Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Johnson & Johnson and subsidiaries (the "Company"). Intercompany accounts and transactions are eliminated.

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

The Company has approximately 115,500 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus is on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment manufactures and markets a broad range of products used in the baby care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. The Medical Devices and Diagnostics segment includes a broad range of products used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring and insulin delivery products; Ortho-Clinical Diagnostics' professional diagnostic products and Vistakon's disposable contact lenses.

NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

During the fiscal fourth quarter of 2009, in accordance with U.S. GAAP, the Company adopted the authoritative guidance for employers' disclosures about postretirement benefit plan assets to enhance the disclosure regarding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan, as well as, events in the economy and markets that could have a significant effect on the value of the plan assets. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position. See Note 10 for enhanced disclosures.

During the fiscal third quarter of 2009, the Company adopted *The FASB Accounting Standards Codification™ (ASC or Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP)* which establishes the Codification as the sole source for authoritative U.S. GAAP and will supersede all accounting standards in U.S. GAAP, aside from those issued by the SEC. The adoption of the Codification did not have an impact on the Company's results of operations, cash flows or financial position. Since the adoption of the Accounting Standards Codification (ASC) the Company's notes to the consolidated financial statements will no longer make reference to Statement of Financial Accounting Standards (SFAS) or other U.S. GAAP pronouncements.

During the fiscal second quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standards on subsequent events. This pronouncement establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. See Note 23 for related disclosure.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standards on business combinations and non-controlling interests in Consolidated Financial Statements. These standards aim to improve, simplify, and converge internationally, the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. These standards have an impact on the manner in which the Company accounts for acquisitions beginning in the fiscal year 2009. Significant changes include the capitalization of purchased 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 the standard. Operating profit attributable to non-controlling interests is reported in Other (Income) Expense, net and the related tax impact to the Provision for Taxes. Additionally, equity attributable to non-controlling interests is recorded in Other Non-Current liabilities. Non-controlling interests as related to the Company's financial statements are immaterial and therefore, not separately disclosed.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard related to disclosures about derivative instruments and hedging activities, which enhanced the disclosure regarding the Company's derivative and hedging activities. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position. See Note 6 for enhanced disclosures.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard on collaborative arrangements related to the development and commercialization of intellectual property. This standard addresses the income statement classification of payments made between parties in a collaborative arrangement. The impact of the adoption of this standard related to all collaboration agreements that existed as of January 3, 2010 and December 28, 2008 was immaterial to the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard related to defensive intangible assets. This standard 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 this standard did not have a material impact on the Company's results of operations, cash flows or financial position.

RECENTLY ISSUED ACCOUNTING STANDARDS, NOT ADOPTED AS OF JANUARY 3, 2010

The FASB issued guidance and amendments to the criteria for separating consideration in multiple-deliverable revenue arrangements.

The guidance and amendments are expected to: (a) provide principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated; (b) require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (c) eliminate the use of the residual method and require an entity to allocate the revenue using the relative selling price method. The guidance significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company adopted this guidance in the first fiscal quarter of 2010. The adoption will not have a material impact on the Company's results of operations, cash flows or financial position; however, it will expand the disclosures for such arrangements.

The FASB issued a standard to improve financial reporting by enterprises involved with variable interest entities. This statement is effective for the Company beginning with the fiscal year 2010. Earlier application is prohibited. The adoption of this standard will not have a material impact on the Company's results of operations, cash flows or financial position.

CASH EQUIVALENTS

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

INVESTMENTS

Short-term marketable securities are carried at cost, which approximates fair value. Investments classified as available-for-sale are carried at estimated fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income. Long-term debt securities that the Company has the ability and intent to hold until maturity are carried at amortized cost. Management determines the appropriate classification of its investment in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. The Company periodically reviews its investments in equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary. If losses on these securities are considered to be other than temporary, the loss is recognized in earnings.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost. The Company utilizes the straight-line method of depreciation over the estimated useful lives of the assets:

Building and building equipment	20–40 years
Land and leasehold improvements	10–20 years
Machinery and equipment	2–13 years

The Company capitalizes certain computer software and development costs, included in machinery and equipment, when incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are amortized over the estimated useful lives of the software, which generally range from 3 to 8 years.

The Company reviews long-lived assets to assess recoverability using undiscounted cash flows. When certain events or changes in operating or economic conditions occur, an impairment assessment may be performed on the recoverability of the carrying value of these assets. If the asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. If quoted market prices are not available, the Company will estimate fair value using a discounted value of estimated future cash flows.

REVENUE RECOGNITION

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates, the largest being the Medicaid rebate provision, are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated information.

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company's accounting policies, the Company generally issues credit to customers for returned goods. The Company's sales return reserves are accounted for in accordance with U.S. GAAP guidance regarding revenue recognition when right of return exists. Sales return reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices and Diagnostics segment are typically resalable but are not material. The Company rarely exchanges products from inventory for returned products. The sales returns reserve for the total Company has ranged between 1.1% and 1.2% of annual net trade sales during the prior three fiscal reporting years 2007–2009.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the year incurred. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on the estimated sales volumes for the incentive period and are recorded as products are sold. The Company also earns service revenue for co-promotion of certain products and includes it in sales to customers. These arrangements are evaluated to determine the appropriate amounts to be deferred.

SHIPPING AND HANDLING

Shipping and handling costs incurred were $964 million, $1,017 million and $934 million in 2009, 2008 and 2007, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping and handling is less than 0.5% of sales to customers for all periods presented.

INVENTORIES

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

INTANGIBLE ASSETS AND GOODWILL

The authoritative literature on U.S. GAAP requires that goodwill and intangible assets with indefinite lives be assessed annually for impairment. The Company completed the annual impairment test for 2009 in the fiscal fourth quarter and no impairment was determined. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if a triggering event occurs.

Intangible assets that have finite useful lives continue to be amortized over their useful lives, and are reviewed for impairment when warranted by economic conditions. See Note 5 for further details on Intangible Assets and Goodwill.

FINANCIAL INSTRUMENTS

As required by U.S. GAAP all derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The Company documents all relationships between hedged items and derivatives. The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are: (1) minimize foreign currency exposure's impact on the Company's financial performance; (2) protect the Company's cash flow from adverse movements in foreign exchange rates; (3) ensure the appropriateness of financial instruments; and (4) manage the enterprise risk associated with financial institutions. See Note 6 for additional information on Financial Instruments.

PRODUCT LIABILITY

Accruals for product liability claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. As a result of cost and availability factors, effective November 1, 2005, the Company ceased purchasing third-party product liability insurance. Based on the availability of prior coverage, receivables for insurance recoveries related to product liability claims are recorded on an undiscounted basis, when it is probable that a recovery will be realized.

RESEARCH AND DEVELOPMENT

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third-parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Payments made to third-parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in other intangibles, net of accumulated amortization.

The Company enters into collaborative arrangements, typically with other pharmaceutical or biotechnology companies, to develop and commercialize drug candidates or intellectual property. These arrangements typically involve two (or more) parties who are active participants in the collaboration and are exposed to significant risks and rewards dependent on the commercial success of the activities. These collaborations usually involve various activities by one or more parties, including research and development, marketing and selling and distribution. Often, these collaborations require upfront, milestone and royalty or profit share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development. Amounts due from collaborative partners related to development activities are generally reflected as a reduction of research and development expense because the performance of contract development services is not central to the Company's operations. In general, the income statement presentation for these collaborations is as follows:

Nature/Type of Collaboration	Statement of Earnings Presentation
Third-party sale of product	Sales to customers
Royalties/milestones paid to collaborative partner (post-regulatory approval)*	Cost of goods sold
Royalties received from collaborative partner	Other income (expense), net
Upfront payments & milestones paid to collaborative partner (pre-regulatory approval)	Research expense
Research and development payments to collaborative partner	Research expense
Research and development payments received from collaborative partner	Reduction of Research expense

** Milestones are capitalized as intangible assets and amortized to cost of goods sold over the useful life.*

ADVERTISING

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were $2.4 billion in 2009, $2.9 billion in 2008 and $2.7 billion in 2007.

INCOME TAXES

The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded with respect to the undistributed portion not intended for repatriation. At January 3, 2010 and December 28, 2008, the cumulative amount of undistributed international earnings were approximately $32.2 billion and $27.7 billion, respectively.

Deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities.

NET EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock using the treasury stock method.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates are used when accounting for sales discounts, rebates, allowances and incentives, product liabilities, income taxes, depreciation, amortization, employee benefits, contingencies and intangible asset and liability valuations. For instance, in determining annual pension and post-employment benefit costs, the Company estimates the rate of return on plan assets, and the cost of future health care benefits. Actual results may or may not differ from those estimates.

ANNUAL CLOSING DATE

The Company follows the concept of a fiscal year, which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks, as was the case in 2009 and will be the case again in 2014.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to current year presentation.

2. Cash, Cash Equivalents and Current Marketable Securities

(Dollars in Millions)	January 3, 2010 Amortized Cost	January 3, 2010 Unrealized Gains/(Losses)	January 3, 2010 Estimated Fair Value	December 28, 2008 Amortized Cost	December 28, 2008 Unrealized Gains/(Losses)	December 28, 2008 Estimated Fair Value
Current Investments						
Cash	$ 2,517	—	2,517	3,276	—	3,276
Government securities and obligations	13,370	1	13,371	7,486	4	7,490
Corporate debt securities	426	—	426	627	1	628
Money market funds	1,890	—	1,890	813	—	813
Time deposits	1,222	—	1,222	607	—	607
Total cash, cash equivalents and current marketable securities	**$19,425**	**1**	**19,426**	**12,809**	**5**	**12,814**

As of January 3, 2010, current marketable securities consist of $3,434 million and $181 million of government securities and obligations and corporate debt securities, respectively.

As of December 28, 2008, current marketable securities consist of $1,663 million, $342 million and $36 million of government securities and obligations, corporate debt securities and time deposits, respectively.

Fair value of government securities and obligations and corporate debt securities were estimated using quoted broker prices in active markets.

The Company invests its excess cash in both deposits with major banks throughout the world and other high-quality money market instruments. The Company has a policy of making investments only with commercial institutions that have at least an A (or equivalent) credit rating.

3. Inventories

At the end of 2009 and 2008, inventories were comprised of:

(Dollars in Millions)	2009	2008
Raw materials and supplies	$1,144	839
Goods in process	1,395	1,372
Finished goods	2,641	2,841
	$5,180	**5,052**

4. Property, Plant and Equipment

At the end of 2009 and 2008, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2009	2008
Land and land improvements	$ 714	886
Buildings and building equipment	8,863	7,720
Machinery and equipment	17,153	15,234
Construction in progress	2,521	3,552
	29,251	27,392
Less accumulated depreciation	14,492	13,027
	$14,759	**14,365**

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2009, 2008 and 2007 was $101 million, $147 million and $130 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2009, 2008 and 2007, was $2.1 billion, $2.0 billion and $1.9 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the costs and related amounts of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds are recorded in earnings.

