on December 31, 2015, or earlier in certain limited circumstances.

On October 16, 2008, the Company s subsidiary Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) filed suit in Federal District Court in New Jersey against Watson Laboratories, Inc. (Watson) in response to Watson s ANDA regarding ORTHO TRI-CYCLEN® LO.

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In the action against Barr and AlphaPharm with respect to their ANDA challenges to the RAZADYNE® patent that Janssen (now OMJPI) licenses from Synaptech, Inc. (Synaptech), a four-day non-jury trial was held in the Federal District Court in Delaware in May 2007. On August 27, 2008, the court held that the patent was invalid because it was not enabled. Janssen (OMJPI) and Synaptech have appealed the decision. Since the court's decision, three generic companies have received final approvals for their products and have launched at risk pending appeal. Additional generic approvals and launches could occur at any time.

In the action by McNEIL-PPC, Inc. (McNeil-PPC) and ALZA Corporation (ALZA) against Andrx Corporation (Andrx) with respect to its ANDA challenge to the CONCERTA® patents, a five-day non-jury trial was held in the Federal District Court in Delaware in December 2007. On March 30, 2009, the court ruled that one CONCERTA® patent would not be infringed by Andrx's proposed generic product and that the patent was invalid because it was not enabled. The court dismissed without prejudice Andrx's declaratory judgment suit on a second patent for lack of jurisdiction. McNeil-PPC and ALZA filed an appeal on May 7, 2009.

In the RAZADYNE®ER cases, a lawsuit was filed against Barr on the RAZADYNE® use patent that Janssen (now OMJPI) licenses from Synaptech in June 2006. In September 2008, the above-discussed Delaware decision invalidating the RAZADYNE® use patent resulted in entry of judgment for Barr on that patent, but the case will be reopened if Janssen (now OMJPI) and Synaptech win on appeal. Barr has received FDA approval of its product and has launched at risk.

In the action against Lupin Pharmaceuticals, Inc. (Lupin) regarding its ANDA concerning LEVAQUIN®, Lupin contends that the United States Patent and Trademark Office improperly granted a patent term extension to the patent that Ortho-McNeil (now Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI)) licenses from Daiichi Pharmaceuticals, Inc. (Daiichi). Lupin alleges that the active ingredient in LEVAQUIN® was the subject of prior marketing, and therefore was not eligible for the patent term extension. Lupin concedes validity and that its product would violate the patent if marketed prior to the expiration of the original patent term. Summary judgment against Lupin was granted in May 2009, and Lupin appealed. The matter has been fully briefed to the appellate court and the parties are awaiting oral argument.

In the ULTRAM®ER actions, Ortho-McNeil (now OMJPI), filed lawsuits (each for different dosages) against Par Pharmaceuticals, Inc. and Par Pharmaceuticals Companies, Inc. (Par) in May, June and October 2007 on two Tramadol ER formulation patents owned by Purdue Pharma Products L.P. (Purdue) and Napp Pharmaceutical Group Ltd. (Napp). OMJPI also filed lawsuits (each for different dosages) against Impax Laboratories, Inc. (Impax) on a Tramadol ER formulation patent owned by Purdue and Napp in August and November 2008. Purdue, Napp and Biovail Laboratories International SRL (Biovail)(the NDA holder) joined as co-plaintiffs in the lawsuits against Par and Impax, but Biovail and OMJPI were subsequently dismissed for lack of standing. The trial against Par

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took place on April 16-22, 2009 and Purdue is awaiting a decision from the Court. The trial against Impax is scheduled for June 2010.

AVERAGE WHOLESAL 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. Many 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.

The MDL Court identified classes of Massachusetts-only private insurers providing Medi-gap insurance coverage and private payers for physician-administered drugs where payments were based on AWP (Class 2 and Class 3), and a national class of individuals who made co-payments for physician-administered drugs covered by Medicare (Class 1). A trial of the two Massachusetts-only class actions concluded before the MDL Court in December 2006. In June 2007, the MDL Court issued post-trial rulings, dismissing the Johnson & Johnson defendants from the case regarding all claims of Classes 2 and 3, and subsequently of Class 1 as well. The ruling is the subject of a pending appeal. AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Cases including Johnson & Johnson subsidiaries are expected to be set for trial in 2010 and thereafter.

OTHER

In July 2003, Centocor (now COBI), a Johnson & Johnson subsidiary, 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 have responded to these requests for documents and information.

In December 2003, Ortho-McNeil (now OMJPI) 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® (topiramate). Additional subpoenas for documents have been received, and current and former employees have testified before a grand jury. Discussions are underway in an effort to resolve this matter, but whether agreement can be reached and on what terms are uncertain.

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In January 2004, Janssen (now OMJPI) 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® (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® was received from the U.S. Attorney's Office for the Eastern District of Pennsylvania in November 2005. Subpoenas seeking testimony from various witnesses before a grand jury have also been received. Janssen is cooperating in responding to ongoing requests for documents and witnesses. In September 2004, Ortho Biotech Inc. (now COBI), received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to the sales and marketing of PROCRI® (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 (now COBI) has responded to the subpoena.

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 sought to appeal these decisions and, in April 2008, the Court of Appeals ruled that plaintiffs' appeal of the denial of class certification was untimely. Plaintiffs are now engaged in further discovery of individual plaintiffs' claims.

