# 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 114,000 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 and wellness and prevention platforms. 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 areas: anti-infective, antipsychotic, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management 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 distributed to wholesalers, hospitals and retailers used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Biosense Webster's electrophysiology products; Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care, neurological and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products and advanced sterilization 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 first quarter of 2010 the Company adopted the Financial Accounting Standards Board (FASB) guidance and amendments related to the criteria for separating consideration in multiple-deliverable revenue arrangements. The guidance (a) provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated; (b) requires 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) eliminates the use of the residual method and requires an entity to allocate the revenue using the relative selling price method. The adoption did not have a material impact on the Company's results of operations, cash flows or financial position; however it expanded the disclosures for multiple-deliverable revenue arrangements.

During the fiscal first quarter of 2010, the Company adopted the FASB standard related to variable interest entities. The adoption of this standard did not have an impact on the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2010, the Company adopted the new accounting guidance on fair value measurements and disclosures. This guidance requires the Company to disclose the amount of significant transfers between Level 1 and Level 2 inputs and the reasons for these transfers as well as the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. 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 2, 2011

During the fiscal second quarter of 2010 the FASB issued an accounting standard update related to revenue recognition under the milestone method. The objective of the accounting standard update is to provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This guidance was effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of this standard is not expected to 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 for 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 1.0% and 1.2% of annual sales to customers during the prior three fiscal reporting years 2008–2010.

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 $945 million, $964 million and $1,017 million in 2010, 2009 and 2008, 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 2010 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 and development expense |
| Research and development payments to collaborative partner | Research and development expense |
| Research and development payments received from collaborative partner | Reduction of research and development 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 $2.5 billion, $2.4 billion and $2.9 billion in 2010, 2009 and 2008, respectively.

**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 2, 2011 and January 3, 2010, the cumulative amount of undistributed international earnings was approximately $37.0 billion and $32.2 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.

The Company follows the provisions of U.S. GAAP when recording litigation related contingencies. A liability is recorded when a loss is probable and can be reasonably estimated. The best estimate of a loss within a range is accrued; however, if no estimate in the range is better than any other, the minimum amount is accrued.

### 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

At the end of 2010 and 2009, the amortized cost of cash, cash equivalents and current marketable securities were comprised of:

| | Amortized Cost | |
|---|---|---|
| (Dollars in Millions) | 2010 | 2009 |
| Cash | $ 2,293 | 2,517 |
| Government securities and obligations | 22,349 | 13,370 |
| Corporate debt securities | 225 | 426 |
| Money market funds | 2,135 | 1,890 |
| Time deposits | 656 | 1,222 |
| Total cash, cash equivalents and current marketable securities | **$27,658** | **19,425** |

The estimated fair value was the same as the amortized cost as of January 2, 2011. The estimated fair value was $19,426 million as of January 3, 2010 reflecting a $1 million unrealized gain in government securities and obligations.

As of January 2, 2011, current marketable securities consisted of $8,153 million and $150 million of government securities and obligations and corporate debt securities, respectively.

As of January 3, 2010, current marketable securities consisted of $3,434 million and $181 million of government securities and obligations and corporate debt securities, 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 2010 and 2009, inventories were comprised of:

| (Dollars in Millions) | 2010 | 2009 |
|---|---|---|
| Raw materials and supplies | $1,073 | 1,144 |
| Goods in process | 1,460 | 1,395 |
| Finished goods | 2,845 | 2,641 |
| Total inventories | **$5,378** | **5,180** |

## 4. Property, Plant and Equipment

At the end of 2010 and 2009, property, plant and equipment at cost and accumulated depreciation were:

| (Dollars in Millions) | 2010 | 2009 |
|---|---|---|
| Land and land improvements | $ 738 | 714 |
| Buildings and building equipment | 9,079 | 8,863 |
| Machinery and equipment | 18,032 | 17,153 |
| Construction in progress | 2,577 | 2,521 |
| Total property, plant and equipment, gross | $30,426 | 29,251 |
| Less accumulated depreciation | 15,873 | 14,492 |
| Total property, plant and equipment, net | **$14,553** | **14,759** |

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2010, 2009 and 2008 was $73 million, $101 million and $147 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2010, 2009 and 2008, was $2.2 billion, $2.1 billion and $2.0 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 2010 and 2009, the gross and net amounts of intangible assets were:

| (Dollars in Millions) | 2010 | 2009 |
|---|---|---|
| **Intangible assets with definite lives:** | | |
| Patents and trademarks — gross | $ 6,660 | 5,697 |
| Less accumulated amortization | 2,629 | 2,177 |
| Patents and trademarks — net | **$ 4,031** | **3,520** |
| Other intangibles — gross | $ 7,674 | 7,808 |
| Less accumulated amortization | 2,880 | 2,680 |
| Other intangibles — net | **$ 4,794** | **5,128** |
| Total intangible assets with definite lives — gross | $14,334 | 13,505 |
| Less accumulated amortization | 5,509 | 4,857 |
| Total intangible assets with definite lives — net | **$ 8,825** | **8,648** |
| **Intangible assets with indefinite lives:** | | |
| Trademarks | $ 5,954 | 5,938 |
| Purchased in-process research and development* | 1,937 | 1,737 |
| Total intangible assets with indefinite lives | **$ 7,891** | **7,675** |
| Total intangible assets — net | **$16,716** | **16,323** |

** 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 2, 2011 and January 3, 2010, as allocated by segment of business is as follows:

| (Dollars in Millions) | Consumer | Pharm | Med Dev and Diag | Total |
|---|---|---|---|---|
| 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 |
| Acquisitions | — | — | 397 | 397 |
| Currency translation/other | 70 | (19) | (16) | 35 |
| Goodwill at January 2, 2011 | **$8,144** | **1,225** | **5,925** | **15,294** |

** 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 was $748 million, $675 million and $788 million before tax, for the fiscal years ended January 2, 2011, January 3, 2010 and December 28, 2008, respectively. Certain patents and intangible assets were written down to fair value during fiscal years 2010, 2009 and 2008, with the resulting charge included in amortization expense. These write downs did not have a material impact on the Company's results of operations, cash flows or financial position.

The estimated amortization expense for the five succeeding years approximates $730 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

## 6. Fair Value Measurements

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 2, 2011, the Company had notional amounts outstanding for forward foreign exchange contracts and cross currency interest rate swaps of $21 billion and $3 billion, respectively.

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 not material for the fiscal years ended January 2, 2011 and January 3, 2010. Refer to Note 13 for disclosures of movements in Accumulated Other Comprehensive Income.

As of January 2, 2011, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $100 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 related to designated derivatives for the fiscal years ended January 2, 2011 and January 3, 2010:

| Cash Flow Hedges (Dollars in Millions) | Gain/(Loss) recognized in Accumulated OCI[1] | | Gain/(Loss) reclassified from Accumulated OCI into income[1] | | Gain/(Loss) recognized in Other income/expense[2] | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Foreign exchange contracts | $ (66) | (63) | (52)[A] | (47)[A] | (2) | 1 |
| Foreign exchange contracts | (296) | (173) | (300)[B] | 70[B] | (38) | (1) |
| Foreign exchange contracts | 51 | 5 | 57[C] | 13[C] | 5 | — |
| Cross currency interest rate swaps | (40) | 241 | 6[D] | (16)[D] | — | — |
| Foreign exchange contracts | 18 | 28 | 1[E] | (6)[E] | 3 | (12) |
| **Total** | **$(333)** | **38** | **(288)** | **14** | **(32)** | **(12)** |

*All amounts shown in the table above are net of tax.*

*[1] Effective portion*

*[2] Ineffective portion*

*[A] Included in Sales to customer*

*[B] Included in Cost of products sold*

*[C] Included in Research and development expense*

*[D] Included in Interest (income)/Interest expense, net*

*[E] Included in Other (income)/expense, net*

For the fiscal years ended January 2, 2011 and January 3, 2010, a loss of $31 million and a gain of $21 million, respectively, was recognized in Other (income)/expense, net, relating to foreign exchange contracts not designated as hedging instruments.