5. Intangible Assets and Goodwill

At the end of 2009 and 2008, the gross and net amounts of intangible assets were:

(Dollars in Millions)	2009	2008
Intangible assets with definite lives:		
Patents and trademarks — gross	$ 5,697	5,119
Less accumulated amortization	2,177	1,820
Patents and trademarks — net	**$ 3,520**	**3,299**
Other intangibles — gross	$ 7,808	7,376
Less accumulated amortization	2,680	2,433
Other intangibles — net	**$ 5,128**	**4,943**
Total intangible assets with definite lives — gross	$13,505	12,495
Less accumulated amortization	4,857	4,253
Total intangible assets with definite lives — net	**$ 8,648**	**8,242**
Intangible assets with indefinite lives:		
Trademarks	$ 5,938	5,734
Purchased in-process research and development*	1,737	—
Total intangible assets with indefinite lives	**$ 7,675**	**5,734**
Total intangible assets — net	**$16,323**	**13,976**

** Purchased in-process research and development will be accounted for as an indefinite-lived intangible asset until the underlying project is completed or abandoned.*

Goodwill as of January 3, 2010 and December 28, 2008, as allocated by segment of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev and Diag	Total
Goodwill at December 30, 2007	$8,125	964	5,034	14,123
Acquisitions	191	—	286	477
Currency translation/other	(842)	(1)	(38)	(881)
Goodwill at December 28, 2008	$7,474	963	5,282	13,719
Acquisitions	—	271	401	672
Currency translation/other*	600	10	(139)	471
Goodwill at January 3, 2010	**$8,074**	**1,244**	**5,544**	**14,862**

** Includes reclassification between segments.*

The weighted average amortization periods for patents and trademarks and other intangible assets are 17 years and 28 years, respectively. The amortization expense of amortizable assets for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 was $675 million, $788 million and $844 million before tax, respectively. Certain patents and intangible assets were written down to fair value during fiscal years 2009, 2008 and 2007, with the resulting charge included in amortization expense.

The estimated amortization expense for the five succeeding years approximates $700 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

6. Fair Value Measurements

During the fiscal first quarter of 2009, in accordance with U.S. GAAP the Company adopted the standard related to disclosures about derivative instruments and hedging activities. This standard requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gain and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third-party purchases of raw materials denominated in foreign currency. The Company also uses cross currency interest rate swaps to manage currency risk primarily related to borrowings. Both types of derivatives are designated as cash flow hedges. The Company also uses forward exchange contracts to manage its exposure to the variability of cash flows for repatriation of foreign dividends. These contracts are designated as net investment hedges. Additionally, the Company uses forward exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward exchange contracts are not designated as hedges and therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities. The Company does not enter into derivative financial instruments for trading or speculative purposes, or contain credit risk related contingent features or requirements to post collateral. On an ongoing basis the Company monitors counterparty credit ratings. The Company considers credit non-performance risk to be low, because the Company enters into agreements with commercial institutions that have at least an A (or equivalent) credit rating. As of January 3, 2010, the Company had notional amounts outstanding for forward foreign exchange contracts and cross currency interest rate swaps of $21 billion and $4 billion, respectively.

As required by U.S. GAAP for derivative instruments and hedging activities, all derivative instruments are to be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The designation as a cash flow hedge is made at the entrance date into the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains/losses on net investment hedges are accounted for through the currency translation account and are insignificant. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings in other (income) and expense, net, and was insignificant for the fiscal year ended January 3, 2010 and December 28, 2008. Refer to Note 13 for disclosures of movements in Accumulated Other Comprehensive Income.

As of January 3, 2010, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $145 million after-tax. For additional information, see Note 13. The Company expects that substantially all of the amount related to foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months excluding interest rate swaps. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.

The following table is a summary of the activity for the fiscal year ended January 3, 2010 related to designated derivatives as defined in the Codification:

Cash Flow Hedges (Dollars in Millions)	Gain/(Loss) recognized in Accumulated OCI[1]	Gain/(Loss) reclassed from Accumulated OCI into income[1]	Gain/(Loss) recognized in Other Income/ Expense[2]
Foreign exchange contracts	$ (63)	(47)[A]	1
Foreign exchange contracts	(173)	70[B]	(1)
Foreign exchange contracts	5	13[C]	—
Cross currency interest rate swaps	241	(16)[D]	—
Foreign exchange contracts	28	(6)[E]	(12)
Total	**$ 38**	**14**	**(12)**

[1] Effective portion
[2] Ineffective portion
[A] Included in Sales to customer
[B] Included in Cost of products sold
[C] Included in Research expense
[D] Included in Interest (Income)/Interest Expense, net
[E] Included in Other (Income)/Expense, net

For the fiscal year ended January 3, 2010, a gain of $21 million was recognized in Other (income)/expense, net, relating to foreign exchange contracts not designated as hedging instruments under the Codification.

During the fiscal first quarter of 2008, in accordance with U.S. GAAP, the Company adopted the standard related to fair value measurements except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, which became effective during the first fiscal quarter of 2009. The effect of adoption on December 29, 2008 of this standard for non-financial assets and liabilities recorded at fair value on a non-recurring basis did not have a material impact on the Company's financial position and results of operations. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. During the fiscal first quarter of 2008, the Company adopted the standard related to fair value option for financial assets and financial liabilities. This standard permits the Company to measure certain financial assets and financial liabilities at fair value. The Company assessed the fair value option made available upon adopting this standard, and has elected not to apply the fair value option to any financial instruments that were not already recognized at fair value.

U.S. GAAP defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with level 1 having the highest priority and level 3 having the lowest.

The fair value of a derivative financial instrument (i.e. forward exchange contract, currency swap) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position.

The Company also holds equity investments which are classified as level 1 since they are traded in an active exchange market.

During 2009, the Company acquired substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, JANSSEN Alzheimer Immunotherapy (JAI), of which the Company owns 50.1% and Elan owns 49.9%. In addition, the Company purchased approximately 107 million newly issued American Depositary Receipts (ADRs) of Elan, representing 18.4% of Elan's outstanding ordinary shares. As part of this transaction, the Company paid $885 million to Elan and committed to fund up to $250 million of Elan's share of research and development spending by JAI. Of this total consideration of $1,135 million, $793 million represents the fair value of the 18.4% investment in Elan based on Elan's share price in an actively traded market as of the date of this transaction. The IPR&D related to this transaction was $679 million and is associated with bapineuzumab, a potential first-in-class treatment that is being evaluated for slowing the progression of Alzheimer's Disease. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 40–50% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 26%. The non-controlling interest related to this transaction was $590 million, which the Company has recorded in other non-current liabilities.

During 2009, the Company entered into a strategic collaboration with Crucell N.V. which will focus on the discovery, development and commercialization of monoclonal antibodies and vaccines for the treatment and prevention of influenza and other infectious and non-infectious diseases. In addition, the Company, through its affiliate, purchased approximately 18% of Crucell's outstanding ordinary shares for an aggregate purchase price of $448 million. Of the total consideration paid, $329 million represents the fair value of the investment based on Crucell's share price in an actively traded market as of the date of the transaction with the excess recorded to research and development expense in 2009.

The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The Company's significant financial assets and liabilities measured at fair value as of January 3, 2010 and December 28, 2008 were as follows:

(Dollars in Millions)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	2009 Total	2008 Total*
Derivatives designated as hedging instruments:					
Assets:					
Foreign exchange contracts	$ —	436	—	436	1,238
Cross currency interest rate swaps	—	126**	—	126	110
Total	**—**	**562**	**—**	**562**	**1,348**
Liabilities:					
Foreign exchange contracts	—	608	—	608	1,298
Cross currency interest rate swaps	—	571***	—	571	1,033
Total	**—**	**1,179**	**—**	**1,179**	**2,331**
Derivatives not designated as hedging instruments:					
Assets:					
Foreign exchange contracts	—	33	—	33	84
Liabilities:					
Foreign exchange contracts	—	40	—	40	47
Other investments	$1,134	—	—	1,134	41

** 2008 assets and liabilities are all classified as Level 2 with the exception of other investments of $41 million which are classified as Level 1.*

*** Includes $119 million of non-current assets.*

**** Includes $517 million of non-current liabilities.*

See Notes 2 and 7 for financial assets and liabilities held at carrying amount on the Consolidated Balance Sheet.

7. Borrowings

The components of long-term debt are as follows:

(Dollars in Millions)	2009	Effective Rate %	2008	Effective Rate %
6.625% Notes due 2009	—	—	199	6.80
5.15% Debentures due 2012	$ 599	5.18%	599	5.18
3.80% Debentures due 2013	500	3.82	500	3.82
5.55% Debentures due 2017	1,000	5.55	1,000	5.55
5.15% Debentures due 2018	898	5.15	898	5.15
4.75% Notes due 2019 (1B Euro 1.4382)[2]/(1B Euro 1.4000)[3]	1,429[2]	5.35	1,390[3]	5.35
3% Zero Coupon Convertible Subordinated Debentures due 2020	188	3.00	183	3.00
6.73% Debentures due 2023	250	6.73	250	6.73
5.50% Notes due 2024 (500MM GBP 1.6189)[2]/ (500MM GBP 1.4759)[3]	803[2]	5.71	731[3]	5.71
6.95% Notes due 2029	294	7.14	294	7.14
4.95% Debenture due 2033	500	4.95	500	4.95
5.95% Notes due 2037	995	5.99	995	5.99
5.86% Debentures due 2038	700	5.86	700	5.86
Other (Includes Industrial Revenue Bonds)	101		102	
	8,257[4]	**5.42[1]**	**8,341[4]**	**5.46[1]**
Less current portion	34		221	
	$8,223		**8,120**	

[1] *Weighted average effective rate.*
[2] *Translation rate at January 3, 2010.*
[3] *Translation rate at December 28, 2008.*
[4] *The excess of the fair value over the carrying value of debt was $0.8 billion in 2009 and $1.4 billion in 2008.*

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

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2009, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates $10 billion which expires September 23, 2010. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.

On July 28, 2000, ALZA Corporation, a subsidiary of the Company, completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of $551.26 per $1,000 principal amount at maturity. Under the terms of the 3% Debentures, holders are entitled to convert their debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of $40.102 per share. Approximately 11.4 million shares have been issued as of January 3, 2010, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on July 28, 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may also redeem any or all of the 3% Debentures after July 28, 2003 at the issue price plus accreted original issue discount.