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 and surgeons or surgeons-in-training involved in hip and knee replacement and reconstructive surgery. This investigation was resolved by DePuy and the four other leading suppliers of hip and knee implants in late September 2007 by agreements with the U.S. Attorney's Office for the District of New Jersey. The settlements included an 18-month Deferred Prosecution Agreement (DPA), acceptance by each company of a monitor to assure compliance with the DPA and, with respect to four of the five companies, payment of settlement monies and entry into five year Corporate Integrity Agreements. DePuy paid \$85 million as its settlement. The term of the Monitorship under the Deferred Prosecution Agreement concluded on March 27, 2009, and an order dismissing all charges was entered on March 30, 2009. In November 2007, the Attorney General of the Commonwealth of Massachusetts issued a civil investigative demand to DePuy seeking information regarding financial relationships

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between a number of Massachusetts-based orthopedic surgeons and providers and DePuy, which relationships had been publicly disclosed by DePuy pursuant to the DPA. In February 2008, DePuy received a written request for information from the U.S. Senate Special Committee on Aging, as a follow-up to earlier inquiries, concerning a number of aspects of the DPA.

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®. 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. Additional requests for documents have been received and responded to and former Scios employees have testified before a grand jury in San Francisco. The qui tam complaints were unsealed on February 19, 2009. The U.S. government has intervened in one of the qui tam actions, and filed a complaint against Scios and Johnson & Johnson in June 2009.

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 responded 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 April 2009, Johnson & Johnson was served with the complaints in two civil qui tam cases relating to marketing of prescription drugs to Omnicare, Inc. The complaints assert claims under the federal False Claims Act and related state statutes in connection with the marketing of several drugs to Omnicare. The government has not yet announced whether it will intervene in these cases.

In November 2005, Amgen filed suit against Hoffmann-LaRoche, Inc. (Roche) in the U.S. District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it would 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 Ortho Biotech (now COBI) for non-dialysis indications. Trial in this action concluded in October 2007 with a verdict in Amgen's favor, finding the patents valid and infringed. The judge issued a preliminary injunction blocking the CERA launch, and subsequently made the injunction permanent. Roche has appealed to the Federal Circuit, and the Company is awaiting scheduling of the oral argument date.

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 and U.S. Department of Justice (DOJ) in producing responsive documents.

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In February 2007, Johnson & Johnson voluntarily disclosed to the DOJ and the 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 (FCPA). In the course of continuing dialogues with the agencies, other issues potentially rising to the level of FCPA violations in additional markets have been brought to the attention of the agencies by the Company. The Company has provided and will continue to provide additional information to the DOJ and SEC, and will cooperate with the agencies' reviews of these matters. Law enforcement agencies of a number of other countries are also pursuing investigations of matters voluntarily disclosed by the Company to the DOJ and SEC. Discussions are underway in an effort to resolve these matters, and the Iraq Oil for Food matter referenced above, but whether agreement can be reached and on what terms is uncertain.

In March 2007, the Company 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® by Janssen (now OMJPI), TOPAMAX® by Ortho-McNeil (now OMJPI) and NATRECOR® 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 responded to these requests. In addition, the U.S. Attorney's office in Boston has issued subpoenas for grand jury testimony to several employees of Johnson & Johnson.

In May 2007, the New York State Attorney General issued a subpoena seeking information relating to the marketing and safety of PROCRI®. The Company is responding to these requests.

In April 2007, the Company received two subpoenas from the Office of the Attorney General of the State of Delaware. The subpoenas seek documents and information relating to nominal pricing agreements. For purposes of the subpoenas, nominal pricing agreements are defined as agreements under which the Company agreed to provide a pharmaceutical product for less than ten percent of the Average Manufacturer Price for the product. The Company responded to these requests.

In January 2008, the European Commission (EC) began an industry-wide antitrust inquiry concerning competitive conditions within the pharmaceutical sector. Because this is a sector inquiry, it is not based on any specific allegation that the Company has violated EC competition law. The inquiry began with unannounced raids of a substantial number of pharmaceutical companies throughout Europe, including Johnson & Johnson affiliates. In March 2008, the EC issued detailed questionnaires to approximately 100 companies, including Johnson & Johnson affiliates. In November 2008, the EC issued a preliminary report summarizing its findings. The final report was issued on July 8, 2009.

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In March 2008, the Company received a letter request from the Attorney General of the State of Michigan. The request seeks documents and information relating to nominal price transactions. The Company is responding to the request and will cooperate with the inquiry.

In June 2008, Johnson & Johnson received a subpoena from the United States Attorneys Office for the District of Massachusetts relating to the marketing of biliary stents by the Company's Cordis subsidiary. Cordis is cooperating in responding to the subpoena.

In September 2008, Multilan AG, an indirect subsidiary of Schering-Plough Corporation, commenced arbitration against Janssen Pharmaceutica NV for an alleged wrongful termination of an agreement relating to payments in connection with termination of certain marketing rights. Multilan seeks declaratory relief, specific performance and damages. Multilan alleges that damages exceed \$700 million. A hearing on the matter is scheduled for January 2010.

In February 2009, Basilea Pharmaceutica AG brought an arbitration against Johnson & Johnson and various affiliates alleging that the Company breached the 2005 License Agreement for ceftobiprole by, among other things, failing to secure FDA approval of the cSSSI (skin) indication and allegedly failing to properly develop the pneumonia indication. Basilea is seeking to recover damages and specific performance.