Fair value is 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 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 that are classified as Level 1 as they are traded in an active exchange market.

The following three levels of inputs are used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets and liabilities.

Level 2 — Significant other observable inputs.

Level 3 — Significant unobservable inputs.

The Company's significant financial assets and liabilities measured at fair value as of January 2, 2011 and January 3, 2010 were as follows:

| (Dollars in Millions) | Level 1 | Level 2 | Level 3 | 2010 Total | 2009 Total[1] |
|---|---|---|---|---|---|
| **Derivatives designated as hedging instruments:** | | | | | |
| **Assets:** | | | | | |
| Foreign exchange contracts | $ — | 321 | — | 321 | 436 |
| Cross currency interest rate swaps[2] | — | 17 | — | 17 | 126 |
| **Total** | **—** | **338** | **—** | **338** | **562** |
| **Liabilities:** | | | | | |
| Foreign exchange contracts | — | 586 | — | 586 | 608 |
| Cross currency interest rate swaps[3] | — | 502 | — | 502 | 571 |
| **Total** | **—** | **1,088** | **—** | **1,088** | **1,179** |
| **Derivatives not designated as hedging instruments:** | | | | | |
| **Assets:** | | | | | |
| Foreign exchange contracts | — | 19 | — | 19 | 33 |
| **Liabilities:** | | | | | |
| Foreign exchange contracts | — | 39 | — | 39 | 40 |
| **Other investments** | $1,165 | — | — | 1,165 | 1,134 |

*[1] 2009 assets and liabilities are all classified as Level 2 with the exception of other investments of $1,134 million which are classified as Level 1.*

*[2] Includes $14 million and $119 million of non-current assets for the fiscal years ending January 2, 2011 and January 3, 2010, respectively.*

*[3] Includes $502 million and $517 million of non-current liabilities for the fiscal years ending January 2, 2011 and January 3, 2010, respectively.*

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) | 2010 | Effective Rate % | 2009 | Effective Rate % |
|---|---|---|---|---|
| 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 1.3268)[2]/(1B Euro 1.4382)[3] | 1,319[2] | 5.35 | 1,429[3] | 5.35 |
| 3% Zero Coupon Convertible Subordinated Debentures due 2020 | 194 | 3.00 | 188 | 3.00 |
| 2.95% Debentures due 2020 | 541 | 3.15 | — | — |
| 6.73% Debentures due 2023 | 250 | 6.73 | 250 | 6.73 |
| 5.50% Notes due 2024 (500MM GBP 1.5403)[2]/ (500MM GBP 1.6189)[3] | 764[2] | 5.71 | 803[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 |
| 4.50% Debentures due 2040 | 539 | 4.63 | — | — |
| Other (Includes Industrial Revenue Bonds) | 76 | | 101 | |
| | **9,169[4]** | **5.25[1]** | **8,257[4]** | **5.42[1]** |
| Less current portion | 13 | | 34 | |
| | **$9,156** | | **8,223** | |

*[1] Weighted average effective rate.*

*[2] Translation rate at January 2, 2011.*

*[3] Translation rate at January 3, 2010.*

*[4] The excess of the fair value over the carrying value of debt was $1.0 billion in 2010 and $0.8 billion in 2009.*

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 2010, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates $10 billion, which expires September 22, 2011. 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.

Throughout 2010 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 $7.6 billion at the end of 2010, of which $7.4 billion was borrowed under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

The Company has a shelf registration with the Securities and Exchange Commission that enables the Company to issue on a timely basis debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2010 are:

| (Dollars in Millions) 2011 | 2012 | 2013 | 2014 | 2015 | After 2015 |
|---|---|---|---|---|---|
| $13 | 644 | 509 | 9 | — | 7,994 |

## 8. Income Taxes

The provision for taxes on income consists of:

| (Dollars in Millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Currently payable: | | | |
| U.S. taxes | $2,063 | 2,410 | 2,334 |
| International taxes | 1,194 | 1,515 | 1,624 |
| Total currently payable | 3,257 | 3,925 | 3,958 |
| Deferred: | | | |
| U.S. taxes | (4) | 187 | 126 |
| International taxes | 360 | (623) | (104) |
| Total deferred | 356 | (436) | 22 |
| Provision for taxes on income | **$3,613** | **3,489** | **3,980** |

A comparison of income tax expense at the U.S. statutory rate of 35% in 2010, 2009 and 2008, to the Company's effective tax rate is as follows:

| (Dollars in Millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| U.S. | $ 6,392 | 7,141 | 6,579 |
| International | 10,555 | 8,614 | 10,350 |
| Earnings before taxes on income | $16,947 | 15,755 | 16,929 |
| Tax rates: | | | |
| U.S. statutory rate | 35.0% | 35.0 | 35.0 |
| Ireland and Puerto Rico operations | (5.1) | (5.1) | (6.8) |
| Research and orphan drug tax credits | (0.6) | (0.6) | (0.6) |
| U.S. state and local | 1.0 | 1.8 | 1.6 |
| International subsidiaries excluding Ireland | (7.5) | (6.7) | (5.6) |
| U.S. manufacturing deduction | (0.5) | (0.4) | (0.4) |
| In-process research and development (IPR&D) | — | — | 0.4 |
| U.S. Tax international income | (0.6) | (1.6) | (0.5) |
| All other | (0.4) | (0.3) | 0.4 |
| Effective tax rate | 21.3% | 22.1 | 23.5 |

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 2010 tax rate was primarily due to decreases in taxable income in higher tax jurisdictions relative to taxable income in lower tax jurisdictions and certain U.S. tax adjustments. 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.

Temporary differences and carry forwards for 2010 and 2009 are as follows:

| | 2010 Deferred Tax | | 2009 Deferred Tax | |
|---|---|---|---|---|
| (Dollars in Millions) | Asset | Liability | Asset | Liability |
| Employee related obligations | $2,211 | | 2,153 | |
| Stock based compensation | 1,225 | | 1,291 | |
| Depreciation | | (769) | | (661) |
| Non-deductible intangibles | | (2,725) | | (2,377) |
| International R&D capitalized for tax | 1,857 | | 1,989 | |
| Reserves & liabilities | 948 | | 1,014 | |
| Income reported for tax purposes | 691 | | 648 | |
| Net operating loss carryforward international | 738 | | 615 | |
| Miscellaneous international | 1,326 | (106) | 1,474 | (110) |
| Miscellaneous U.S. | 470 | | 799 | |
| Total deferred income taxes | **$9,466** | **(3,600)** | **9,983** | **(3,148)** |

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 deferred tax Miscellaneous U.S. includes current year tax receivables. The Company has a wholly-owned international subsidiary that has cumulative net losses. The Company believes that it is more likely than not that this 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) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Beginning of year | $2,403 | 1,978 | 1,653 |
| Increases related to current year tax positions | 465 | 555 | 545 |
| Increases related to prior period tax positions | 68 | 203 | 87 |
| Decreases related to prior period tax positions | (431) | (163) | (142) |
| Settlements | (186) | (87) | (137) |
| Lapse of statute of limitations | (12) | (83) | (28) |
| End of year | **$2,307** | **2,403** | **1,978** |

The Company had $2.3 billion, $2.4 billion and $2.0 billion of unrecognized tax benefits as of January 2, 2011, January 3, 2010 and December 28, 2008, respectively. All of the unrecognized tax benefits of $2.3 billion at January 2, 2011, 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 2005; however, there are a limited number of issues remaining open for prior tax years going back to 1999. In other major jurisdictions where the Company conducts business, the years remain open generally back to the year 2003. The Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. 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. The Company recognized after tax interest of $34 million income, $36 million expense and $69 million expense in 2010, 2009 and 2008, respectively. The total amount of accrued interest was $264 million and $309 million in 2010 and 2009, respectively.