Throughout 2009 the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately $6.3 billion at the end of 2009, of which $5.8 billion was borrowed under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective March 11, 2008 which enables the Company to issue an unlimited aggregate principal amount in debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2009 are:

(Dollars in Millions) 2010	2011	2012	2013	2014	After 2014
$34	35	615	507	9	7,057

8. Income Taxes

The provision for taxes on income consists of:

(Dollars in Millions)	2009	2008	2007
Currently payable:			
U.S. taxes	$2,410	2,334	2,990
International taxes	1,515	1,624	1,479
	3,925	3,958	4,469
Deferred:			
U.S. taxes	187	126	(722)
International taxes	(623)	(104)	(1,040)
	(436)	22	(1,762)
	$3,489	**3,980**	**2,707**

A comparison of income tax expense at the U.S. statutory rate of 35% in 2009, 2008 and 2007, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2009	2008	2007
U.S.	$ 7,141	6,579	5,237
International	8,614	10,350	8,046
Earnings before taxes on income:	$15,755	16,929	13,283
Tax rates:			
U.S. statutory rate	35.0%	35.0	35.0
Ireland and Puerto Rico operations	(5.1)	(6.8)	(8.8)
Research and orphan drug tax credits	(0.6)	(0.6)	(0.8)
U.S. state and local	1.8	1.6	2.1
International subsidiaries excluding Ireland	(6.7)	(5.6)	(7.3)
U.S. manufacturing deduction	(0.4)	(0.4)	(0.3)
In-process research and development (IPR&D)	0.0	0.4	2.1
U.S. Tax international income	(1.6)	(0.5)	(1.9)
All other	(0.3)	0.4	0.3
Effective tax rate	22.1%	23.5	20.4

The Company has subsidiaries manufacturing in Ireland under an incentive tax rate. In addition, the Company has subsidiaries operating in Puerto Rico under various tax incentive grants. The decrease in the 2009 tax rate was primarily due to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions. The increase in the 2008 tax rate was mainly attributed to increases in taxable income in higher tax jurisdictions relative to taxable income in lower jurisdictions, as well as a business restructuring of certain international subsidiaries in 2007, resulting in a one-time benefit of $267 million, which reduced the 2007 effective tax rate by 2%.

Temporary differences and carry forwards for 2009 and 2008 are as follows:

	2009 Deferred Tax		2008 Deferred Tax	
(Dollars in Millions)	Asset	Liability	Asset	Liability
Employee related obligations	$2,153		2,615	
Stock based compensation	1,291		1,296	
Depreciation		(661)		(523)
Non-deductible intangibles		(2,377)		(1,791)
International R&D capitalized for tax	1,989		1,914	
Reserves & liabilities	1,014		688	
Income reported for tax purposes	648		629	
Net operating loss carryforward international	615		393	
Miscellaneous international	1,474	(110)	964	(251)
Miscellaneous U.S.	799		1,828	
Total deferred income taxes	**$9,983**	**(3,148)**	**10,327**	**(2,565)**

The difference between the net deferred tax on income per the balance sheet and the net deferred tax above is included in taxes on income on the balance sheet. The 2009 and 2008 deferred tax Miscellaneous U.S. includes current year tax receivables. The Company has a wholly-owned international subsidiary which has cumulative net losses. The Company believes that it is more likely than not that the subsidiary will realize future taxable income sufficient to utilize these deferred tax assets.

The following table summarizes the activity related to unrecognized tax benefits:

(Dollars in Millions)	2009	2008	2007
Beginning of year	$1,978	1,653	1,262
Increases related to current year tax positions	555	545	487
Increases related to prior period tax positions	203	87	77
Decreases related to prior period tax positions	(163)	(142)	(117)
Settlements	(87)	(137)	(14)
Lapse of statute of limitations	(83)	(28)	(42)
End of year	**$2,403**	**1,978**	**1,653**

The Company had $2.4 billion and $2.0 billion of unrecognized tax benefits, as of January 3, 2010 and December 28, 2008, respectively. All of the unrecognized tax benefits of $2.4 billion at January 3, 2010, if recognized, would affect the Company's annual effective tax rate. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The U.S. Internal Revenue Service (IRS) has completed its audit for the tax years through 2002. In other major jurisdictions where the Company conducts business, the years remain open generally back to the year 2002 with some jurisdictions remaining open as far back as 1995. The Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. The Company believes that it is possible that within the next twelve months, the IRS may complete its audit of the tax years 2003–2005. The close of the audit may result in the reduction of unrecognized tax benefits. The Company is not able to provide a reasonably reliable estimate of the timing of any other future tax payments relating to uncertain tax positions.

The Company classifies liabilities for unrecognized tax benefits and related interest and penalties as long-term liabilities. Interest expense and penalties related to unrecognized tax benefits are classified as income tax expense. During the fiscal year ended January 3, 2010, the Company recognized $85 million of interest expense and $30 million of interest income with an after-tax impact of $36 million expense. For the fiscal year ended December 28, 2008, the Company recognized $106 million of interest expense with an after-tax impact of $69 million. For the fiscal year ended December 30, 2007, the Company recognized $58 million of interest expense and $42 million of interest income with an after-tax impact of $10 million expense. The total amount of accrued interest was $309 million and $227 million in 2009 and 2008, respectively.

9. Employee Related Obligations

At the end of 2009 and 2008, employee related obligations recorded on the Consolidated Balance Sheet were:

(Dollars in Millions)	2009	2008
Pension benefits	$2,792	4,382
Postretirement benefits	2,245	2,217
Postemployment benefits	1,504	870
Deferred compensation	790	772
Total employee obligations	7,331	8,241
Less current benefits payable	562	450
Employee related obligations — long-term	**$6,769**	**7,791**

Prepaid employee related obligations of $266 million and $136 million for 2009 and 2008, respectively, are included in other assets on the consolidated balance sheet.

10. Pensions and Other Benefit Plans

The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, which cover most employees worldwide. The Company also provides postretirement benefits, primarily health care, to all U.S. retired employees and their dependents.

Many international employees are covered by government-sponsored programs and the cost to the Company is not significant.

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts, or reserves are provided.

The Company does not fund retiree health care benefits in advance and has the right to modify these plans in the future.

The Company uses the date of its consolidated financial statements (January 3, 2010 and December 28, 2008, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

In accordance with U.S. GAAP the Company has adopted the recent standards related to employers' accounting for defined benefit pension and other postretirement plans.

Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for 2009, 2008 and 2007 include the following components:

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2009	2008	2007	2009	2008	2007
Service cost	$ 511	545	597	$137	142	140
Interest cost	746	701	656	174	166	149
Expected return on plan assets	(934)	(876)	(809)	(1)	(2)	(2)
Amortization of prior service cost	13	10	10	(5)	(4)	(7)
Amortization of net transition asset	1	2	1	—	—	—
Recognized actuarial losses	155	62	186	55	64	66
Curtailments and settlements	(11)	7	5	(1)	—	—
Net periodic benefit cost	**$ 481**	**451**	**646**	**$359**	**366**	**346**

The net periodic benefit cost attributable to U.S. retirement plans was $286 million, $220 million and $379 million in 2009, 2008 and 2007, respectively.

Amounts expected to be recognized in net periodic benefit cost in the coming year for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	
Amortization of net transition obligation	$ 1
Amortization of net actuarial losses	296
Amortization of prior service cost	5

Unrecognized gains and losses for the U.S. pension plans are amortized over the average remaining future service for each plan. For plans with no active employees, they are amortized over the average life expectancy. The amortization of gains and losses for the other U.S. benefit plans is determined by using a 10% corridor of the greater of the market value of assets or the projected benefit obligation. Total unamortized gains and losses in excess of the corridor are amortized over the average remaining future service.

Prior service costs/benefits for the U.S. pension plans are amortized over the remaining future service of plan participants at the time of the plan amendment. Prior service cost/benefit for the other U.S. benefit plans is amortized over the average remaining service to full eligibility age of plan participants at the time of the plan amendment.

The weighted-average assumptions in the following table represent the rates used to develop the actuarial present value of projected benefit obligation for the year listed and also the net periodic benefit cost for the following year.

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2009	2008	2007	2009	2008	2007
U.S. Benefit Plans						
Discount rate	6.50%	6.50	6.50	6.50%	6.50	6.50
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00
Rate of increase in compensation levels	4.50	4.50	4.50	4.50	4.50	4.50
International Benefit Plans						
Discount rate	5.75%	6.00	5.50	6.75%	7.25	6.50
Expected long-term rate of return on plan assets	8.00	8.00	8.25	—	—	—
Rate of increase in compensation levels	4.00	4.00	4.00	4.75	4.50	4.50

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumption is determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

The following table displays the assumed health care cost trend rates, for all individuals:

Health Care Plans	2009	2008
Health care cost trend rate assumed for next year	8.00%	9.00
Rate to which the cost trend rate is assumed to decline (ultimate trend)	5.00%	5.00
Year the rate reaches the ultimate trend rate	2017	2015

A one-percentage-point change in assumed health care cost trend rates would have the following effect:

(Dollars in Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Health Care Plans		
Total interest and service cost	$ 34	$ (28)
Postretirement benefit obligation	315	(254)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2009 and 2008 for the Company's defined benefit retirement plans and other postretirement plans:

	Retirement Plans		Other Benefit Plans	
(Dollars in Millions)	2009	2008	2009	2008
Change in Benefit Obligation				
Projected benefit obligation — beginning of year	$11,923	12,002	$ 2,765	2,721
Service cost	511	545	137	142
Interest cost	746	701	174	166
Plan participant contributions	50	60	—	—
Amendments	3	10	—	1
Actuarial losses (gains)	412	(318)	51	(124)
Divestitures & acquisitions	15	—	13	(2)
Curtailments & settlements & restructuring	(3)	(2)	748	—
Benefits paid from plan	(570)	(535)	(313)	(122)
Effect of exchange rates	362	(540)	15	(17)
Projected benefit obligation — end of year*	**$13,449**	**11,923**	**$ 3,590**	**2,765**
Change in Plan Assets				
Plan assets at fair value — beginning of year	$ 7,677	10,469	$ 17	29
Actual return (loss) on plan assets	2,048	(2,787)	4	(7)
Company contributions	1,354	978	308	117
Plan participant contributions	50	60	—	—
Settlements	—	(1)	—	—
Benefits paid from plan assets	(570)	(535)	(313)	(122)
Effect of exchange rates	364	(507)	—	—
Plan assets at fair value — end of year	**$10,923**	**7,677**	**$ 16**	**17**
Funded status at — end of year*	**$ (2,526)**	**(4,246)**	**$(3,574)**	**(2,748)**
Amounts Recognized in the Company's Balance Sheet consist of the following:				
Non-current assets	$ 266	136	$ —	—
Current liabilities	(53)	(45)	(484)	(212)
Non-current liabilities	(2,739)	(4,337)	(3,090)	(2,536)
Total recognized in the consolidated balance sheet — end of year	**$ (2,526)**	**(4,246)**	**$(3,574)**	**(2,748)**
Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:				
Net actuarial loss	$ 3,415	4,209	$ 924	1,006
Prior service cost (credit)	47	43	(23)	(29)
Unrecognized net transition obligation	5	6	—	—
Total before tax effects	**$ 3,467**	**4,258**	**$ 901**	**977**
Accumulated Benefit Obligations — end of year*	**$11,687**	**10,357**		
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income				
Net periodic benefit cost	**$ 481**	**451**	**$ 359**	**366**
Net actuarial (gain) loss	(704)	3,344	48	60
Amortization of net actuarial loss	(134)	(68)	(131)	(65)
Prior service cost	3	10	—	1
Amortization of prior service cost	(13)	(11)	5	6
Effect of exchange rates	57	(102)	2	(1)
Total recognized in other comprehensive income, before tax	**$ (791)**	**3,173**	**$ (76)**	**1**
Total recognized in net periodic benefit cost and other comprehensive income	**$ (310)**	**3,624**	**$ 283**	**367**

**The Company does not fund certain plans, as funding is not required. $1.2 billion of the projected benefit obligation and $1.2 billion of the underfunded status for each of the fiscal years 2009 and 2008 relates to the unfunded pension plans. $1.0 billion and $0.9 billion of the accumulated benefit obligation for the fiscal years 2009 and 2008, respectively, relate to these unfunded pension plans.*

Plans with accumulated benefit obligations in excess of plan assets consist of the following:

	Retirement Plans	
(Dollars in Millions)	2009	2008
Accumulated benefit obligation	$(4,065)	(9,885)
Projected benefit obligation	(4,663)	(11,379)
Plan assets at fair value	2,564	7,021

The following table displays the projected future benefit payments from the Company's retirement and other benefit plans:

(Dollars in Millions)	2010	2011	2012	2013	2014	2015-2019
Projected future benefit payments						
Retirement plans	$558	553	582	604	636	3,925
Other benefit plans — gross	$209	198	196	198	197	995
Medicare rebates	(9)	—	—	—	—	—
Other benefit plans — net	$200	198	196	198	197	995

In 2009, the Company contributed $839 million and $515 million to its U.S. and international pension plans, respectively. In addition, the Company funded $500 million to its U.S. plans in the first month of 2010.