In April 2009, Johnson & Johnson received a HIPPA subpoena from the U.S. Attorney's Office for the District of Massachusetts (Boston) seeking information regarding the Company's financial relationship with several doctors. In April 2009, Ortho-Clinical Diagnostics, Inc. (OCD) received a grand jury subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents and information for the period beginning September 1, 2000 through the present, pertaining to an investigation of alleged violations of the antitrust laws in the blood reagents industry. The company is in the process of complying with the subpoena. In the weeks following the public announcement that OCD had received a subpoena from the Antitrust Division of the Department of Justice as part of an investigation of possible antitrust violations in the blood banking industry, several plaintiffs have filed antitrust class action complaints in multiple courts around the country. We believe that all of the cases will be consolidated in one federal court for pretrial proceedings.

In May 2009, the New Jersey Attorney General issued a subpoena to DePuy Orthopaedics, Inc., seeking information regarding financial interests of clinical investigators who performed clinical studies for DePuy Orthopaedics, Inc. and DePuy Spine, Inc.

In May 2009, Centocor Ortho Biotech Inc. (COBI) commenced an arbitration proceeding before the American Arbitration Association against Schering-Plough Corporation and its subsidiary Schering-

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Plough (Ireland) Company (collectively, Schering-Plough). COBI and Schering-Plough are parties to a series of agreements (the Distribution Agreements) that grant Schering-Plough the exclusive right to distribute the drugs REMICADE® and SIMPONI worldwide, except within the United States, Japan, Taiwan, Indonesia, and the People's Republic of China (including Hong Kong) (the Territory). COBI distributes REMICADE® within the United States and also plans to distribute SIMPONI, the next-generation treatment, domestically. In the arbitration, COBI seeks a declaration that the agreement and plan of merger between Merck & Co., Inc. (Merck) and Schering-Plough constitutes a change of control under the terms of the Distribution Agreements that permits COBI to terminate the Agreements. The termination of the Distribution Agreements would return to COBI the right to distribute REMICADE® and SIMPONI within the Territory. Schering-Plough has filed a response to COBI's arbitration demand that denies both that it has undergone a change of control and that it will undergo a change of control upon the completion of the merger with Merck. The parties are in the process of selecting the arbitrator who will preside over the arbitration proceeding.

In recent years the Company has received numerous requests from a variety of United States Congressional Committees to produce information relevant to ongoing congressional inquiries. It is the Company's policy to cooperate with these inquiries by producing the requested information.

With respect to all the above matters, the Company and its subsidiaries are vigorously contesting the allegations asserted against them and otherwise pursuing defenses to maximize the prospect of success. The Company and its subsidiaries involved in these matters continually evaluate their strategies in managing these matters and, where appropriate, pursue settlements and other resolutions where those are in the best interest of the Company.

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 condition, 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.

NOTE 13 SUBSEQUENT EVENTS

On July 2, 2009 the Company announced a definitive agreement with Elan Corporation to acquire substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, of which a wholly owned subsidiary of Johnson & Johnson will own 50.1% and Elan will own 49.9%. In addition, Johnson & Johnson, through its affiliate, will invest \$1.0 billion

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in Elan in exchange for newly issued American Depositary Receipts (ADRs) of Elan which will represent 18.4% of Elan's outstanding ordinary shares.

On July 9, 2009 the Company completed the acquisition of Cougar Biotechnology Inc., a development stage biopharmaceutical company with specific focus on oncology, for approximately \$1.0 billion.

The Company has performed an evaluation of subsequent events through August 4, 2009, the date the Company issued these financial statements.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Analysis of Consolidated Sales

For the first fiscal six months of 2009, worldwide sales were \$30.3 billion, a decrease of 7.3% including an operational decrease of 1.3% as compared to 2008 first fiscal six months sales of \$32.6 billion. Currency had a negative impact of 6.0% on total reported fiscal six months 2009 sales.

Sales by U.S. companies were \$15.7 billion in the first fiscal six months of 2009, which represented a decrease of 5.9% as compared to the same period last year. Sales by international companies were \$14.6 billion, which represented a total decrease of 8.8% including an operational increase of 3.5%, and a negative impact from currency of 12.3% as compared to the first fiscal six months sales of 2008.

Sales by companies in Europe experienced a sales decline of 13.7%, including operational growth of 0.8% and a negative impact from currency of 14.5%. Sales by companies in the Western Hemisphere, excluding the U.S., experienced a sales decline of 9.8% including operational growth of 8.2% and a negative impact from currency of 18.0%. Sales by companies in the Asia-Pacific, Africa region achieved sales growth of 1.3%, including operational growth of 5.9% and a negative impact from currency of 4.6%.

For the fiscal second quarter of 2009, worldwide sales were \$15.2 billion, a decrease of 7.4% including an operational decrease of 1.4% as compared to 2008 fiscal second quarter sales of \$16.4 billion. Currency negatively impacted sales by 6.0% for the fiscal second quarter of 2009.

Sales by U.S. companies were \$7.6 billion in the fiscal second quarter of 2009, which represented a decrease of 6.7% as compared to the same period last year. Sales by international companies were \$7.6 billion, which represented a total decrease of 8.0% including an operational increase of 3.9%, and a negative impact from currency of 11.9% as compared to the fiscal second quarter sales of 2008.