## 9. Employee Related Obligations

At the end of 2010 and 2009, employee related obligations recorded on the Consolidated Balance Sheet were:

| (Dollars in Millions) | 2010 | 2009 |
|---|---|---|
| Pension benefits | $2,175 | 2,792 |
| Postretirement benefits | 2,359 | 2,245 |
| Postemployment benefits | 1,379 | 1,504 |
| Deferred compensation | 820 | 790 |
| Total employee obligations | 6,733 | 7,331 |
| Less current benefits payable | 646 | 562 |
| Employee related obligations — non-current | **$6,087** | **6,769** |

Prepaid employee related obligations of $615 million and $266 million for 2010 and 2009, 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 2, 2011 and January 3, 2010, 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 2010, 2009 and 2008 include the following components:

| | Retirement Plans | | | Other Benefit Plans | | |
|---|---|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Service cost | $ 550 | 511 | 545 | $134 | 137 | 142 |
| Interest cost | 791 | 746 | 701 | 202 | 174 | 166 |
| Expected return on plan assets | (1,005) | (934) | (876) | (1) | (1) | (2) |
| Amortization of prior service cost | 10 | 13 | 10 | (4) | (5) | (4) |
| Amortization of net transition asset | 1 | 1 | 2 | — | — | — |
| Recognized actuarial losses | 236 | 155 | 62 | 48 | 55 | 64 |
| Curtailments and settlements | 1 | (11) | 7 | — | (1) | — |
| Net periodic benefit cost | **$ 584** | **481** | **451** | **$379** | **359** | **366** |

The net periodic benefit cost attributable to U.S. retirement plans was $294 million, $286 million and $220 million in 2010, 2009 and 2008, 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 | 402 |
| 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 | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| **U.S. Benefit Plans** | | | | | | |
| Discount rate | 5.98% | 6.50 | 6.50 | 5.98% | 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 | 4.25 | 4.50 | 4.50 | 4.25 | 4.50 | 4.50 |
| **International Benefit Plans** | | | | | | |
| Discount rate | 5.26% | 5.75 | 6.00 | 6.32% | 6.75 | 7.25 |
| Expected long-term rate of return on plan assets | 8.00 | 8.00 | 8.00 | — | — | — |
| Rate of increase in compensation levels | 4.00 | 4.00 | 4.00 | 4.75 | 4.75 | 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 | 2010 | 2009 |
|---|---|---|
| Health care cost trend rate assumed for next year | 7.50% | 8.00 |
| 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 | 2018 | 2017 |

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 | $ 36 | $ (28) |
| Postretirement benefit obligation | 377 | (302) |

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2010 and 2009 for the Company's defined benefit retirement plans and other postretirement plans:

| | Retirement Plans | | Other Benefit Plans | |
|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | 2010 | 2009 |
| **Change in Benefit Obligation** | | | | |
| Projected benefit obligation — beginning of year | $13,449 | 11,923 | $ 3,590 | 2,765 |
| Service cost | 550 | 511 | 134 | 137 |
| Interest cost | 791 | 746 | 202 | 174 |
| Plan participant contributions | 42 | 50 | — | — |
| Amendments | — | 3 | — | — |
| Actuarial losses | 815 | 412 | 115 | 51 |
| Divestitures & acquisitions | — | 15 | — | 13 |
| Curtailments & settlements & restructuring | (10) | (3) | — | 748 |
| Benefits paid from plan | (627) | (570) | (476) | (313) |
| Effect of exchange rates | (17) | 362 | 7 | 15 |
| Projected benefit obligation — end of year* | **$14,993** | **13,449** | **$ 3,572** | **3,590** |
| **Change in Plan Assets** | | | | |
| Plan assets at fair value — beginning of year | $10,923 | 7,677 | $ 16 | 17 |
| Actual return on plan assets | 1,466 | 2,048 | 2 | 4 |
| Company contributions | 1,611 | 1,354 | 472 | 308 |
| Plan participant contributions | 42 | 50 | — | — |
| Settlements | (7) | — | — | — |
| Benefits paid from plan assets | (627) | (570) | (476) | (313) |
| Effect of exchange rates | 25 | 364 | — | — |
| Plan assets at fair value — end of year | **$13,433** | **10,923** | **$ 14** | **16** |
| Funded status at — end of year* | **$ (1,560)** | **(2,526)** | **$(3,558)** | **(3,574)** |
| **Amounts Recognized in the Company's Balance Sheet consist of the following:** | | | | |
| Non-current assets | $ 615 | 266 | $ — | — |
| Current liabilities | (54) | (53) | (576) | (484) |
| Non-current liabilities | (2,121) | (2,739) | (2,982) | (3,090) |
| Total recognized in the consolidated balance sheet — end of year | **$ (1,560)** | **(2,526)** | **$(3,558)** | **(3,574)** |
| **Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:** | | | | |
| Net actuarial loss | $ 3,539 | 3,415 | $ 1,017 | 924 |
| Prior service cost (credit) | 39 | 47 | (21) | (23) |
| Unrecognized net transition obligation | 4 | 5 | — | — |
| Total before tax effects | **$ 3,582** | **3,467** | **$ 996** | **901** |
| **Accumulated Benefit Obligations — end of year*** | **$13,134** | **11,687** | | |
| **Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income** | | | | |
| Net periodic benefit cost | **$ 584** | **481** | **$ 379** | **359** |
| Net actuarial loss (gain) | 354 | (704) | 134 | 48 |
| Amortization of net actuarial loss | (242) | (134) | (46) | (131) |
| Prior service cost | — | 3 | — | — |
| Amortization of prior service (cost) credit | (10) | (13) | 4 | 5 |
| Effect of exchange rates | 13 | 57 | 3 | 2 |
| Total recognized in other comprehensive income, before tax | **$ 115** | **(791)** | **$ 95** | **(76)** |
| Total recognized in net periodic benefit cost and other comprehensive income | **$ 699** | **(310)** | **$ 474** | **283** |

**The Company does not fund certain plans, as funding is not required. $1.3 billion and $1.2 billion of the 2010 and 2009 projected benefit obligation and $1.3 billion and $1.2 billion of the underfunded status for each of the fiscal years 2010 and 2009, respectively, relates to the unfunded pension plans. $1.1 billion and $1.0 billion of the accumulated benefit obligation for the fiscal years 2010 and 2009, 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) | 2010 | 2009 |
| Accumulated benefit obligation | $(2,361) | (4,065) |
| Projected benefit obligation | (2,771) | (4,663) |
| Plan assets at fair value | 817 | 2,564 |

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

| (Dollars in Millions) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016-2020 |
|---|---|---|---|---|---|---|
| **Projected future benefit payments** | | | | | | |
| Retirement plans | $596 | 598 | 614 | 642 | 682 | 4,153 |
| Other benefit plans — gross | $263 | 212 | 200 | 202 | 203 | 1,075 |
| Medicare rebates | (10) | (12) | — | — | — | — |
| Other benefit plans — net | $253 | 200 | 200 | 202 | 203 | 1,075 |

The 2011 other benefit plan projected future benefit payments exclude $345 million of severance payments associated with the 2009 worldwide restructuring program.

In 2010, the Company contributed $1,236 million and $375 million to its U.S. and international pension plans, respectively.

The Company plans to continue to fund its U.S. defined benefit plans to comply with the Pension Protection Act of 2006.