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 Act.

International plans are funded in accordance with local regulations. Additional discretionary contributions are made when deemed appropriate to meet the long-term obligations of the plans. For certain plans, funding is not a common practice, as funding provides no economic benefit. Consequently the Company has several pension plans that are not funded.

The following table displays the projected future minimum contributions to the Company's U.S. and international unfunded retirement plans. These amounts do not include any discretionary contributions that the Company may elect to make in the future.

(Dollars in Millions)	2010	2011	2012	2013	2014	2015-2019
Projected future contributions						
Unfunded U.S. retirement plans	$34	36	38	40	44	288
Unfunded International retirement plans	$32	29	31	33	32	186

Each pension plan is overseen by a local committee or board that is responsible for the overall administration and investment of the pension plans. In determining investment policies, strategies and goals, each committee or board considers factors including local pension rules and regulations; local tax regulations; availability of investment vehicles (separate accounts, commingled accounts, insurance funds, etc.); funded status of the plans; ratio of actives to retirees; duration of liabilities; and other relevant factors including diversification, liquidity of local markets and liquidity of base currency. A majority of the Company's pension funds are open to new entrants and are expected to be on-going plans. Permitted investments are primarily liquid and/or listed, with little reliance on illiquid and non-traditional investments such as hedge funds. An asset allocation of 75% equities and 25% fixed income is generally pursued unless local regulations and illiquidity require otherwise.

The Company's retirement plan asset allocation at the end of 2009 and 2008 and target allocations for 2010 are as follows:

	Percent of Plan Assets		Target Allocation
	2009	2008	2010
U.S. Retirement Plans			
Equity securities	76%	70%	75%
Debt securities	24	30	25
Total plan assets	**100%**	**100%**	**100%**
International Retirement Plans			
Equity securities	65%	61%	65%
Debt securities	34	38	34
Real estate and other	1	1	1
Total plan assets	**100%**	**100%**	**100%**

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of $16 million and $17 million at January 3, 2010 and December 28, 2008, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was $469 million (4.3% of total plan assets) at January 3, 2010 and $416 million (5.4% of total plan assets) at December 28, 2008.

DETERMINATION OF FAIR VALUE

The Plan has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters, including yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves.

While the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

VALUATION HIERARCHY

The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with Level 1 having the highest priority and Level 3 having the lowest.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for the investments measured at fair value.

• Short-term investments — Cash and quoted short-term instruments are valued at the closing price or the amount held on deposit by the custodian bank. Other investments are through investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in a market that is not active and classified as Level 2.

• Government and agency securities — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. When quoted market prices for a security are not available in an active market, they are classified as Level 2.

• Debt instruments — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified as Level 1. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified as Level 2. Level 3 debt instruments are priced based on unobservable inputs.

• Equity securities — Common stocks are valued at the closing price reported on the major market on which the individual securities are traded. Substantially all common stock is classified within Level 1 of the valuation hierarchy.

• Commingled funds — The investments are public investment vehicles valued using the NAV provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Assets in the Level 2 category have a quoted market price in a market that is not active.

• Insurance contracts — The instruments are issued by insurance companies. The fair value is based on negotiated value and the underlying investments held in separate account portfolios as well as considering the credit worthiness of the issuer. The underlying investments are government, asset-backed and fixed income securities. In general, insurance contracts are classified as Level 3 as there are no quoted prices nor other observable inputs for pricing.

• Other assets — Other assets are represented primarily by limited partnerships and real estate investments, as well as commercial loans and commercial mortgages that are not classified as corporate debt. Other assets that are exchange listed and actively traded are classified as Level 1 while inactively traded assets are classified as Level 2. Most limited partnerships represent investments in private equity and similar funds that are valued by the general partners. These, as well as any other assets valued using unobservable inputs, are classified as Level 3.

The following table sets forth the trust investments measured at fair value as of January 3, 2010:

(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets
Short-term investment funds	$ 91	358	—	449
Government and agency securities	—	1,165	—	1,165
Debt instruments	3	1,145	5	1,153
Equity securities	5,068	58	15	5,141
Commingled funds	—	2,673	26	2,699
Insurance contracts	—	—	32	32
Other assets	31	171	82	284
Trust investments at fair value	**$5,193**	**5,570**	**160**	**10,923**

LEVEL 3 GAINS AND LOSSES

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended January 3, 2010:

(Dollars in Millions)	Debt Instruments	Equity Securities	Commingled Funds	Insurance Contracts	Other Assets	Total Level 3
Balance December 28, 2008	$ 7	15	15	29	85	151
Realized gains (losses)	—	—	—	3	—	3
Unrealized gains (losses)	2	(2)	(2)	—	(3)	(5)
Purchases, sales, issuances and settlements, net	(4)	2	13	—	—	11
Balance January 3, 2010	**$ 5**	**15**	**26**	**32**	**82**	**160**

11. Savings Plan

The Company has voluntary 401 (k) savings plans designed to enhance the existing retirement programs covering eligible employees. The Company matches a percentage of each employee's contributions consistent with the provisions of the plan for which he/she is eligible. Total Company matching contributions to the plans were $163 million, $166 million and $169 million in 2009, 2008 and 2007, respectively.

12. Capital and Treasury Stock

Changes in treasury stock were:

(Amounts in Millions Except Treasury Stock Number of Shares in Thousands)	Treasury Stock	
	Shares	Amount
Balance at December 31, 2006	226,612	$10,974
Employee compensation and stock option plans	(33,296)	(2,180)
Conversion of subordinated debentures	(194)	(13)
Repurchase of common stock	86,498	5,607
Balance at December 30, 2007	279,620	14,388
Employee compensation and stock option plans	(29,906)	(2,005)
Conversion of subordinated debentures	(19)	(1)
Repurchase of common stock	100,970	6,651
Balance at December 28, 2008	350,665	19,033
Employee compensation and stock option plans	(22,161)	(1,377)
Conversion of subordinated debentures	(96)	(6)
Repurchase of common stock	37,114	2,130
Balance at January 3, 2010	365,522	$19,780

Aggregate shares of Common Stock issued were approximately 3,120 million shares at the end of 2009, 2008 and 2007.

Cash dividends paid were $1.930 per share in 2009, compared with dividends of $1.795 per share in 2008 and $1.620 per share in 2007.

13. Accumulated Other Comprehensive Income

Components of other comprehensive income/(loss) consist of the following:

(Dollars in Millions)	Foreign Currency Translation	Gains/ (Losses) on Securities	Employee Benefit Plans	Gains/ (Losses) on Derivatives & Hedges	Total Accumulated Other Comprehensive Income/(Loss)
December 31, 2006	$ (158)	61	(2,030)	9	(2,118)
2007 changes					
Unrealized gain (loss)	—	28	—	(78)	
Net amount reclassed to net earnings	—	(5)	—	24	
Net 2007 changes	786	23	670	(54)	1,425
December 30, 2007	$ 628	84	(1,360)	(45)	(693)
2008 changes					
Unrealized gain (loss)	—	(32)	—	94	
Net amount reclassed to net earnings	—	(27)	—	72	
Net 2008 changes	(2,499)	(59)	(1,870)	166	(4,262)
December 28, 2008	$(1,871)	25	(3,230)	121	(4,955)
2009 changes					
Unrealized gain (loss)	—	(52)	—	38	
Net amount reclassed to net earnings	—	(3)	—	(14)	
Net 2009 changes	1,363	(55)	565	24	1,897
January 3, 2010	**$ (508)**	**(30)**	**(2,665)**	**145**	**(3,058)**

The tax effect on the unrealized gains/(losses) on the equity securities was income of $14 million in 2009 and expense of $14 million and $46 million in 2008 and 2007, respectively. The tax effect related to employee benefit plans was $302 million, $1,090 million and $349 million in 2009, 2008 and 2007, respectively. The tax effect on the gains/(losses) on derivatives and hedges was expense of $78 million and $70 million in 2009 and 2008, respectively, and income of $24 million in 2007. See Note 6 for additional information relating to derivatives and hedging.

The currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in international subsidiaries.

14. International Currency Translation

For translation of its subsidiaries operating in non-U.S. Dollar currencies, the Company has determined that the local currencies of its international subsidiaries are the functional currencies except those in highly inflationary economies, which are defined as those which have had compound cumulative rates of inflation of 100% or more during the past three years, or where a substantial portion of its cash flows are not in the local currency.

In consolidating international subsidiaries, balance sheet currency effects are recorded as a component of accumulated other comprehensive income. This equity account includes the results of translating all balance sheet assets and liabilities at current exchange rates, except for those located in highly inflationary economies. The translation of balance sheet accounts for highly inflationary economies are reflected in the operating results.

An analysis of the changes during 2009, 2008 and 2007 for foreign currency translation adjustments is included in Note 13.

Net currency transaction and translation gains and losses included in other (income) expense were losses of $210 million, $31 million and $23 million in 2009, 2008 and 2007, respectively.

15. Earnings Per Share

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007:

(Shares in Millions Except Per Share Data)	2009	2008	2007
Basic net earnings per share	$ 4.45	4.62	3.67
Average shares outstanding — basic	2,759.5	2,802.5	2,882.9
Potential shares exercisable under stock option plans	118.0	179.0	178.6
Less: shares repurchased under treasury stock method	(92.0)	(149.6)	(154.5)
Convertible debt shares	3.6	3.7	3.7
Adjusted average shares outstanding — diluted	2,789.1	2,835.6	2,910.7
Diluted net earnings per share	$ 4.40	4.57	3.63

The diluted net earnings per share calculation includes the dilutive effect of convertible debt that is offset by the related reduction in interest expense of $4 million after-tax for years 2009, 2008 and 2007.

Diluted net earnings per share excludes 121 million, 59 million and 64 million shares underlying stock options for 2009, 2008 and 2007, respectively, 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.

16. Rental Expense and Lease Commitments

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately $322 million in 2009, $309 million in 2008 and $302 million in 2007.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at January 3, 2010 are:

(Dollars in Millions) 2010	2011	2012	2013	2014	After 2014	Total
$178	150	128	103	87	94	740

Commitments under capital leases are not significant.

17. Common Stock, Stock Option Plans and Stock Compensation Agreements

STOCK OPTIONS

At January 3, 2010, the Company had 11 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long-Term Incentive Plan, the 1997 Non-Employee Director's Plan and the ALZA, Inverness, and Scios Stock Option Plans. During 2009, no options or restricted shares were granted under any of these plans except under the 2005 Long-Term Incentive Plan.