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Sales by companies in Europe experienced a sales decline of 12.6%, including operational growth of 1.8% and a negative impact from currency of 14.4%. Sales by companies in the Western Hemisphere, excluding the U.S., experienced a sales decline of 5.1% including operational growth of 11.7% and a negative impact from currency of 16.8%. Sales by companies in the Asia-Pacific, Africa region experienced a sales decline of 0.7%, including operational growth of 3.7% and a negative impact from currency of 4.4%.

Analysis of Sales by Business Segments**Consumer**

Consumer segment sales in the first fiscal six months of 2009 were \$7.6 billion, a decrease of 6.6% as compared to the same period a year ago, including operational growth of 1.0% and a negative currency impact of 7.6%. U.S.

Consumer segment sales declined by 2.2% while international sales experienced an overall sales decline of 9.9%, including operational growth of 3.6% and a negative currency impact of 13.5%.

Major Consumer Franchise Sales Fiscal Six Months

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change	Operations Change	Currency Change
OTC Pharm & Nutr	\$2,658	\$2,999	(11.4)%	(4.3)%	(7.1)%
Skin Care	1,675	1,679	(0.2)	6.9	(7.1)
Baby Care	997	1,105	(9.8)	(0.7)	(9.1)
Women s Health	904	965	(6.3)	2.8	(9.1)
Oral Care	751	794	(5.4)	2.6	(8.0)
Wound Care/Other	580	558	3.9	10.4	(6.5)
Total	\$7,565	\$8,100	(6.6)%	1.0%	(7.6)%

Consumer segment sales in the fiscal second quarter of 2009 were \$3.8 billion, a decrease of 4.5% over the same period a year ago, including operational growth of 3.1% and a negative currency impact of 7.6%. U.S. Consumer segment sales increased by 0.8% while international sales experienced an overall sales decline of 8.4%, including operational growth of 4.7%, and a negative currency impact of 13.1%.

Major Consumer Franchise Sales Fiscal Second Quarters

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change	Operations Change	Currency Change
OTC Pharm & Nutr	\$1,310	\$1,405	(6.8)%	0.3%	(7.1)%
Skin Care	833	839	(0.7)	5.9	(6.6)
Baby Care	508	572	(11.2)	(2.2)	(9.0)
Women s Health	481	504	(4.6)	4.8	(9.4)
Oral Care	386	408	(5.4)	2.4	(7.8)
Wound Care/Other	336	308	9.1	15.7	(6.6)
Total	\$3,854	\$4,036	(4.5)%	3.1%	(7.6)%

The OTC Pharmaceuticals and Nutritionals franchise achieved operational growth of 0.3% as compared to prior year fiscal second quarter. Increased competitive pressures including private label have negatively impacted sales. The U.S. Food and Drug Administration (FDA) is currently considering certain

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recommendations made by its advisory committee for reducing the potential for overdose with acetaminophen, the active ingredient in TYLENOL®. The Company has provided the FDA with its own recommendations and will continue to be actively engaged with the FDA on this topic.

The Skin Care franchise achieved operational growth of 5.9% which was primarily due to growth in the Neutrogena and Aveeno product lines.

The Baby Care franchise experienced an operational decline of 2.2% over prior year fiscal second quarter. This was due to increased private label competition and lower sales for Babycenter.com primarily as a result of exiting the online retail business. This was partially offset by growth in the haircare and powder product lines outside the U.S. The Women's Health Franchise operational growth of 4.8% was primarily due to sales associated with the buyout of a joint venture partner in France. Prior to the buyout of the joint venture partner, sales by the joint venture were not recorded as part of the Company's sales to customers.

The Oral Care franchise operational growth of 2.4% was driven by the growth of LISTERINE® mouthwash outside the U.S. partially offset by lower sales of whitening strips and mouth fresheners on a global basis.

The Wound Care/Other franchise operational growth of 15.7% was primarily due to the recent acquisitions in wellness and prevention and sales associated with the buyout of a joint venture partner in France. Prior to the buyout of the joint venture partner, sales by the joint venture were not recorded as part of the Company's sales to customers.

Pharmaceutical

Pharmaceutical segment sales in the first fiscal six months of 2009 were \$11.3 billion, a total decrease of 11.7% as compared to the same period a year ago with an operational decline of 6.8% and a decrease of 4.9% related to the negative impact of currency. U.S. Pharmaceutical sales declined by 12.9% as compared to the same period a year ago. International Pharmaceutical sales experienced a sales decline of 9.7%, representing an operational increase of 3.1%, and a decrease of 12.8% related to the negative impact of currency.

Major Pharmaceutical Product Revenues – Fiscal Six Months

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change	Operations Change	Currency Change
REMICADE®	\$ 2,130	\$ 1,884	13.1%	13.1%	%
PROCRIPT®/EPREX®	1,127	1,281	(12.0)	(6.3)	(5.7)
LEVAQUIN®/FLOXIN®	787	847	(7.1)	(6.2)	(0.9)
TOPAMAX®	784	1,323	(40.7)	(37.9)	(2.8)
RISPERDAL® CONSTA®	673	652	3.2	14.6	(11.4)
CONCERTA®	661	569	16.2	21.4	(5.2)
ACIPHEX®/PARIET®	523	602	(13.1)	(5.7)	(7.4)
RISPERDAL®	514	1,521	(66.2)	(64.5)	(1.7)
DURAGESIC®/Fentanyl Transdermal	449	505	(11.1)	(2.7)	(8.4)
Other	3,630	3,585	1.3	9.4	(8.1)
Total	\$ 11,278	\$ 12,769	(11.7)%	(6.8)%	(4.9)%

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Pharmaceutical segment sales in the fiscal second quarter of 2009 were \$5.5 billion, a total decrease of 13.3% over the same period a year ago with an operational decline of 8.5% and a decrease of 4.8% related to the negative impact of currency. U.S. Pharmaceutical sales decreased by 16.4% over the same period a year ago. International Pharmaceutical sales experienced a sales decline of 8.7%, representing an operational increase of 3.3%, and a decrease of 12.0% related to the negative impact of currency.