International plans are funded in accordance with local regulations. 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) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016-2020 |
|---|---|---|---|---|---|---|
| **Projected future contributions** | | | | | | |
| Unfunded U.S. retirement plans | $36 | 38 | 40 | 43 | 46 | 300 |
| Unfunded international retirement plans | $18 | 17 | 19 | 19 | 23 | 128 |

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 2010 and 2009 and target allocations for 2011 are as follows:

| | Percent of Plan Assets | | Target Allocation |
|---|---|---|---|
| | 2010 | 2009 | 2011 |
| **U.S. Retirement Plans** | | | |
| Equity securities | 79% | 76% | 75% |
| Debt securities | 21 | 24 | 25 |
| Total plan assets | **100%** | **100%** | **100%** |
| **International Retirement Plans** | | | |
| Equity securities | 65% | 65% | 65% |
| Debt securities | 35 | 34 | 35 |
| Real estate and other | — | 1 | — |
| Total plan assets | **100%** | **100%** | **100%** |

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of $14 million and $16 million at January 2, 2011 and January 3, 2010, respectively.

The fair value of Johnson & Johnson Common Stock directly held in plan assets was $453 million (3.4% of total plan assets) at January 2, 2011 and $469 million (4.3% of total plan assets) at January 3, 2010.

### 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 2, 2011 and January 3, 2010:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total Assets | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Short-term investment funds | $ 80 | 91 | 371 | 358 | — | — | 451 | 449 |
| Government and agency securities | 69 | — | 1,484 | 1,165 | — | — | 1,553 | 1,165 |
| Debt instruments | 5 | 3 | 1,149 | 1,145 | 13 | 5 | 1,167 | 1,153 |
| Equity securities | 6,744 | 5,068 | 14 | 58 | 24 | 15 | 6,782 | 5,141 |
| Commingled funds | 1 | — | 3,173 | 2,673 | 35 | 26 | 3,209 | 2,699 |
| Insurance contracts | — | — | — | — | 29 | 32 | 29 | 32 |
| Other assets | 10 | 31 | 150 | 171 | 82 | 82 | 242 | 284 |
| **Trust investments at fair value** | **$6,909** | **5,193** | **6,341** | **5,570** | **183** | **160** | **13,433** | **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 years ended January 2, 2011 and 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 |
| Realized gains (losses) | (1) | — | — | (3) | 1 | (3) |
| Unrealized gains (losses) | 1 | 4 | 4 | — | (3) | 6 |
| Purchases, sales, issuances and settlements, net | 8 | 5 | 5 | — | 2 | 20 |
| **Balance January 2, 2011** | **$13** | **24** | **35** | **29** | **82** | **183** |

## 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 $157 million, $163 million and $166 million in 2010, 2009 and 2008, 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 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 |
| Employee compensation and stock option plans | (28,827) | (1,792) |
| Conversion of subordinated debentures | (39) | (2) |
| Repurchase of common stock | 45,090 | 2,797 |
| Balance at January 2, 2011 | 381,746 | $20,783 |

Aggregate shares of Common Stock issued were approximately 3,119,843,000 shares at the end of 2010, 2009 and 2008.

Cash dividends paid were $2.110 per share in 2010, compared with dividends of $1.930 per share in 2009, and $1.795 per share in 2008.

## 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 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) |
| 2010 changes | | | | | |
| Unrealized gain (loss) | — | 99 | — | (333) | |
| Net amount reclassed to net earnings | — | (45) | — | 288 | |
| Net 2010 changes | (461) | 54 | (21) | (45) | (473) |
| January 2, 2011 | **$ (969)** | **24** | **(2,686)** | **100** | **(3,531)** |

The tax effect on the unrealized gains/(losses) on the equity securities was expense of $13 million in 2010, income of $14 million in 2009 and expense of $14 million in 2008. The tax effect related to employee benefit plans was $11 million, $302 million and $1,090 million in 2010, 2009 and 2008, respectively. The tax effect on the gains/(losses) on derivatives and hedges was expense of $54 million, $78 million and $70 million in 2010, 2009 and 2008, respectively. 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 2010, 2009 and 2008 for foreign currency translation adjustments is included in Note 13.

Net currency transaction gains and losses included in other (income) expense were losses of $130 million, $210 million and $31 million in 2010, 2009 and 2008, 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 2, 2011, January 3, 2010 and December 28, 2008:

| (In Millions Except Per Share Data) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Basic net earnings per share | $ 4.85 | 4.45 | 4.62 |
| Average shares outstanding — basic | 2,751.4 | 2,759.5 | 2,802.5 |
| Potential shares exercisable under stock option plans | 156.1 | 118.0 | 179.0 |
| Less: shares repurchased under treasury stock method | (122.3) | (92.0) | (149.6) |
| Convertible debt shares | 3.6 | 3.6 | 3.7 |
| Adjusted average shares outstanding — diluted | 2,788.8 | 2,789.1 | 2,835.6 |
| Diluted net earnings per share | $ 4.78 | 4.40 | 4.57 |

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 2010, 2009 and 2008.

Diluted net earnings per share excludes 66 million, 121 million and 59 million shares underlying stock options for 2010, 2009 and 2008, 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 $299 million, $322 million and $309 million in 2010, 2009 and 2008, respectively.

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 2, 2011 are:

| (Dollars in Millions) 2011 | 2012 | 2013 | 2014 | 2015 | After 2015 | Total |
|---|---|---|---|---|---|---|
| $182 | 159 | 130 | 106 | 89 | 74 | 740 |

Commitments under capital leases are not significant.

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

At January 2, 2011, the Company had 7 stock-based compensation plans. The shares outstanding are for contracts under the Company's 2000 Stock Option Plan, the 2005 Long-Term Incentive Plan, the 1997 Non-Employee Director's Plan and the ALZA Corporation, Inverness Medical Technology, Inc., and Scios Inc. Stock Option Plans. During 2010, 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 $614 million, $628 million and $627 million for 2010, 2009 and 2008, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was $205 million, $210 million and $210 million for 2010, 2009 and 2008, respectively. The total unrecognized compensation cost was $613 million as of January 2, 2011, $612 million as of January 3, 2010 and $632 million as of December 28, 2008. The weighted average period for this cost to be recognized was 1.05 years, 1.16 years and 1.06 years for 2010, 2009, and 2008, respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

### STOCK OPTIONS

Stock options expire 10 years from the date of grant and vest over service periods that range from six months to four 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 121.3 million at the end of 2010.

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 $8.03, $8.35 and $7.66, in 2010, 2009, and 2008, respectively. The fair value was estimated based on the weighted average assumptions of:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Risk-free rate | 2.78% | 2.71% | 2.97% |
| Expected volatility | 17.4% | 19.5% | 15.0% |
| Expected life | 6.0 yrs | 6.0 yrs | 6.0 yrs |
| Dividend yield | 3.30% | 3.30% | 2.90% |

A summary of option activity under the Plan as of January 2, 2011, January 3, 2010 and December 28, 2008 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 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 |
| Options granted | 13,996 | 62.62 | |
| Options exercised | (25,020) | 51.84 | |
| Options canceled/forfeited | (8,005) | 62.36 | |
| Shares at January 2, 2011 | **193,690** | **$59.68** | **$ 648** |

The total intrinsic value of options exercised was $278 million, $184 million and $506 million in 2010, 2009 and 2008, respectively.