The compensation cost that has been charged against income for these plans was $628 million, $627 million and $698 million for 2009, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was $210 million, $210 million and $238 million for 2009, 2008 and 2007, respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

Stock options expire 10 years from the date of grant and vest over service periods that range from six months to five years. All options are granted at the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the date of grant. Under the 2005 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 139.7 million at the end of 2009.

The Company settles employee stock option exercises with treasury shares. Treasury shares are replenished throughout the year for the number of shares used to settle employee stock option exercises.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Historical data is used to determine the expected life of the option. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

The average fair value of options granted was $8.35, $7.66, and $11.67 in 2009, 2008, and 2007, respectively. The fair value was estimated based on the weighted average assumptions of:

	2009	2008	2007
Risk-free rate	2.71%	2.97%	4.78%
Expected volatility	19.5%	15.0%	14.7%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	3.30%	2.90%	2.50%

A summary of option activity under the Plan as of January 3, 2010, December 28, 2008, and December 30, 2007 and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (Dollars in Millions)
Shares at December 31, 2006	242,927	$54.57	$2,788
Options granted	26,789	65.61	
Options exercised	(33,224)	45.92	
Options canceled/forfeited	(7,863)	63.00	
Shares at December 30, 2007	228,629	56.83	$2,411
Options granted	22,428	61.80	
Options exercised	(30,033)	50.27	
Options canceled/forfeited	(5,525)	61.90	
Shares at December 28, 2008	215,499	58.14	$ 597
Options granted	21,576	58.32	
Options exercised	(18,225)	50.97	
Options canceled/forfeited	(6,131)	61.85	
Shares at January 3, 2010	**212,719**	**$58.66**	**$1,310**

The total intrinsic value of options exercised was $184 million, $506 million, and $625 million in 2009, 2008 and 2007, respectively. The total unrecognized compensation cost was $612 million as of January 3, 2010, $632 million as of December 28, 2008 and $652 million as of December 30, 2007. The weighted average period for this cost to be recognized was 1.16 years, 1.06 years and 1.01 years for 2009, 2008, and 2007, respectively.

The following table summarizes stock options outstanding and exercisable at January 3, 2010:

(Shares in Thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[1]	Average Exercise Price	Options	Average Exercise Price
$ 7.33–$28.09	104	1.5	$22.89	104	$22.89
$31.27–$40.08	131	0.3	35.83	131	35.83
$41.26–$49.86	1,024	1.2	47.09	1,024	47.09
$50.52–$52.11	17,328	0.8	50.70	17,328	50.70
$52.13–$53.77	22,193	3.1	52.22	22,152	52.22
$53.93–$54.89	26,155	4.0	53.93	26,156	53.93
$55.01–$58.25	26,332	2.1	57.30	26,328	57.30
$58.33–$65.10	63,805	7.7	59.48	21,367	58.48
$65.62–$68.37	55,647	5.8	65.97	33,759	66.19
	212,719	**5.0**	**$58.66**	**148,349**	**$57.26**

[1] *Average contractual life remaining in years.*

Stock options exercisable at December 28, 2008 and December 30, 2007 were 144,962 at an average price of $56.25 and an average life of 5.3 years and 137,310 at an average price of $52.33 and an average life of 5.6 years, respectively.

RESTRICTED SHARE UNITS

The Company grants restricted share units with a vesting period of three years. The Company settles employee stock issuance with treasury shares. Treasury shares are replenished throughout the year for the number of shares used for employee stock issuances.

A summary of share activity under the Plan as of January 3, 2010:

(Shares in Thousands)	Outstanding Shares
Shares at December 31, 2006	6,885
Shares granted	8,029
Shares issued	(33)
Shares canceled/forfeited	(1,220)
Shares at December 30, 2007	13,661
Shares granted	10,105
Shares issued	(40)
Shares canceled/forfeited	(1,468)
Shares at December 28, 2008	22,258
Shares granted	11,172
Shares issued	(5,714)
Shares canceled/forfeited	(1,392)
Shares at January 3, 2010	26,324

The average fair value of the restricted share units granted was $52.79, $56.70 and $60.86 in 2009, 2008 and 2007, respectively, using the fair market value at the date of grant. The fair value of restricted share units was discounted for dividends, which are not paid on the restricted share units during the vesting period. The fair value of restricted share units settled was $308.4 million, $2.5 million and $1.8 million in 2009, 2008 and 2007, respectively.

18. Segments of Business[1] and Geographic Areas

(Dollars in Millions)		Sales to Customers[2] 2009	2008	2007
Consumer —				
United States		$ 6,837	6,937	6,408
International	8,966	9,117	8,085	
Total		**15,803**	**16,054**	**14,493**
Pharmaceutical —				
United States		13,041	14,831	15,603
International	9,479	9,736	9,263	
Total		**22,520**	**24,567**	**24,866**
Medical Devices and Diagnostics —				
United States		11,011	10,541	10,433
International		12,563	12,585	11,303
Total		**23,574**	**23,126**	**21,736**
Worldwide total		**$61,897**	**63,747**	**61,095**

(Dollars in Millions)	Operating Profit 2009[5]	2008[6]	2007[7]	Identifiable Assets 2009	2008	2007
Consumer	$ 2,475	2,674	2,277	$24,671	23,765	26,550
Pharmaceutical	6,413	7,605	6,540	21,460	19,544	19,780
Medical Devices and Diagnostics	7,694	7,223	4,846	22,853	20,779	19,978
Total	16,582	17,502	13,663	68,984	64,088	66,308
Less: Expense not allocated to segments[3]	827	573	380			
General corporate[4]				25,698	20,824	14,646
Worldwide total	**$15,755**	**16,929**	**13,283**	**$94,682**	**84,912**	**80,954**

(Dollars in Millions)	Additions to Property, Plant & Equipment 2009	2008	2007	Depreciation and Amortization 2009	2008	2007
Consumer	$ 439	499	504	$513	489	472
Pharmaceutical	535	920	1,137	922	986	1,033
Medical Devices and Diagnostics	1,114	1,251	919	1,124	1,146	1,080
Segments total	2,088	2,670	2,560	2,559	2,621	2,585
General corporate	277	396	382	215	211	192
Worldwide total	**$2,365**	**3,066**	**2,942**	**$2,774**	**2,832**	**2,777**

(Dollars in Millions)	Sales to Customers[2] 2009	2008	2007	Long-Lived Assets[8] 2009	2008	2007
United States	$30,889	32,309	32,444	$22,399	21,674	21,685
Europe	15,934	16,782	15,644	17,347	14,375	15,578
Western Hemisphere excluding U.S.	5,156	5,173	4,681	3,540	3,328	3,722
Asia-Pacific, Africa	9,918	9,483	8,326	1,868	1,898	1,261
Segments total	61,897	63,747	61,095	45,154	41,275	42,246
General corporate				790	785	702
Other non long-lived assets				48,738	42,852	38,006
Worldwide total	**$61,897**	**63,747**	**61,095**	**$94,682**	**84,912**	**80,954**

[1] See Note 1 for a description of the segments in which the Company operates.

[2] Export sales are not significant. In 2009, 2008 and 2007, the Company did not have a customer that represented 10% of total revenues.

[3] Amounts not allocated to segments include interest (income) expense, non-controlling interests and general corporate (income) expense.

[4] General corporate includes cash and marketable securities.

[5] Includes $1,186 million of restructuring expense, comprised of $369 million, $496 million, and $321 million for the Consumer, Pharmaceutical, and Medical Devices and Diagnostics segments, respectively. Includes $386 million of fourth quarter net litigation gain, comprised of a $92 million expense in the Pharmaceutical segment and a gain of $478 million in the Medical Devices and Diagnostics segment.

[6] Includes $7 million and $174 million of IPR&D for the Consumer and Medical Devices and Diagnostics segments, respectively. Includes $379 million of fourth quarter net litigation gain, comprised of a $50 million expense in the Consumer segment and a gain of $429 million in the Medical Devices and Diagnostics segment. The Medical Devices and Diagnostics segment also includes $536 million gain on the divestiture of the Professional Wound Care business of Ethicon, Inc.

[7] Includes $745 million of restructuring expense, comprised of $15 million, $429 million, and $301 million for the Consumer, Pharmaceutical, and Medical Devices and Diagnostics segments, respectively. The Medical Devices and Diagnostics segment includes $807 million of IPR&D. The Pharmaceutical segment also includes $678 million for the write-down of the NATRECOR® intangible asset.

[8] Long-lived assets include property, plant and equipment, net for 2009, 2008 and 2007 of $14,759, $14,365 and $14,185, respectively, and intangible assets and goodwill, net for 2009, 2008 and 2007 of $31,185, $27,695 and $28,763, respectively.

19. Selected Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the years 2009 and 2008 are summarized below:

	2009				2008			
(Dollars in Millions Except Per Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter[1]	First Quarter	Second Quarter[2]	Third Quarter	Fourth Quarter[3]
Segment sales to customers								
Consumer	$ 3,711	3,854	3,989	4,249	4,064	4,036	4,099	3,855
Pharmaceutical	5,780	5,498	5,249	5,993	6,429	6,340	6,113	5,685
Med Devices & Diagnostics	5,535	5,887	5,843	6,309	5,701	6,074	5,709	5,642
Total sales	$15,026	15,239	15,081	16,551	16,194	16,450	15,921	15,182
Gross profit	10,775	10,789	10,647	11,239	11,580	11,699	11,147	10,810
Earnings before provision for taxes on income	4,643	4,263	4,245	2,604	4,747	4,375	4,290	3,517
Net earnings	3,507	3,208	3,345	2,206	3,598	3,327	3,310	2,714
Basic net earnings per share	$ 1.27	1.16	1.21	0.80	1.27	1.18	1.19	0.98
Diluted net earnings per share	$ 1.26	1.15	1.20	0.79	1.26	1.17	1.17	0.97

[1] *The fourth quarter of 2009 includes an after-tax charge of $852 million for restructuring and $212 million after-tax of income from net litigation.*

[2] *The second quarter of 2008 includes an after-tax charge of $40 million for IPR&D.*

[3] *The fourth quarter of 2008 includes an after-tax charge of $141 million for IPR&D, $229 million after-tax of income from net litigation and $331 million after-tax gain on the divestiture of the Professional Wound Care business of Ethicon, Inc. The gain from the divestiture of the Professional Wound Care business of Ethicon, Inc. was reinvested in the business.*

20. Business Combinations and Divestitures

Certain businesses were acquired for $2,470 million in cash and $875 million of liabilities assumed and non-controlling interests during 2009. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2009 acquisitions included: Mentor Corporation, a leading supplier of medical products for the global aesthetics market; Cougar Biotechnology, Inc., a development stage biopharmaceutical company with a specific focus on oncology; Finsbury Orthopaedics Limited, a privately held UK-based manufacturer and global distributor of orthopaedic implants; Gloster Europe, a privately held developer of innovative disinfection processes and technologies to prevent healthcare-acquired infections and substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, of which the Company owns 50.1% and Elan owns 49.9%.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $2,940 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $1,737 million has been identified as the value of IPR&D primarily associated with the acquisitions of Cougar Biotechnology, Inc. and substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program. Additionally, approximately $1,107 million has been identified as the value of other intangible assets, including patents & technology and customer relationships primarily associated with the acquisition of Mentor Corporation.