Major Pharmaceutical Product Revenues Fiscal Second Quarters

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change	Operations Change	Currency Change %
REMICADE®	\$1,102	\$ 886	24.4%	24.4%	%
PROCRIË®/EPREX®	577	652	(11.5)	(6.0)	(5.5)
LEVAQUIN®/FLOXIN®	362	351	3.1	4.1	(1.0)
RISPERDALâ CONSTAâ	348	343	1.5	12.1	(10.6)
CONCERTAâ	317	279	13.6	18.7	(5.1)
ACIPHEX®/PARIETâ	260	325	(20.0)	(13.3)	(6.7)
RISPERDALâ	239	712	(66.4)	(64.8)	(1.6)
DURAGESIC®/Fentanyl Transdermal	218	272	(19.9)	(12.3)	(7.6)
TOPAMAX®	182	677	(73.1)	(70.4)	(2.7)
Other	1,893	1,843	2.7	10.5	(7.8)
Total	\$5,498	\$6,340	(13.3)%	(8.5)%	(4.8)%

REMICADE® (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 24.4% over prior year fiscal second quarter. Sales in the U.S. market grew 12.7% versus the prior year primarily driven by market growth. U.S. export sales grew 63.5% versus the prior year fiscal second quarter primarily driven by an increase in customer production planning needs. U.S. export sales operational growth for the fiscal six months of 2009 versus the same period a year ago was 17.9%, which the Company believes is more reflective of actual consumption in the first two fiscal quarters of 2009. REMICADE® is competing in a market which is experiencing increased competition due to new entrants and the expansion of indications for existing competitors.

PROCRIË (Epoetin alfa)/EPREXâ (Epoetin alfa), experienced an operational sales decline of 6.0%, as compared to prior year fiscal second quarter. The decline in PROCRIË sales was due to the declining markets for Erythropoiesis Stimulating Agents (ESAs) in the U.S. The FDA issued an order requiring a labeling supplement making specific revisions to the label for ESAs,

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including PROCRI[®]. The label for PROCRI[®] was updated July 30, 2008 based on review of emerging safety data for the use of ESAs in patients with cancer. Outside the U.S., the emerging safety data issues have contributed to the lower sales results for EPREX[®].

RISPERDAL[®] CONSTA[®] (risperidone), a long-acting injectable for the treatment of schizophrenia, achieved operational growth of 12.1% over the fiscal second quarter of 2008. Strong growth was due to a positive shift from daily therapies to longer-acting RISPERDAL[®] CONSTA[®] and increased share.

CONCERTA[®] (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, achieved operational sales growth of 18.7% over the fiscal second quarter of 2008 due to market growth. Although the original CONCERTA[®] patent expired in 2004, the FDA has not approved any generic version that is substitutable for CONCERTA[®]. Parties have filed Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA[®], which are pending and may be approved at any time.

ACIPHEX[®]/PARIET[®], experienced an operational decline of 13.3% due in part to generic competition.

RISPERDAL[®](risperidone), a medication that treats the symptoms of schizophrenia, bipolar mania and irritability associated with autistic behavior in indicated patients, experienced an operational decline of 64.8% in the fiscal second quarter of 2009 versus the same period in the prior year. Market exclusivity for RISPERDAL[®] oral in the U.S. expired on June 29, 2008. Loss of market exclusivity for the RISPERDAL[®] oral patent has resulted in a significant reduction in sales in the U.S. In 2008, U.S. sales of RISPERDAL[®] oral were \$1.3 billion. U.S. sales of RISPERDAL[®] oral were \$1.1 billion and \$0.2 billion in the first half and the second half of the 2008 fiscal year, respectively, and \$0.2 billion in the first half of the 2009 fiscal year.

DURAGESIC[®]/Fentanyl Transdermal (fentanyl transdermal system), experienced an operational decline of 12.3% due to continued generic competition.

TOPAMAX[®] (topiramate), which has been approved for adjunctive and monotherapy use in epilepsy, as well as for the prophylactic treatment of migraines, experienced an operational decline of 70.4% as compared to prior year fiscal second quarter. Marketing exclusivity for TOPAMAX[®] (topiramate) in the U.S. expired in March 2009 and multiple generics have entered the market. Loss of market exclusivity for the TOPAMAX[®] patent has resulted in a significant reduction in sales in the U.S. In 2008, U.S. sales of TOPAMAX[®] were \$2.3 billion. U.S. sales of TOPAMAX[®] were \$0.5 billion and \$0.1 billion in the fiscal first quarter and the fiscal second quarter of 2009 respectively.

In the fiscal second quarter of 2009, Other Pharmaceutical sales achieved operational growth of 10.5% versus the prior year.