The following table summarizes stock options outstanding and exercisable at January 2, 2011:

| (Shares in Thousands) | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price Range | Options | Average Life[1] | Average Exercise Price | Options | Average Exercise Price |
| $25.00–$40.08 | 50 | 0.9 | $29.53 | 50 | $29.53 |
| $41.26–$49.86 | 532 | 0.5 | 47.43 | 532 | 47.43 |
| $50.52–$52.80 | 20,155 | 2.1 | 52.20 | 20,115 | 52.20 |
| $53.00–$53.93 | 24,114 | 3.0 | 53.93 | 24,114 | 53.93 |
| $54.04–$57.30 | 24,332 | 1.1 | 57.28 | 24,332 | 57.28 |
| $57.44–$58.34 | 39,343 | 6.5 | 58.33 | 20,175 | 58.33 |
| $58.42–$65.10 | 33,020 | 7.8 | 62.11 | 1,147 | 61.21 |
| $65.62–$68.37 | 52,144 | 4.8 | 65.97 | 50,810 | 65.98 |
| | **193,690** | **4.7** | **$59.68** | **141,275** | **$59.25** |

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

Stock options exercisable at January 3, 2010 and December 28, 2008 were 148,349 at an average price of $57.26 and an average life of 5.0 years and 144,962 at an average price of $56.25 and an average life of 5.3 years, respectively.

**RESTRICTED SHARE UNITS**

The Company grants restricted share units with a vesting period of three years. The Company settles employee stock issuances 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 2, 2011:

| (Shares in Thousands) | Outstanding Shares |
|---|---|
| Shares at December 30, 2007 | 13,661 |
| Granted | 10,105 |
| Issued | (40) |
| Canceled/forfeited | (1,468) |
| Shares at December 28, 2008 | 22,258 |
| Granted | 11,172 |
| Issued | (5,714) |
| Canceled/forfeited | (1,392) |
| Shares at January 3, 2010 | 26,324 |
| Granted | 12,003 |
| Issued | (6,297) |
| Canceled/forfeited | (2,296) |
| Shares at January 2, 2011 | 29,734 |

The average fair value of the restricted share units granted was $56.69, $52.79 and $56.70 in 2010, 2009 and 2008, 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 $375.0 million, $308.4 million and $2.5 million in 2010, 2009 and 2008, respectively.

## 18. Segments of Business[1] and Geographic Areas

| (Dollars in Millions) | Sales to Customers[2] 2010 | 2009 | 2008 |
|---|---|---|---|
| Consumer — | | | |
| United States | $ 5,519 | 6,837 | 6,937 |
| International | 9,071 | 8,966 | 9,117 |
| Total | **14,590** | **15,803** | **16,054** |
| Pharmaceutical — | | | |
| United States | 12,519 | 13,041 | 14,831 |
| International | 9,877 | 9,479 | 9,736 |
| Total | **22,396** | **22,520** | **24,567** |
| Medical Devices and Diagnostics — | | | |
| United States | 11,412 | 11,011 | 10,541 |
| International | 13,189 | 12,563 | 12,585 |
| Total | **24,601** | **23,574** | **23,126** |
| Worldwide total | **$61,587** | **61,897** | **63,747** |

| (Dollars in Millions) | Operating Profit 2010[5] | 2009[6] | 2008[7] | Identifiable Assets 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Consumer | $ 2,342 | 2,475 | 2,674 | $ 23,753 | 24,671 | 23,765 |
| Pharmaceutical | 7,086 | 6,413 | 7,605 | 19,961 | 21,460 | 19,544 |
| Medical Devices and Diagnostics | 8,272 | 7,694 | 7,223 | 23,277 | 22,853 | 20,779 |
| Total | 17,700 | 16,582 | 17,502 | 66,991 | 68,984 | 64,088 |
| Less: Expense not allocated to segments[3] | 753 | 827 | 573 | | | |
| General corporate[4] | | | | 35,917 | 25,698 | 20,824 |
| Worldwide total | **$16,947** | **15,755** | **16,929** | **$102,908** | **94,682** | **84,912** |

| (Dollars in Millions) | Additions to Property, Plant & Equipment 2010 | 2009 | 2008 | Depreciation and Amortization 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Consumer | $ 526 | 439 | 499 | $ 532 | 513 | 489 |
| Pharmaceutical | 508 | 535 | 920 | 912 | 922 | 986 |
| Medical Devices and Diagnostics | 1,113 | 1,114 | 1,251 | 1,270 | 1,124 | 1,146 |
| Segments total | 2,147 | 2,088 | 2,670 | 2,714 | 2,559 | 2,621 |
| General corporate | 237 | 277 | 396 | 225 | 215 | 211 |
| Worldwide total | **$2,384** | **2,365** | **3,066** | **$2,939** | **2,774** | **2,832** |

| (Dollars in Millions) | Sales to Customers[2] 2010 | 2009 | 2008 | Long-Lived Assets[8] 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| United States | $29,450 | 30,889 | 32,309 | $ 23,315 | 22,399 | 21,674 |
| Europe | 15,510 | 15,934 | 16,782 | 16,791 | 17,347 | 14,375 |
| Western Hemisphere excluding U.S. | 5,550 | 5,156 | 5,173 | 3,653 | 3,540 | 3,328 |
| Asia-Pacific, Africa | 11,077 | 9,918 | 9,483 | 2,089 | 1,868 | 1,898 |
| Segments total | 61,587 | 61,897 | 63,747 | 45,848 | 45,154 | 41,275 |
| General corporate | | | | 715 | 790 | 785 |
| Other non long-lived assets | | | | 56,345 | 48,738 | 42,852 |
| Worldwide total | **$61,587** | **61,897** | **63,747** | **$102,908** | **94,682** | **84,912** |

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

*[2] Export sales are not significant. In 2010, 2009 and 2008, 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 $966 million of net litigation gain, comprised of a $333 million expense in the Pharmaceutical segment and a gain of $1,299 million in the Medical Devices and Diagnostics segment. Includes $569 million of product liability expense, comprised of $114 million in the Pharmaceutical segment and $455 million in the Medical Devices and Diagnostics segment. The Medical Devices and Diagnostics segment also includes $280 million expense for the cost associated with the DePuy ASR™ Hip recall program.*

*[6] 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.*

*[7] 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 a $536 million gain on the divestiture of the Professional Wound Care business of Ethicon, Inc.*

*[8] Long-lived assets include property, plant and equipment, net for 2010, 2009 and 2008 of $14,553, $14,759 and $14,365, respectively, and intangible assets and goodwill, net for 2010, 2009 and 2008 of $32,010, $31,185 and $27,695, respectively.*

## 19. Selected Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the years 2010 and 2009 are summarized below:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Millions Except Per Share Data) | First Quarter[1] | Second Quarter[2] | Third Quarter | Fourth Quarter[3] | First Quarter | Second Quarter | Third Quarter | Fourth Quarter[4] |
| Segment sales to customers | | | | | | | | |
| Consumer | $ 3,766 | 3,647 | 3,567 | 3,610 | 3,711 | 3,854 | 3,989 | 4,249 |
| Pharmaceutical | 5,638 | 5,553 | 5,495 | 5,710 | 5,780 | 5,498 | 5,249 | 5,993 |
| Med Devices & Diagnostics | 6,227 | 6,130 | 5,920 | 6,324 | 5,535 | 5,887 | 5,843 | 6,309 |
| Total sales | $15,631 | 15,330 | 14,982 | 15,644 | 15,026 | 15,239 | 15,081 | 16,551 |
| Gross profit | 11,103 | 10,700 | 10,388 | 10,604 | 10,775 | 10,789 | 10,647 | 11,239 |
| Earnings before provision for taxes on income | 6,280 | 4,220 | 4,219 | 2,228 | 4,643 | 4,263 | 4,245 | 2,604 |
| Net earnings | 4,526 | 3,449 | 3,417 | 1,942 | 3,507 | 3,208 | 3,345 | 2,206 |
| Basic net earnings per share | $ 1.64 | 1.25 | 1.24 | 0.71 | 1.27 | 1.16 | 1.21 | 0.80 |
| Diluted net earnings per share | $ 1.62 | 1.23 | 1.23 | 0.70 | 1.26 | 1.15 | 1.20 | 0.79 |

[1] *The first quarter of 2010 includes $910 million after-tax of income from net litigation.*

[2] *The second quarter of 2010 includes $67 million after-tax of income from net litigation.*

[3] *The fourth quarter of 2010 includes an after-tax charge of $279 million from net litigation settlements, an after-tax charge of $404 million for product liability expense and an after-tax charge of $239 million for the cost associated with the DePuy ASR™ Hip recall program.*

[4] *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.*

## 20. Business Combinations and Divestitures

Certain businesses were acquired for $1,269 million in cash and $52 million of liabilities assumed during 2010. 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 2010 acquisitions included: Acclarent, Inc., a privately held medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat (ENT); RespiVert Ltd., a privately held drug discovery company focused on developing small-molecule, inhaled therapies for the treatment of pulmonary diseases and Micrus Endovascular Corporation, a global developer and manufacturer of minimally invasive devices for hemorrhagic and ischemic stroke.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $1,185 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $213 million has been identified as the value of IPR&D associated with the acquisitions of Acclarent, Inc., RespiVert Ltd. and Micrus Endovascular Corporation.