The IPR&D related to the acquisition of Cougar Biotechnology, Inc. was $971 million and is associated with abiraterone acetate, a late stage, first-in-class compound for the treatment of prostate cancer. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 60–85% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 23.5%.

Refer to Note 6 for information related to the Elan transaction.

Certain businesses were acquired for $1,214 million in cash and $114 million of liabilities assumed during 2008. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2008 acquisitions included: Amic AB, a privately held Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings; Beijing Dabao Cosmetics Co., Ltd., a company that sells personal care brands in China; SurgRx, Inc., a privately held developer of the advanced bipolar tissue sealing system used in the ENSEAL® family of devices; HealthMedia, Inc., a privately held company that creates web-based behavior change interventions; LGE Performance Systems, Inc., a privately held company known as Human Performance Institute™, which develops science-based training programs to improve employee engagement and productivity and Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $891 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately $181 million has been identified as the value of IPR&D associated with the acquisitions of Omrix Biopharmaceuticals, Inc., Amic AB, SurgRx, Inc. and HealthMedia, Inc.

The IPR&D charge related to the acquisition of Omrix Biopharmaceuticals, Inc. was $127 million and is associated with standalone and combination biosurgical technologies used to achieve hemostasis. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 60–90% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 14%. As of the end of the 2008 fiscal year, 97.8% of the outstanding shares of Common Stock of Omrix Biopharmaceuticals,

Inc. had been tendered by stockholders. Excluding shares that were tendered subject to guaranteed delivery procedures, 90.2% of the outstanding shares of Common Stock had been tendered. On December 30, 2008 the Company completed the acquisition of Omrix Biopharmaceuticals, Inc.

The IPR&D charge related to the acquisition of Amic AB was $40 million and is associated with point-of-care device and 4CAST Chip technologies. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 20%.

The IPR&D charge related to the acquisition of SurgRx, Inc. was $7 million and is associated with vessel cutting and sealing surgical devices. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 90–95% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 18%.

The IPR&D charge related to the acquisition of HealthMedia, Inc. was $7 million and is associated primarily with process enhancements to software technology. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 90% was used to reflect inherent risk. The discount rate applied was 14%.

Certain businesses were acquired for $1,388 million in cash and $232 million of liabilities assumed during 2007. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2007 acquisitions included: Conor Medsystems, Inc., a cardiovascular device company, with new drug delivery technology; Robert Reid, Inc., a Japanese orthopedic product distributor; and Maya's Mom, Inc., a social media company.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $636 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately $807 million has been identified as the value of IPR&D associated with the acquisition of Conor Medsystems, Inc.

The IPR&D charge related to the acquisition of Conor Medsystems, Inc. was $807 million and is associated with research related to the discovery and application of the stent technology. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 19%.

Supplemental pro forma information for 2009, 2008 and 2007 in accordance with U.S. GAAP standards related to business combinations, and goodwill and other intangible assets, is not provided, as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

With the exception of the divestiture of the Professional Wound Care business of Ethicon, Inc., which resulted in a gain of $536 million before tax, and is recorded in other (income) expense, net, in 2008, divestitures in 2009, 2008 and 2007 did not have a material effect on the Company's results of operations, cash flows or financial position.

Note 21 — 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. There are a significant number of claimants who have pending lawsuits or claims regarding injuries allegedly due to ORTHO EVRA®, RISPERDAL®, LEVAQUIN®, DURAGESIC®, the CHARITÉ™ Artificial Disc and CYPHER® Stent. 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 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 subsidiary, Janssen Pharmaceutica Inc. (Janssen) (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 has filed an 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. Similar litigation concerning PROPULSID® is pending in Canada, where a national class action of persons alleging adverse reactions to the drug has been certified and a settlement program instituted with an aggregate cap below $10 million.

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. In September 2009, Cordis settled this case with Boston Scientific together with the Kasenthofer/Fontirroche and Ding cases described below, for a net payment of $716 million. As part of that settlement Boston Scientific received a paid up license to the Fontirroche family of patents worldwide and Cordis received a paid license to the Kastenhofer and Ding families of patents worldwide and the parties settled all pending lawsuits worldwide relating to these patents. The receipt of $716 million, less the impact of other litigation matters, resulted in a credit to other (income) expense, net of $386 million in the fiscal fourth quarter of 2009. In addition, in May 2009, Medtronic paid $270 million to settle additional patent infringement claims asserted by Cordis based on its vascular stent patents, which was recorded as a credit to other (income) expense, net in the fiscal second quarter of 2009.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2™, Taxus® 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™, Taxus® 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 was 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 sales of Taxus® and Liberte® after June of 2005 infringes Cordis' Gray patent. On January 29, 2010, these cases together with the Jang case referred to in the paragraph below, were settled. Under the terms of the settlement, Boston Scientific paid Cordis $1.0 billion on February 1, 2010, and will pay Cordis an additional $725 million plus interest on January 3, 2011. Cordis granted Boston Scientific a paid up worldwide license under the Palmaz and Gray patents and Boston Scientific granted Cordis a paid up worldwide license under the Jang patents for all stents sold by Cordis except the 2.25mm size Cypher.

Cordis has several pending lawsuits in New Jersey and Delaware 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. In one of the cases against Boston Scientific, alleging that sales of their Promus™ stent infringed Wright and Falotico patents, on January 20, 2010 the District Court in Delaware found the Wright/Falotico patent invalid for lack of written description and/or lack of enablement. Cordis intends to appeal this ruling.

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. In January 2009, the Court of Appeals for the Federal Circuit held the Ding patent invalid and a judgment in favor of Cordis in that case has been entered. In March 2009, the Court of Appeals for the Federal Circuit upheld the judgment that Cordis' CYPHER® Stent infringed Boston Scientific's Jang patent. The case has been remanded for a trial on the issues of damages and willfulness. The Jang case has been dismissed as part of the January 2010 settlement described in the paragraph above relating to the Express2™, Taxus® and Liberte® stents.

In Germany, Boston Scientific had several actions based on its Ding patents pending against the Cordis CYPHER® Stent. Boston Scientific also had 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. These cases have been settled as part of the September 2009 settlement described above.

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. This case was settled as part of the September 2009 settlement described above.

In May 2008, Centocor, Inc. (Centocor) (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®, STELARA™, SIMPONI™ and ReoPro® also infringes one of its other patents relating to the purification of antibodies made through recombinant DNA techniques. The court has scheduled a hearing for Summary Judgment Motions in August 2010.

In April 2009, a bench 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, Inc.'s (JJVC) ACUVUE® OASYS™ lenses infringe three of their Nicholson patents. In August 2009, the District Court found two of these patents valid and infringed and entered judgment against JJVC. JJVC has appealed that judgment to the Court of Appeals for the Federal Circuit. On March 22, 2010, the District Court will hold a hearing on Ciba's motion for a permanent injunction. If the judgment is upheld on appeal the Court will schedule another trial to determine damages and willfulness.

In May 2009, Abbott Biotechnology Ltd. 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, 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. The arbitration is scheduled for March 2010.

In August 2009, Abbott GmbH & Co. (Abbott GmbH) and Abbott Bioresearch Center filed a patent infringement lawsuit against COBI in the United States District Court for the District of Massachusetts. The suit alleges that COBI's STELARA™ product infringes two U.S. patents assigned to Abbott GmbH. In August 2009, COBI filed a complaint for a declaratory judgment of non-infringement and invalidity of the Abbott GmbH patents in the United States District Court for the District of Columbia. On the same date, also in the United States District Court for the District of

Columbia, COBI filed a Complaint for Review of a Patent Interference Decision granting priority of invention on one of the two asserted patents to Abbott GmbH. In August 2009, Abbott GmbH and Abbott Laboratories Limited brought a patent infringement suit in Canada alleging that STELARA™ infringes Abbott GmbH's Canadian patent. The cases filed by COBI in the District of Columbia have been transferred to the District of Massachusetts.

In August 2009, Bayer Healthcare LLC filed suit against COBI in Massachusetts District Court alleging infringement by COBI's SIMPONI™ product of its patent relating to human anti-TNF antibodies. Bayer has also filed suit under its European counterpart to these patents in Germany and the Netherlands.

In June 2009, Centocor's (now 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 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, was held in August 2009, and the District Court decided these issues in favor of Centocor. All of Abbott's post trial motions have been denied except that the District Court granted Abbott's motion to overturn the jury finding of willfulness. Judgment in the amount of $1.9 billion was entered in favor of Centocor in December 2009 and Abbott has filed an appeal to the Court of Appeals for the Federal Circuit. The Company has not reflected any of the $1.9 billion in its consolidated financial statements. Centocor has also filed a new lawsuit in the Eastern District of Texas seeking damages for infringement of the '775 patent attributable to sales of HUMIRA subsequent to the jury verdict in June 2009.

The following chart summarizes various patent lawsuits concerning products of the Company's subsidiaries that have yet to proceed to trial:

J&J Product	Company	Patents	Plaintiff/ Patent Holder	Court	Trial Date**	Date Filed
CYPHER® Stent	Cordis	Wall	Wall	E.D. TX	Q2/11	11/07
CYPHER® Stent	Cordis	Saffran	Saffran	E.D. TX	Q2/11	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
SIMPONI™	Centocor/COBI	Boyle	Bayer Healthcare	MA	*	08/09
STELARA™	Centocor/COBI	Salfeld	Abbott GmbH	MA/DC	*	08/09

** Trial date to be scheduled.*

*** Q reflects the Company's fiscal quarter.*

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 2009, and will expire in 2010, 2011 and 2012 with respect to ANDA challenges regarding various products:

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 KUDCO	D. DE D. DE	Q4/07 *	09/05 01/10	None 05/12
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	Watson Sandoz	D. NJ D. NJ D. NJ	* * *	10/08 06/09	03/11 10/11 06/12
ULTRAM ER® 100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Par	D. DE	Q2/09	05/07 06/07 10/07	09/09 11/09 03/10
ULTRAM ER® 100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Impax	D. DE	Q2/10	08/08 11/08	01/11 03/11
ULTRAM ER® 100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Paddock	D.DRD. Minn.	*	09/09	01/12
ULTRAM ER® 100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Cipher	D. DE	*	10/09	03/12
ULTRAM ER® 100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Lupin	D. DE	*	01/10	06/12

** Trial date to be scheduled.*

*** Q reflects the Company's fiscal quarter.*

In the action against Barr Pharmaceuticals, Inc. (Barr) (now a wholly-owned subsidiary of Teva Pharmaceutical Industries LTD.) regarding ORTHO TRI-CYCLEN® LO, in January 2008, the Company's subsidiary Ortho Women's Health & Urology, a Division of Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI), 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 2008 trial without setting a new trial date. In June 2009, Barr launched its generic product "at risk" before trial. OMJPI sought a preliminary injunction and recall of Barr product which the Court granted in July 2009. In July 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.

In October 2008, the Company's subsidiary 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. In June 2009, the Company's subsidiary OMJPI filed suit in Federal District Court in New Jersey against Sandoz Laboratories, Inc. (Sandoz) in response to Sandoz's ANDA regarding ORTHO TRI-CYCLEN® LO. The Sandoz and Watson cases have been consolidated.