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Contributors to the increase were sales of VELCADE[®] (bortezomib), a treatment for multiple myeloma, PREZISTA[®] (darunavir), for the treatment of HIV/AIDS patients and INVEGA[®] (paliperidone), a once-daily atypical antipsychotic. Medical Devices and Diagnostics

Medical Devices and Diagnostics segment sales in the first fiscal six months of 2009 were \$11.4 billion, a decrease of 3.0% as compared to the same period a year ago, with 3.0% of this change due to operational increases and a decrease of 6.0% related to the negative impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 2.2% and the decline in international Medical Devices and Diagnostics sales was 7.3%, which included operational increases of 3.6% and a decrease of 10.9% related to the negative impact of currency.

Major Medical Devices and Diagnostics Franchise Sales* Fiscal Six Months

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change %	Operations Change	Currency Change
DEPUY [®]	\$ 2,615	\$ 2,615		6.6%	(6.6)%
ETHICON ENDO-SURGERY [®]	2,130	2,127	0.1	7.3	(7.2)
ETHICON [®]	1,994	1,965	1.5	9.4	(7.9)
CORDIS [®]	1,342	1,614	(16.9)	(12.8)	(4.1)
Vision Care	1,229	1,246	(1.4)	1.3	(2.7)
Diabetes Care	1,151	1,289	(10.7)	(4.8)	(5.9)
ORTHO-CLINICAL DIAGNOSTICS [®]	961	919	4.6	9.7	(5.1)
Total	\$11,422	\$11,775	(3.0)%	3.0%	(6.0)%

* Prior year amounts have been reclassified to conform to current presentation.

Medical Devices and Diagnostics segment sales in the fiscal second quarter of 2009 were \$5.9 billion, a decrease of 3.1% as compared to the same period a year ago, with 2.9% of this change due to operational increases and a decrease of 6.0% related to the negative impact of currency. The U.S. Medical Devices and Diagnostics sales increase was 1.9% and the decline in international Medical Devices and Diagnostics sales was 7.2%, which included operational increases of 3.7% and a decrease of 10.9% related to the negative impact of currency.

Major Medical Devices and Diagnostics Franchise Sales* Fiscal Second Quarters

(Dollars in Millions)	June 28, 2009	June 29, 2008	Total Change	Operations Change	Currency Change
DEPUY [®]	\$1,323	\$1,328	(0.4)%	6.0%	(6.4)%
ETHICON ENDO-SURGERY [®]	1,115	1,124	(0.8)	6.3	(7.1)
ETHICON [®]	1,041	1,020	2.1	9.7	(7.6)
CORDIS [®]	674	813	(17.1)	(12.6)	(4.5)
Vision Care	630	639	(1.4)	1.9	(3.3)
Diabetes Care	610	674	(9.5)	(3.7)	(5.8)
ORTHO-CLINICAL DIAGNOSTICS [®]	494	476	3.8	9.2	(5.4)
Total	\$5,887	\$6,074	(3.1)%	2.9%	(6.0)%

* Prior year amounts have been reclassified

to conform to
current
presentation.

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The DePuy franchise achieved operational growth of 6.0% over the same period a year ago. This was primarily due to growth in the spine, hip and knee product lines. Additionally, new product launches in the Mitek sports medicine product line contributed to the growth.

The Ethicon Endo-Surgery franchise achieved operational growth of 6.3% over prior year fiscal second quarter. This growth was mainly driven by the HARMONIC[®] technology business due to the success of newly launched products and the underlying strength of the technology. Additional contributors to the growth in the U.S. were the REALIZE[®] Gastric Band and newly acquired ENSEAL[®] products.

The Ethicon franchise achieved operational growth of 9.7% over prior year fiscal second quarter. This was attributable to growth in the biosurgical, meshes and women's health product lines in addition to sales of newly acquired products from the acquisitions of Omrix Biopharmaceuticals, Inc. and Mentor Corporation. The growth was partially offset by the divestiture of the Professional Wound Care business in the fiscal fourth quarter of 2008.

The Cordis franchise experienced an operational sales decline of 12.6% as compared to the fiscal second quarter of 2008. This decline was caused by lower sales of the CYPHER[®] Sirolimus-eluting Coronary Stent due to increased global competition. These results were partially offset by growth of the Biosense Webster business.

The Vision Care franchise achieved operational sales growth of 1.9%. ACUVUE[®] OASYS[®], 1-DAY ACUVUE[®] MOIST[™], and ACUVUE[®] OASYS[®] for Astigmatism were the major contributors to this growth offset by slowing category growth due to declines in consumer spending.

The Diabetes Care franchise experienced an operational sales decline of 3.7% as compared to the fiscal second quarter of 2008. This decline reflects the overall decrease in the market due to current economic conditions. These results were partially offset by growth of the Animas business, an insulin delivery business.

The Ortho-Clinical Diagnostics franchise achieved operational growth of 9.2% over the fiscal second quarter of 2008. This growth was primarily attributable to the launch of new VITROS 3600 and 5600 analyzers and donor screening products.

Cost of Products Sold and Selling, Marketing and Administrative Expenses

Consolidated costs of products sold for each of the first fiscal six months of 2009 and 2008 were 28.7% as a percent of sales. The costs of products sold for the fiscal second quarter of 2009 increased to 29.2% from 28.9% of sales in the same period a year

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ago. The increase was primarily due to the negative impact of product mix, partially offset by cost containment initiatives across all the businesses.