The IPR&D related to the acquisition of Acclarent, Inc. was $75 million and is associated with novel, endoscopic, catheter-based devices to meet the needs of ENT patients. 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 50–53% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 16%.

The IPR&D related to the acquisition of RespiVert Ltd., was $100 million and is associated with narrow spectrum kinase inhibitors with a unique profile of anti-inflammatory activities as treatments for moderate to severe asthma, Chronic Obstructive Pulmonary Disease (COPD) and Cystic Fibrosis (CF). 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 10–12% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 17%.

The IPR&D related to the acquisition of Micrus Endovascular Corporation was $38 million and is associated with ischemic and flow diverter technologies. 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 50–75% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 14%.

During 2010, the Company announced an agreement to acquire all outstanding equity of Crucell N.V. that it does not already own for approximately $2.3 billion in a cash tender offer. As of January 2, 2011 the Company held approximately 18% of Crucell's outstanding ordinary shares. Crucell is a global biopharmaceutical company focused on the research & development, production and marketing of vaccines and antibodies against infectious disease worldwide. On February 22, 2011, the Company announced that the tender offer for Crucell has been completed and has declared the offer unconditional.

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%.

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.

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%.

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%.

Supplemental pro forma information for 2010, 2009 and 2008 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 Breast Care Business of Ethicon Endo-Surgery Inc., for which the gain is recorded in other (income) expense in 2010, and 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 2010, 2009 and 2008 did not have a material effect on the Company's results of operations, cash flows or financial position.

## 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. The Company has established product liability reserves based on currently available information, which in some cases may be limited and changes to the reserves may be required in the future as additional information becomes available.

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, CYPHER® Stent, and ASR™ Hip. These claimants seek substantial compensatory and, where available, punitive damages.

With respect to RISPERDAL®, the Attorneys General of multiple 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, damages for "overpayments" by the state and others, 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 approximately 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 pursue a coordinated civil investigation of OMJPI regarding potential consumer fraud actions in connection with the marketing of RISPERDAL®. 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. One of these has been dismissed on Summary Judgment. 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 filed an appeal. The West Virginia Supreme Court accepted Janssen's appeal from that Judgment and the appeal was argued in September 2010. In October 2010, the West Virginia Supreme Court unanimously reversed the trial court's decision. In December 2010, the Attorney General dismissed the case as it related to RISPERDAL® without any payment. Thereafter, the Company settled the case insofar as it related to DURAGESIC®. In September and October 2010, a false claim suit brought under a Louisiana statute was tried. The jury returned a verdict of $257.7 million in favor of that State's Attorney General and against Janssen and the Company. Post-trial motions challenging the verdict will be filed, and if unsuccessful, will be followed by an appeal. The Company believes that it has strong arguments supporting an appeal. The Company believes that the potential for an unfavorable outcome is not probable, therefore, it has not established a reserve with respect to the verdict. In the Commonwealth of Pennsylvania suit against Janssen, trial commenced in June 2010. The Judge dismissed the case after the close of the plaintiff's evidence. The Commonwealth has filed post-trial motions which are pending. Other cases scheduled for trial are in South Carolina, currently scheduled in March 2011, and Texas scheduled in June 2011.

In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System used in hip replacement surgery. Claims for personal injury have been made against the Company. The Company has received limited information to date with respect to potential claims and other costs associated with this recall. The Company's product liability reserve has been increased in part due to anticipated product liability expense, and costs associated with the DePuy ASR™ Hip recall. However, at this point in time, the Company cannot estimate the range of reasonably possible losses with respect to this matter and changes to the reserve may be required in the future as additional information becomes available.

### PATENT LITIGATION

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.

On January 29, 2010, Cordis Corporation (Cordis) settled a patent infringement action against Boston Scientific Corporation (Boston Scientific) in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte® stents of infringing the Palmaz and Gray patents. Under the terms of the settlement, Boston Scientific dropped its lawsuit in which Cordis' CYPHER® stent was found to have infringed their Jang patent and paid Cordis $1.0 billion on February 1, 2010. Boston Scientific also agreed to pay Cordis an additional $725 million plus interest by January 3, 2011. On August 2, 2010, Boston Scientific paid the full $725 million plus interest. The Company recorded the $1.7 billion in the fiscal first quarter of 2010. Cordis granted Boston Scientific a worldwide license under the Palmaz and Gray patents and Boston Scientific granted Cordis a worldwide license under the Jang patents for all stents sold by Cordis except the 2.25mm size CYPHER®.

Cordis has several pending lawsuits in the New Jersey and Delaware Federal District Courts, against Guidant Corporation (Guidant), Abbott Laboratories, Inc. (Abbott), Boston Scientific and Medtronic Ave, Inc. (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. On January 20, 2010, in one of the cases against Boston Scientific, alleging that sales of their Promus™ stent infringed

Wright and Falotico patents, the District Court in Delaware found the Wright/Falotico patent invalid for lack of written description and/or lack of enablement. Cordis has appealed this ruling.

In January 2011, a jury in the Eastern District of Texas returned a verdict finding that Cordis' sales of its CYPHER® stent willfully infringed a patent issued to plaintiff, Bruce Saffran: Saffran v. Cordis (E.D. Tx.). The jury awarded plaintiff $482 million. Cordis has alleged that plaintiff's patent is invalid or unenforceable under the doctrine of inequitable conduct. A bench trial on this issue is expected to take place in March 2011. If unsuccessful on this defense, the Company will seek to overturn the verdict through post-trial motions, and on appeal if necessary. Since the Company believes that the potential for an unfavorable outcome is not probable, it has not established a reserve with respect to the case.

In October 2004, Tyco Healthcare Group, LP, (Tyco) and U.S. Surgical Corporation sued Ethicon Endo-Surgery, Inc. (EES) alleging that several features of EES's harmonic scalpel infringed four Tyco patents. In October 2007, the court granted in part and denied in part cross-motions for summary judgment. As a result of the opinion, a number of claims have been found invalid and a number have been found infringed. No claim has been found valid and infringed. Trial commenced in December 2007, and the court dismissed the case without prejudice on grounds that Tyco did not own the patents in suit. The dismissal without prejudice was affirmed on appeal. In January 2010, Tyco filed another complaint in the District of Connecticut asserting three of the four patents from the previous suit and adding new products. This case is scheduled to be tried in October 2011.

In May 2008, Centocor, Inc. (now Centocor Ortho Biotech Inc. (COBI)) filed a lawsuit against Genentech, Inc. (Genentech) in U.S. District Court for the Central District of California seeking to invalidate the Cabilly II patent. Prior to filing suit, COBI had a sublicense under this patent from Celltech (who was licensed by Genentech) for REMICADE® and had been paying royalties to Celltech. COBI has terminated that sublicense and stopped paying royalties. Genentech has filed a counterclaim alleging that REMICADE® infringes its Cabilly II patents. Genentech has dropped all its other claims 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 conducted a hearing on Summary Judgment Motions in August 2010. Shortly thereafter the parties settled this case with COBI receiving license under the Cabilly II patent.