In January 2010, the Company's subsidiary OMJPI filed suit in Federal District Court in New Jersey against Lupin Ltd. and Lupin Pharmaceuticals, Inc. (collectively "Lupin") in response to Lupin's ANDA regarding ORTHO TRI-CYCLEN® LO.

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. In August 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, multiple 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 September 2009, the Court of Appeals affirmed the judgment that the patent is invalid.

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. In March 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 in May 2009. The appeals court heard argument on February 3, 2010. A decision is pending.

ALZA and OMJPI filed a second suit in Federal District Court in Delaware against Kremers-Urban, LLC and KUDCO Ireland, Ltd. (KUDCO) in January 2010 in response to KUDCO's ANDA challenge regarding CONCERTA® tablets. In its notice letter, KUDCO contends that two ALZA patents for CONCERTA® are invalid and not infringed by a KUDCO generic.

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 September 2009, the Federal Circuit affirmed the Delaware decision invalidating the RAZADYNE® use patent. As a result, this case will not be reopened.

In the action against Lupin Pharmaceuticals, Inc. (Lupin) regarding its ANDA concerning LEVAQUIN®, Lupin contends that the U.S. 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. Oral argument was held in September 2009. A decision is pending.

In the ULTRAM® ER actions, Ortho-McNeil Pharmaceutical, Inc. (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 took place in April 2009. In August 2009, the Court issued a decision finding the patents-in-suit invalid. Purdue has appealed that decision. The trial against Impax is scheduled for June 2010. In November 2009, the case against Impax was stayed with the consent of all parties. In September and October 2009, respectively, Purdue filed suits against Paddock Laboratories, Inc. (Paddock) and Cipher Pharmaceuticals Inc. (Cipher) on its Tramadol ER formulation patents.

In January 2010, Purdue filed a suit against Lupin Ltd. (Lupin) on its Tramadol ER formulation patents.

In September 2009, Centocor Ortho Biotech Products, L.P. (COBI, LP) intervened in an inventorship dispute between Kansas University Center for Research (KUCR) involving certain U.S. government-owned VELCADE® formulation patents. KUCR brought this action against the U.S. government in the District of Kansas seeking to add two Kansas University scientists to the patents. The U.S. government licensed the patents (and their foreign counterparts) to Millennium Pharmaceuticals, Inc., who in turn sublicensed the patents (and their foreign counterparts) to COBI,LP for commercial marketing outside the U.S. If KUCR succeeds in its co-inventorship claim and establishes co-ownership in the U.S. VELCADE® formulation patents, we anticipate that KUCR will initiate actions to establish co-inventorship and co-ownership with respect to the foreign counterpart patents in the countries where COBI, LP has commercial marketing rights. If KUCR in Kansas is successful, this may adversely affect COBI, LP's license rights in those countries.

AVERAGE WHOLESALE PRICE (AWP) LITIGATION

Johnson & Johnson and several of its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. 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. Plaintiffs appealed the Class 1 judgment and, in September 2009, the Court of Appeals vacated the judgment and remanded for further proceedings in the District Court. AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. One state case against certain of the Company's subsidiaries has been set for trial in late 2010, and other state cases are likely to be set for trial 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 is uncertain.

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. The government is continuing to actively investigate this matter. In February 2010, the government served Civil Investigative Demands seeking additional information relating to sales and marketing of RISPERDAL® and sales and marketing of INVEGA®.

In September 2004, Ortho Biotech Inc. (Ortho Biotech) (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 PROCRIT® (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. In July 2009, plaintiffs filed a motion for certification of a modified class, which the Company is opposing. Plaintiffs are engaged in further discovery of individual plaintiffs' claims. The hearing on plaintiffs' motion for class certification is scheduled for July 2010.

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 between a number of Massachusetts-based orthopedic surgeons and providers and DePuy. DePuy is responding to Massachusetts' additional requests.

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 responded 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 the Company in June 2009. Scios and Johnson & Johnson have filed a motion to dismiss the qui tam complaint filed by the government, and that motion was denied. The criminal investigation is continuing and discussions are underway in an effort to settle this matter. Whether a settlement can be reached and on what terms is uncertain.

In September 2005, the Company 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, the Company was served with the complaints in two civil qui tam cases related to marketing of prescription drugs to Omnicare, Inc. On January 15,

2010, the government filed a complaint intervening in the cases. The complaint asserts claims under the federal False Claims Act and a related state law claim in connection with the marketing of several drugs to Omnicare.

In November 2005, Amgen Inc. (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. The Federal Circuit upheld the entry of a permanent injunction. This matter has been settled pursuant to an agreement between the parties.

In February 2006, the Company 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.

In February 2007, the Company 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 PROCRIT®. 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.

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 responded to the request and will cooperate with the inquiry.

In June 2008, the Company received a subpoena from the United States Attorney's 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 (Multilan), 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. This case was recently settled and a charge was recorded to other income (expense), net, in the fiscal fourth quarter of 2009.

In February 2009, Basilea Pharmaceutica AG (Basilea) brought an arbitration against the Company 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 a declaration that the Company materially breached the agreement. This matter has been scheduled for an arbitration hearing commencing in June 2010 followed by post-trial submissions.

In April 2009, the Company 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 psychiatrists. The Company is responding to this request.

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, multiple class action complaints were filed. The various cases were consolidated for pre-trial purposes in the Eastern District of Pennsylvania.

In May 2009, the New Jersey Attorney General issued a subpoena to DePuy Orthopaedics, Inc., seeking information regarding the financial interest of clinical investigators who performed clinical studies for DePuy Orthopaedics, Inc. and DePuy Spine, Inc. The Company is responding to these requests.

In May 2009, COBI commenced an arbitration proceeding before the American Arbitration Association against Schering-Plough Corporation and its subsidiary Schering-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® and SIMPONI™, the next generation treatment, within the United States. In the arbitration, COBI seeks a declaration that the agreement and 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 that it has undergone a change of control. The arbitrators have been selected and the matter will be proceeding to arbitration in late September 2010.

In December 2009, the State of Israel (Sheba Medical Center) filed a lawsuit against three Omrix entities. In the lawsuit, the State claimed that an employee of a government-owned hospital was the inventor on several patents related to fibrin glue technology, that he developed while he was a government employee. The State claims that he had no right to transfer any intellectual property to Omrix because it belongs to the State. The State is seeking damages plus royalty on QUIXIL™ and EVICEL™ or, alternatively, transfer of the patents to the State.

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.

22. Restructuring

In the fourth quarter of 2009, the Company announced global restructuring initiatives designed to strengthen the Company's position as one of the world's leading global health care companies. This program will allow the Company to invest in new growth platforms; ensure the successful launch of its many new products and continued growth of its core businesses; and provide flexibility to adjust to the changed and evolving global environment.

During the fiscal fourth quarter of 2009, the Company recorded $1.2 billion in related pre-tax charges of which, approximately $830 million of the pre-tax restructuring charges are expected to require cash payments. The $1.2 billion of restructuring charges consists of severance costs of $748 million, asset write-offs of $362 million and $76 million related to leasehold and contract obligations. The $362 million of asset write-offs relate to inventory of $113 million (recorded in cost of products sold), property, plant and equipment of $107 million, intangible assets of $81 million and other assets of $61 million. Additionally, as part of this program the Company plans to eliminate approximately 7,500 positions of which approximately 700 have been eliminated since the restructuring was announced.

The following table summarizes the severance charges and the associated spending for the fiscal year ended 2009:

(Dollars in Millions)	Severance	Asset Write-Offs	Other	Total
2009 restructuring charge	$748	362	76	1,186
Current year activity	(62)	(149)	(28)	(239)
Reserve balance, January 3, 2010*	$686	213	48	947

** Cash outlays for severance are expected to be substantially paid out over the next 12 to 18 months in accordance with the Company's plans and local laws.*

For additional information on the restructuring as it relates to the segments, see Note 18.

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. The Company accelerated 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 program the Company eliminated approximately 4,600 positions.

The Company recorded $745 million in related pre-tax charges during the fiscal third quarter of 2007, of which, approximately $500 million of the pre-tax restructuring charges required cash payments. The $745 million of restructuring charges consists of 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 restructuring initiative announced in 2007 has been completed.

23. Subsequent Events

On January 20, 2010, the Company completed the acquisition of Acclarent Inc. for a net purchase price of approximately $785 million. Acclarent Inc. is a medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat.

The Company has performed an evaluation of subsequent events through March 1, 2010, the date the Company issued these financial statements.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Johnson & Johnson:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, statements of equity, and statements of cash flows present fairly, in all material respects, the financial position of Johnson & Johnson and its subsidiaries ("the Company") at January 3, 2010 and December 28, 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying, "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the Consolidated Financial Statements, the Company changed the manner in which it accounts for business combinations in 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

New York, New York
March 1, 2010

Management's Report on Internal Control Over Financial Reporting

Under Section 404 of the Sarbanes-Oxley Act of 2002, management is required to assess the effectiveness of the Company's internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company's internal control over financial reporting is effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of external financial statements in accordance with generally accepted accounting principles.

Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of January 3, 2010. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.

Based on the Company's processes and assessment, as described above, management has concluded that, as of January 3, 2010, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of January 3, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