Consolidated selling, marketing and administrative expenses for the first fiscal six months of 2009 decreased to 31.1% from 32.6% of sales as compared to the same period a year ago. Consolidated selling, marketing and administrative expenses for the fiscal second quarter of 2009 decreased to 31.5% from 33.5% of sales as compared to the same period a year ago. Decreases in the quarterly and six month period were due to cost containment efforts across all the businesses.

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 the consumer. Worldwide costs of research activities, for the first fiscal six months of 2009 were \$3.2 billion, a decrease of 12.5% over the same period a year ago. Research and development spending in the fiscal second quarter of 2009 was \$1.6 billion, a decrease of 13.6% over the fiscal second quarter of 2008. The decreases as a percent to sales in the quarterly and six month period were primarily due to changes to the mix of businesses and increased efficiencies in Pharmaceutical research and development activities.

In-Process Research & Development(IPR&D)

In the fiscal second quarter and the first fiscal six months of 2008, the Company had \$40 million of IPR&D charges with no tax benefit associated with the acquisition of Amic AB.

Other (Income) Expense, Net

Other (income) expense, net is the account where the Company records gains and losses related to the sale and write-down of certain equity securities of the Johnson & Johnson Development Corporation, gains and losses on the disposal of fixed assets, currency gains and losses, gains and losses relating to non-controlling interests, litigation settlements, as well as royalty income. The change in other (income) expense, net for the first fiscal six months and the fiscal second quarter of 2009 was unfavorable as compared to the same periods a year ago. The Company received a \$270 million settlement payment from Medtronic AVE, Inc. during the fiscal second quarter which was offset by several smaller litigation matters as well as asset write-downs and other charges.

OPERATING PROFIT BY SEGMENT

Consumer Segment

Operating profit for the Consumer segment as a percent to sales in the first fiscal six months of 2009 was 19.8% versus 17.4% for the same period a year ago. Operating profit for the Consumer segment as a percent to sales in the fiscal second quarter of 2009 was 18.0% versus 16.9% for the same period a year ago. The primary driver of the improved operating profit for both the first fiscal six months and the fiscal second quarter of 2009 was due to cost

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containment initiatives related to selling, marketing and administrative expenses.

Pharmaceutical Segment

Operating profit for the Pharmaceutical segment as a percent to sales in the first fiscal six months of 2009 was 35.1% versus 35.3% for the same period a year ago. Operating profit for the Pharmaceutical segment as a percent to sales in the fiscal second quarter of 2009 was 30.9% versus 33.8% for the same period a year ago. For both periods in 2009, operating profit decreased, as compared to the same periods a year ago. The negative impact of product mix due to the loss of exclusivity of the TOPAMAX[®] patent was the primary driver of the decreased operating profit.

Medical Devices and Diagnostics Segment

Operating profit for the Medical Devices and Diagnostics segment as a percent to sales in the first fiscal six months of 2009 was 33.9% versus 29.7% for the same period a year ago. Operating profit for the Medical Devices and Diagnostics segment as a percent to sales in the fiscal second quarter of 2009 was 35.5% versus 28.0% for the same period a year ago. The primary driver of the improvement in the operating profit margin in the Medical Devices and Diagnostics segment for both periods in 2009 was due to favorable product mix, manufacturing efficiencies and cost containment initiatives related to selling, marketing and administrative expenses. Additionally, the Company received a \$270 million settlement payment from Medtronic AVE, Inc., which was partially offset by asset write-downs and other charges in the fiscal second quarter of 2009.

Interest (Income) Expense

Interest income decreased in both the first fiscal six months and second quarter of 2009 as compared to the same periods a year ago, due to lower rates of interest earned, despite higher average cash balances. The ending balance of cash, cash equivalents and marketable securities, was \$14.7 billion at the end of the fiscal second quarter of 2009. This is an increase of \$1.6 billion from the same period a year ago. The increase was primarily due to cash generated from operating activities.

Interest expense was relatively flat in both the first fiscal six months and fiscal second quarter of 2009 as compared to the same period a year ago. At the end of the fiscal second quarter of 2009 the Company's debt position was \$13.6 billion compared to \$13.9 billion from the same period a year ago.

Provision For Taxes on Income

The worldwide effective income tax rates for the first fiscal six months of 2009 and 2008 were 24.6% and 24.1%, respectively. The increase in the effective tax rate was primarily due to a decline in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions partially offset by the U.S. Research and Development tax credit which was not in effect in the first fiscal six months of 2008.

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As of June 28, 2009 the Company had approximately \$2.2 billion of liabilities from unrecognized tax benefits. The Company does not expect that the total amount of unrecognized tax benefits will change significantly during the next twelve months.

See Note 8 to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended December 28, 2008 for more detailed information regarding unrecognized tax benefits.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash and Cash equivalents were \$11.7 billion at the end of the fiscal second quarter of 2009 as compared with \$10.8 billion at the fiscal year end of 2008. The primary sources of cash that contributed to the \$0.9 billion increase were \$6.2 billion generated from operating activities offset by \$3.4 billion net cash used by investing activities and \$1.9 billion used by financing activities.

Cash flow from operations of \$6.2 billion was the result of \$6.7 billion of net earnings and \$2.4 billion of non cash charges related to depreciation and amortization, stock based compensation and deferred tax provision offset by \$2.9 billion related to changes in assets and liabilities net of effects from acquisitions.

Investing activities use of \$3.4 billion cash related to net investments in marketable securities of \$1.0 billion, acquisitions of \$1.3 billion and \$1.0 billion for additions to property, plant and equipment.