In January 2011, Genentech initiated an arbitration against Celltech seeking damages for allegedly cooperating with COBI to improperly terminate a prior agreement in which COBI was sublicensed under the Cabilly patents. COBI has an indemnity agreement with Celltech, and Celltech has asserted that COBI is liable for any damages Celltech may be required to pay Genentech, in that arbitration.

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 VISION Corporation's (CIBA) 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 appealed that judgment to the Court of Appeals for the Federal Circuit. On April 27, 2010, the District Court denied CIBA's motion to permanently enjoin the infringing lenses. CIBA appealed this ruling and its appeal was consolidated with JJVC's appeal on the merits. CIBA brought suit against JJVC under its counterparts to the Nicholson patents in various European countries. In the Netherlands and France the patents were found valid and infringed and JJVC was enjoined from selling OASYS™. Both those decisions were appealed. In France the appeal was denied. In the Netherlands the appeal was pending. CIBA's patents were found to be invalid in Germany, the UK and Austria and CIBA appealed those decisions. In January 2011 the parties settled all pending lawsuits and appeals in the contact lens field worldwide and entered in cross-licenses of various patents pertinent to the contact lens field including the Nicholson patents. The injunctions in France and the Netherlands have been lifted.

In May 2009, Abbott Biotechnology Ltd. (Abbott) 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 was stayed pending the resolution of an arbitration filed by Centocor directed to its claim that it is licensed under the '394 patent. In June 2010, the Arbitrator ruled that Centocor did not have a license to the patents-in-suit. The matter will proceed before the District Court of Massachusetts on the issues of infringement and validity of the Abbott patents.

In August 2009, Abbott GmbH & Co. (Abbott GmbH) and Abbott Bioresearch Center filed a patent infringement lawsuit against Centocor (now 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 The Federal Court of Canada alleging that STELARA® infringes Abbott GmbH's Canadian patent. The Canadian case is scheduled to be tried in October 2012. The cases filed by COBI in the District of Columbia have been transferred to the District of Massachusetts. Discovery in this case is ongoing.

In August 2009, Bayer HealthCare LLC (Bayer) filed suit against COBI in Massachusetts District Court alleging infringement by COBI's SIMPONI® product of its patent relating to human anti-TNF antibodies. On January 28, 2011, the court issued judgment dismissing Bayer's infringement claims. Bayer may appeal this ruling. In November 2009, Bayer also filed suit under its European counterpart to these patents in Germany and the Netherlands. The court in the Netherlands held the Dutch patent invalid in a parallel case Bayer brought against Abbott. The Dutch court subsequently entered judgment in favor of the European Centocor affiliate and Bayer appealed that judgment in the Netherlands. The infringement trial in Germany is scheduled to begin in August of 2011.

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 approximately $1.9 billion, inclusive of interest was entered in favor of Centocor in December 2009, and Abbott filed an appeal to the Court of Appeals for the Federal Circuit; therefore the Company has not reflected any of the $1.9 billion in its consolidated financial statements. The oral argument on appeal was held on November 2, 2010. In December 2009, Centocor 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. On February 23, 2011, the Court of Appeals reversed the June 2009 decision and the $1.9 billion judgement of the District Court.

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 | *Trial concluded | 10/07 |
| Blood Glucose Meters and Strips | LifeScan | Wilsey | Roche Diagnostics | D. DE | * | 11/07 |
| 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 | * | 08/09 |

** Trial date to be scheduled.*

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

**** Summary judgment granted.*

**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, 2010, and will expire in 2011, 2012 and 2013 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® | Ortho-McNeil-Janssen | Andrx | D. DE | Q4/07 | 09/05 | None |
| 18, 27, 36 and 54 mg controlled | ALZA | KUDCO | D. DE | * | 01/10 | 05/12 |
| release tablet | | Impax and Teva | D. DE | * | 11/10 | 04/13 |
| LEVAQUIN® 250, 500, 750 mg tablet | Ortho-McNeil | Lupin | D. NJ | * | 10/06 | 03/09 |
| ORTHO TRI-CYCLEN® LO | Ortho-McNeil | Watson | D. NJ | * | 10/08 | 03/11 |
| 0.18 mg/0.025 mg, 0.215 mg/0.025 mg | | Sandoz | D. NJ | * | | 10/11 |
| and 0.25 mg/0.025 mg | | Lupin | D. NJ | * | 01/10 | 06/12 |
| | | Mylan | D. NJ | * | 11/10 | 04/13 |
| ULTRAM ER® 100, 200, 300 mg tablet | Ortho-McNeil/Biovail | Par | D. DE | Q2/09 | 05/07 | 09/09 |
| | | | | | 06/07 | 11/09 |
| | | | | | 10/07 | 03/10 |
| ULTRAM ER® 100, 200, 300 mg tablet | Ortho-McNeil/Biovail | Impax | D. DE | | 08/08 | 01/11 |
| | | | | | 11/08 | 03/11 |
| ULTRAM ER® 100, 200, 300 mg tablet | Ortho-McNeil/Biovail | Paddock | D. MN | * | 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 |
| PREZISTA® | Tibotec | Mylan | D. NJ | * | 11/10 | 12/13 |
| | Tibotec | Lupin | D. NJ | * | 11/10 | 12/13 |

** Trial date to be scheduled.*

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

In October 2008, the Company's subsidiary Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) filed suit in Federal District Court in New Jersey against Watson Laboratories, Inc. (Watson) in response to Watson's ANDA regarding ORTHO TRI-CYCLEN® LO. In June 2009, 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 September 2010, OMJPI entered into a settlement agreement with Sandoz.

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. The Lupin case has been consolidated with the Watson case (discussed above). In November 2010, the Company's subsidiary OMJPI filed suit in Federal District Court in New Jersey against Mylan Inc. and Mylan Pharmaceuticals, Inc. (collectively Mylan), and Famy Care, Ltd., in response to Famy Care's ANDA regarding ORTHO TRI-CYCLEN® LO.

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. On April 26, 2010, the court of appeals affirmed the judgment of the district court that the patent is invalid because it is not enabled. The court did not reach the issue of infringement.

In January 2010, ALZA and OMJPI filed suit in Federal District Court in Delaware against Kremers-Urban, LLC and KUDCO Ireland, Ltd. (KUDCO) 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. One patent has since been dropped from the case.

In November 2010, ALZA and OMJPI filed suit in Federal District Court in Delaware against Impax Laboratories, Inc., Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries, Ltd. in response to notice from Impax that it made a major amendment to its ANDA with respect to its 56 mg dose generic version of CONCERTA®. In its notice letter describing its major amendment, Impax contends that a CONCERTA® patent is invalid and not infringed by its proposed generic version.

In the action against Lupin Pharmaceuticals, Inc. (Lupin) regarding its ANDA concerning LEVAQUIN®, Lupin contended that the U.S. Patent and Trademark Office improperly granted a patent term extension to the patent that Ortho-McNeil, Inc. (now Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI)) licenses from Daiichi Pharmaceuticals, Inc. (Daiichi). Lupin alleged that the active ingredient in LEVAQUIN® was the subject of prior marketing, and therefore was not eligible for the patent term extension. Lupin conceded 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. In May 2010, the Court of Appeals affirmed the judgment of the trial court in favor of Ortho-McNeil (now OMJPI) and Daiichi that the patent term extension covering LEVAQUIN® (levofloxacin) is valid. Thereafter, Lupin requested rehearing en banc, which was denied.

In the ULTRAM® ER actions, Ortho-McNeil, Inc. (now OMJPI), filed lawsuits (each for different dosages) in the U.S. District Court of Delaware 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. 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 June 2010, the Federal Circuit Court affirmed the District Court's decision in the Par case. The case against Cipher, Impax and Paddock were dismissed based on the collateral estoppel effect of the Par decision.