William C. Weldon
Chairman, Board of Directors,
and Chief Executive Officer

Dominic J. Caruso
Vice President, Finance,
and Chief Financial Officer

Summary of Operations and Statistical Data 1999-2009

(Dollars in Millions Except Per Share Figures)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Sales to customer — U.S.	$30,889	32,309	32,444	29,775	28,377	27,770	25,274	22,455	19,825	17,316	15,532
Sales to customer — International	31,008	31,438	28,651	23,549	22,137	19,578	16,588	13,843	12,492	11,856	11,825
Total sales	61,897	63,747	61,095	53,324	50,514	47,348	41,862	36,298	32,317	29,172	27,357
Cost of products sold	18,447	18,511	17,751	15,057	14,010	13,474	12,231	10,498	9,622	8,987	8,559
Selling, marketing and administrative expenses	19,801	21,490	20,451	17,433	17,211	16,174	14,463	12,520	11,510	10,675	10,182
Research expense	6,986	7,577	7,680	7,125	6,462	5,344	4,834	4,094	3,704	3,186	2,821
Purchased in-process research and development	—	181	807	559	362	18	918	189	105	66	—
Interest income	(90)	(361)	(452)	(829)	(487)	(195)	(177)	(256)	(456)	(429)	(266)
Interest expense, net of portion capitalized	451	435	296	63	54	187	207	160	153	204	255
Other (income) expense, net	(526)	(1,015)	534	(671)	(214)	15	(385)	294	185	(94)	119
Restructuring	1,073	—	745	—	—	—	—	—	—	—	—
	46,142	46,818	47,812	38,737	37,398	35,017	32,091	27,499	24,823	22,595	21,670
Earnings before provision for taxes on income	15,755	16,929	13,283	14,587	13,116	12,331	9,771	8,799	7,494	6,577	5,687
Provision for taxes on income	3,489	3,980	2,707	3,534	3,056	4,151	2,923	2,522	2,089	1,813	1,554
Net earnings	12,266	12,949	10,576	11,053	10,060	8,180	6,848	6,277	5,405	4,764	4,133
Percent of sales to customers	19.8	20.3	17.3	20.7	19.9	17.3	16.4	17.3	16.7	16.3	15.1
Diluted net earnings per share of common stock	$ 4.40	4.57	3.63	3.73	3.35	2.74	2.29	2.06	1.75	1.55	1.34
Percent return on average shareholders' equity	26.4	30.2	25.6	28.3	28.2	27.3	27.1	26.4	24.0	25.3	26.0
Percent increase (decrease) over previous year:											
Sales to customers	(2.9)	4.3	14.6	5.6	6.7	13.1	15.3	12.3	10.8	6.6	14.9
Diluted net earnings per share	(3.7)	25.9	(2.7)	11.3	22.3	19.7	11.2	17.7	12.9	15.7	34.0
Supplementary expense data:											
Cost of materials and services[1]	$27,651	29,346	27,967	22,912	22,328	21,053	18,568	16,540	15,333	14,113	13,922
Total employment costs	14,587	14,523	14,571	13,444	12,364	11,581	10,542	8,942	8,153	7,376	6,727
Depreciation and amortization	2,774	2,832	2,777	2,177	2,093	2,124	1,869	1,662	1,605	1,592	1,510
Maintenance and repairs[2]	567	583	483	506	510	462	395	360	372	327	322
Total tax expense[3]	5,052	5,558	4,177	4,857	4,285	5,215	3,890	3,325	2,854	2,517	2,221
Supplementary balance sheet data:											
Property, plant and equipment, net	14,759	14,365	14,185	13,044	10,830	10,436	9,846	8,710	7,719	7,409	7,155
Additions to property, plant and equipment	2,365	3,066	2,942	2,666	2,632	2,175	2,262	2,099	1,731	1,689	1,822
Total assets	94,682	84,912	80,954	70,556	58,864	54,039	48,858	40,984	38,771	34,435	31,163
Long-term debt	8,223	8,120	7,074	2,014	2,017	2,565	2,955	2,022	2,217	3,163	3,429
Operating cash flow	16,571	14,972	15,022	14,248	11,799	11,089	10,571	8,135	8,781	6,889	5,913
Common stock information											
Dividends paid per share	$ 1.930	1.795	1.620	1.455	1.275	1.095	0.925	0.795	0.700	0.620	0.550
Shareholders' equity per share	$ 18.37	15.35	15.25	13.59	13.01	10.95	9.25	7.79	8.05	6.82	5.73
Market price per share (year-end close)	$ 64.41	58.56	67.38	66.02	60.10	63.42	50.62	53.11	59.86	52.53	46.63
Average shares outstanding (millions) — basic	2,759.5	2,802.5	2,882.9	2,936.4	2,973.9	2,968.4	2,968.1	2,998.3	3,033.8	2,993.5	2,978.2
— diluted	2,789.1	2,835.6	2,910.7	2,961.0	3,002.8	2,992.7	2,995.1	3,049.1	3,089.3	3,075.2	3,090.4
Employees (thousands)	115.5	118.7	119.2	122.2	115.6	109.9	110.6	108.3	101.8	100.9	99.8

[1] *Net of interest and other income.*

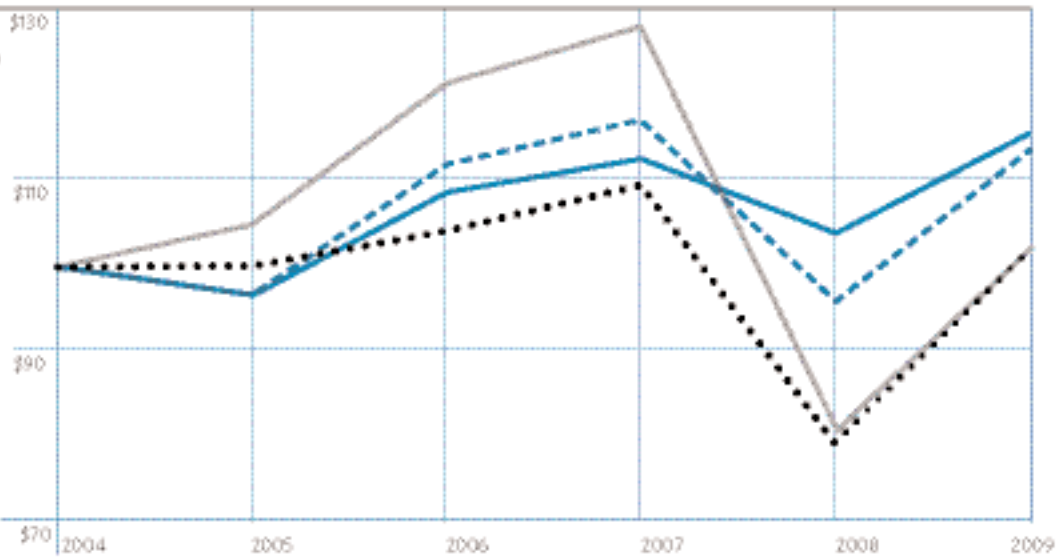
[2] *Also included in cost of materials and services category.*

[3] *Includes taxes on income, payroll, property and other business taxes.*

Shareholder Return Performance Graphs

Set forth below are line graphs comparing the cumulative total shareholder return on the Company's Common Stock for periods of five years and ten years ending December 31, 2009, against the cumulative total return of the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index. The graphs and tables assume that $100 was invested on December 31, 2004 and December 31, 1999 in each of the Company's Common Stock, the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index and that all dividends were reinvested.

5-Year Cumulative Total Shareholder Return
(2004-2009)



Johnson & Johnson

S&P 500 Index

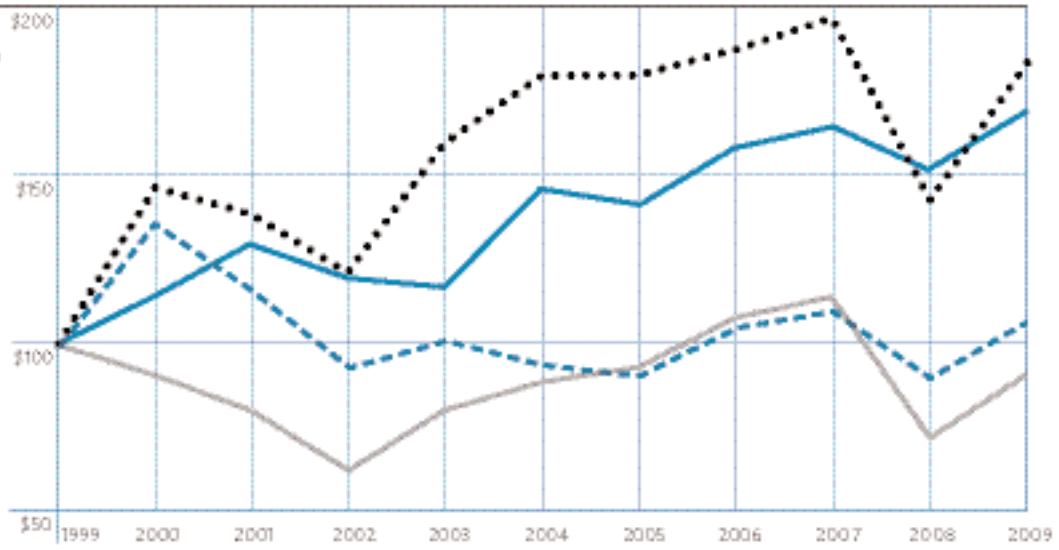
S&P Pharmaceutical Index

S&P Health Care Equipment Index

5-Year C.A.G.R.	
J&J	2.9%
S&P 500	0.4%
S&P Pharm	2.6%
S&P H/C Equip	0.4%

	2004	2005	2006	2007	2008	2009
Johnson & Johnson	$100.00	96.64	108.67	112.59	103.84	115.55
S&P 500 Index	$100.00	104.91	121.48	128.15	80.74	102.11
S&P Pharmaceutical Index	$100.00	96.64	111.96	117.17	95.85	113.68
S&P Health Care Equipment Index	$100.00	100.05	104.18	109.52	79.25	102.06

10-Year Cumulative Total Shareholder Return
(1999-2009)



Johnson & Johnson

S&P 500 Index

S&P Pharmaceutical Index

S&P Health Care Equipment Index

10-Year C.A.G.R.	
J&J	5.4%
S&P 500	(0.9%)
S&P Pharm	0.6%
S&P H/C Equip	6.3%

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Johnson & Johnson	$100.00	114.20	130.20	119.94	117.41	146.95	142.02	159.69	165.46	152.60	169.81
S&P 500 Index	$100.00	90.92	80.11	62.41	80.31	89.04	93.42	108.17	114.11	71.89	90.92
S&P Pharmaceutical Index	$100.00	136.20	116.39	93.07	101.23	93.71	90.56	104.92	109.80	89.82	106.54
S&P Health Care Equipment Index	$100.00	146.64	139.21	121.61	160.57	180.84	180.93	188.39	198.06	143.31	184.56

Reconciliation of Non-GAAP Financial Measures

The tables below are provided to reconcile certain financial disclosures in the Letter to Shareholders, page 1.

(Dollars in Millions Except Per Share Data)	2009	2008	2007	'09 vs. '08 % Change	'08 vs. '07 % Change
Earnings before provision for taxes on income — as reported	$15,755	16,929	13,283	(6.9)%	27.4
Purchased in-process research & development (IPR&D)	—	181	807		
Net gain on fourth quarter litigation	(386)	(379)	—		
Restructuring expense	1,186	—	745		
NATRECOR® intangible asset write-down	—	—	678		
Earnings before provision for taxes on income — as adjusted	$16,555	16,731	15,513	(1.1)%	7.9
Net Earnings — as reported	$12,266	12,949	10,576	(5.3)%	22.4
Purchased in-process research & development (IPR&D)	—	181	807		
Net gain on fourth quarter litigation	(212)	(229)	—		
Restructuring expense	852	—	528		
NATRECOR® intangible asset write-down	—	—	441		
International tax gain on restructuring	—	—	(267)		
Net Earnings — as adjusted	$12,906	12,901	12,085	0.0%	6.8
Diluted net earnings per share — as reported	$ 4.40	4.57	3.63	(3.7)%	25.9
Purchased in-process research & development (IPR&D)	—	0.06	0.28		
Net gain on fourth quarter litigation	(0.08)	(0.08)	—		
Restructuring expense	0.31	—	0.18		
NATRECOR® intangible asset write-down	—	—	0.15		
International tax gain on restructuring	—	—	(0.09)		
Diluted net earnings per share — as adjusted	$ 4.63	4.55	4.15	1.8%	9.6

(Dollars in Millions)	2009	2008	2007	'09 vs. '08 % Change	'08 vs. '07 % Change
Net cash flows from operating activities	$16,571	14,972	15,022		
Additions to property, plant and equipment	(2,365)	(3,066)	(2,942)		
Free Cash Flow	$14,206	11,906	12,080	19.3	(1.4)

The Company believes investors gain additional perspective of underlying business trends and results by providing free cash flow, a measure of earnings before tax, net earnings and diluted net earnings per share that excludes IPR&D charges and other special items in order to evaluate ongoing business operations. These non-GAAP financial measures should not be considered replacements for, and should be read together with, the most comparable GAAP financial measures.