The use of \$1.9 billion in financing activities were dividends to shareholders of \$2.6 billion and \$1.1 billion for repurchase of common stock offset by net proceeds from short term debt of \$1.8 billion.

In the fiscal second quarter of 2009 the Company continued to have access to liquidity through the commercial paper market. The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will continue to provide sufficient resources to fund operating needs in 2009.

Dividends

On April 23, 2009, the Board of Directors declared a regular cash dividend of \$0.490 per share, payable on June 9, 2009 to shareholders of record as of May 26, 2009. This represented an increase of 6.5% in the quarterly dividend rate and was the 47th consecutive year of cash dividend increases.

On July 20, 2009, the Board of Directors declared a regular cash dividend of \$0.490 per share, payable on September 8, 2009 to shareholders of record as of August 25, 2009. The Company expects to continue the practice of paying regular quarterly cash dividends.

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OTHER INFORMATION

New Accounting Standards

During the fiscal second quarter of 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*. This statement establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. See Note 13 for additional information.

During the fiscal first quarter of 2009, the Company adopted, SFAS Statements No. 141(R), *Business Combinations*, and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. These statements aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. These statements have a significant impact on the manner in which the Company accounts for acquisitions beginning in the fiscal year 2009. Significant changes include the capitalization of in process research and development (IPR&D), expensing of acquisition related restructuring actions and transaction related costs and the recognition of contingent purchase price consideration at fair value at the acquisition date. In addition, changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recognized in earnings rather than as an adjustment to the cost of acquisition. This accounting treatment for taxes is applicable to acquisitions that occurred both prior and subsequent to the adoption of SFAS No. 141(R). Noncontrolling interests as related to Johnson & Johnson's financial statements are insignificant therefore, the adoption of SFAS No. 141(R) and SFAS No. 160 did not have a material effect on the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2009, the Company adopted, SFAS Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, to enhance the disclosure regarding the Company's derivative and hedging activities to improve the transparency of financial reporting. The adoption of SFAS No. 161 did not have a significant impact on the Company's results of operations, cash flow or financial position. See Note 2 for more enhanced disclosures.

EITF Issue 07-1: *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property*. This issue is effective for financial statements issued for fiscal years beginning after December 15, 2008 and was adopted by the Company in the fiscal first quarter of 2009. This issue addresses

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the income statement classification of payments made between parties in a collaborative arrangement. The adoption of EITF 07-1 did not have a significant impact on the Company's results of operations, cash flows or financial position. EITF Issue 08-7: *Accounting for Defensive Intangible Assets*. This issue is effective for financial statements issued for fiscal years beginning after December 15, 2008 and was adopted by the Company in the fiscal first quarter of 2009. This issue applies to acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold the asset to prevent others from obtaining access to the asset, except for intangible assets that are used in research and development activities. The adoption of EITF 08-7 did not have a significant impact on the Company's results of operations, cash flows or 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 1998 through 2008 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 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 continue to result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

Changes in the behavior and spending patterns of consumers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, as a result of a prolonged global economic downturn will continue to impact the Company's businesses.

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* included in

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Item 1. Financial Statements (unaudited)- Notes to Consolidated Financial Statements, Note 12.

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 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; 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 28, 2008 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 28, 2008.

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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.

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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 second quarter of 2009. Common Stock purchases on the open market are made as part of a systematic plan to meet the needs of the Company's compensation programs.

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Remaining Maximum Number of Shares that May Be Purchased Under the Plans or Programs (2)
March 30, 2009 through April 26, 2009	3,419,100	\$ 52.04	3,419,100	
April 27, 2009 through May 24, 2009	81,100	\$ 51.14	81,100	
May 25, 2009 through June 28, 2009	1,931,400	\$ 55.32	1,931,400	
Total	5,431,600		5,431,600 (3)	19,079,994

(1) During the fiscal second quarter of 2009, the Company repurchased an aggregate of 5,431,600 shares of Johnson & Johnson Common Stock pursuant to the repurchase program that was publicly announced on July 9, 2007 and no shares in open-market transactions outside of the program. The repurchase program has no

time limit and may be suspended for periods or discontinued at any time.

- (2) As of June 28, 2009, based on the closing price of the Company's Common Stock on the New York Stock Exchange on June 26, 2009 of \$56.60 per share.
- (3) As of June 28, 2009, an aggregate of 140,377,700 shares were purchased for a total of \$8.9 billion since the inception of the repurchase program announced on July 9, 2007.

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Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information required to be disclosed in this item was previously filed and is incorporated by reference to Item 4 of the Registrant's Form 10-Q Quarterly Report for the quarter ended March 29, 2009.

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.

Exhibit 101 XBRL (Extensible Business Reporting Language) The following materials from Johnson & Johnson's Quarterly Report on Form 10-Q for the quarter ended June 28, 2009, formatted in Extensive Business Reporting Language (XBRL), (i) consolidated balance sheets, (ii) consolidated statements of earnings, (iii) consolidated statements of cash flows, and (iv) the notes to the consolidated financial statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSON & JOHNSON
(Registrant)

Date: August 4, 2009

By /s/ D. J. CARUSO

D. J. CARUSO Vice President, Finance;
Chief Financial Officer
(Principal Financial Officer)

Date: August 4, 2009

By /s/ S. J. COSGROVE

S. J. COSGROVE
Controller
(Principal Accounting Officer)

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