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

In November 2010, the Company's subsidiary Tibotec, Inc. (Tibotec) filed suit in Federal District Court in New Jersey against Lupin, Ltd., Lupin Pharmaceuticals, Inc. (collectively Lupin), Mylan, Inc. and Mylan Pharmaceuticals, Inc. (collectively Mylan) in response to Lupin's and Mylan's respective ANDA's regarding PREZISTA®.

In January 2011, Tibotec, Inc. (Tibotec) received a Paragraph IV Notification from Teva Pharmaceuticals, Inc. advising that Teva has filed an ANDA seeking approval to market a generic PREZISTA® product before the expiration of certain patents owned or licensed by Tibotec. Tibotec is evaluating this Notification.

**GENERAL LITIGATION**

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 opposed. The district court denied plaintiffs' motion in July 2010, and the Court of Appeals denied plaintiffs' request for leave to appeal the denial of certification of the modified class. The Company will continue to defend against the plaintiffs' individual claims of discrimination.

In September 2009, Centocor Ortho Biotech Products, L.P. (COBLP) 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. (MPI), who in turn sublicensed

the patents (and their foreign counterparts) to COBI 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, there is a potential for the same issue to arise with respect to the foreign counterparts of the patents. If KUCR is successful, this may adversely affect COBI's license rights in those countries. In May 2010, the parties reached an agreement to resolve the disputes in this case and will submit the inventorship issue to arbitration, and the case has been stayed pending the arbitration. If KUCR wins the arbitration, the parties will request that the Court issue an order to correct inventorship on the relevant patents; if the U.S. Government, COBI, and MPI prevail, the case will be dismissed with prejudice.

In February 2009, Basilea Pharmaceutica AG (Basilea) brought an arbitration against Johnson & Johnson, Johnson & Johnson Pharmaceutical Research & Development, L.L.C. and Cilag GmbH International 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. In November 2010, the arbitration panel issued its decision and the Company has satisfied the damages award.

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 (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 were selected and the evidentiary portion of the hearing was concluded in October 2010. Oral argument was held in late 2010. A decision is expected during the first half of 2011.

In December 2009, the State of Israel (Sheba Medical Center) filed suit in the District Court in Tel Aviv Jaffa against various Omrix affiliates. In the lawsuit, the State claims 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.

AVERAGE WHOLESALE PRICE (AWP) LITIGATION

The Company 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. The Johnson & Johnson defendants then filed a motion for summary judgment with regard to Class 1, which the District Court granted in part and denied in part. Subsequently, the Johnson & Johnson defendants filed a motion challenging the adequacy of Plaintiffs' proposed class representative, which is pending.

AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Three state cases against certain of the Company's subsidiaries have been set for trial: Idaho in October 2011, Kentucky in January 2012 and Kansas in March 2013. Other state cases are likely to be set for trial in the coming year. In addition, an AWP case against the Johnson & Johnson defendants brought by the state of Pennsylvania was tried in Commonwealth Court in October and November 2010. The Court found in the State's favor with regard to certain of its claims under the Pennsylvania Unfair Trade Practices and Consumer Protection Law, entered an injunction, and awarded $45 million in restitution and $6.5 million in civil penalties. The Court found in the Johnson & Johnson defendants favor on the State's claims of Unjust Enrichment, Misrepresentation/Fraud, Civil Conspiracy, and on certain of the State's claims under the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The parties are currently engaged in post trial briefing, which will be followed by an appeal to the Pennsylvania Supreme Court if necessary. The Company believes that it has strong arguments supporting an appeal. The Company believes that the potential for an unfavorable outcome is not probable, therefore, it has not established a reserve with respect to the verdict.

In April 2010, a lawsuit was filed in the United States District Court for the Northern District of California against the Company, Omnicare, Inc., and other unidentified companies or individuals. The Company filed a motion to dismiss. Plaintiffs then filed an amended complaint. The amended complaint asserts that defendants engaged in an unlawful trying arrangement in violation of the Sherman Act and the California Business and Professions Code. The amended complaint also asserted claims of unjust enrichment and civil conspiracy. The Company moved to dismiss the amended complaint. On January 13, 2011, the court granted the Company's motion to dismiss as to all causes of action in the amended complaint, and granted plaintiffs' leave to file an amended complaint.

Johnson & Johnson has been named the nominal defendant in six shareholder derivative lawsuits in the U.S. District Court for the District of New Jersey on behalf of Company shareholders against certain current and former directors and officers of the Company

derivatively on behalf of the Company: Calamore v. Coleman et. al., filed April 21, 2010; Carpenters Pension Fund of West Virginia v. Weldon, et. al., filed May 5, 2010; Feldman v. Coleman, et. al., filed May 6, 2010; Hawaii Laborers Pension Fund v. Weldon, et. al., filed May 14, 2010; Ryan v. Weldon, et. al., filed June 18, 2010; and Minneapolis Firefighters' Relief Association, NECA-IBEW Pension Trust Fund, and NECA-IBEW Welfare Trust Fund v. Weldon, et. al., filed June 24, 2010. These actions were consolidated on August 17, 2010 into one lawsuit: In re Johnson & Johnson Shareholder Derivative Litigation. An amended consolidated complaint was filed on December 17, 2010. An additional derivative suit was filed in the U.S. District Court for the District of New Jersey on December 1, 2010: Copeland v. Mulcahy, et al. That lawsuit has been consolidated into the In re Johnson & Johnson Shareholder Derivative Litigation. Additionally, Johnson & Johnson has been named the nominal defendant in a shareholder derivative lawsuit in New Jersey Superior Court on behalf of Company shareholders against certain current and former directors and officers of the Company derivatively on behalf of the Company: Wolin v. Johnson & Johnson, filed September 23, 2010. The parties to the Wolin action have stipulated that the Wolin action shall be stayed until the In re Johnson & Johnson Shareholder Derivative Litigation is completely resolved. Each of these shareholder derivative actions is similar in its claims and collectively they assert a variety of alleged breaches of fiduciary duties, including, among other things, that the defendants allegedly engaged in, approved of, or failed to remedy or prevent defective medical devices, improper pharmaceutical rebates, improper off-label marketing of pharmaceutical and medical device products, violations of current good manufacturing practice regulations that resulted in product recalls, and failed to disclose the aforementioned alleged misconduct in the Company's filings under the Securities Exchange Act of 1934. Each complaint seeks a variety of relief, including monetary damages and corporate governance reforms.

On July 27, 2010, a complaint was filed by a shareholder of the Company in New Jersey Superior Court, Chancery Division, Middlesex County (Lipschutz v. Johnson & Johnson) seeking to compel inspection of Company books and records with respect to certain product recalls and various manufacturing plants. This lawsuit was dismissed on October 7, 2010.

**OTHER**

In July 2003, Centocor (now COBI) 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 Pharmaceutical, Inc. (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). In the fiscal second quarter of 2010, OMJPI entered into a settlement agreement resolving the federal government's investigation. As one part of the settlement, Ortho-McNeil Pharmaceutical, LLC, a subsidiary of OMJPI, has pled guilty to a single misdemeanor violation of the Food, Drug and Cosmetic Act and paid a criminal fine. OMJPI denies it engaged in any wrongful conduct, beyond acknowledging the limited conduct of Ortho-McNeil Pharmaceutical, LLC, that is the basis of the misdemeanor plea. In addition the settlement included a civil payment, part of which was paid to the federal government and part of which was paid or set aside for payment to states for their Medicaid programs.

In January 2004, Janssen Pharmaceutica Inc. (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®. The focus of these matters is the alleged promotion of RISPERDAL® and INVEGA® for off-label uses. The government has notified the Company that there are pending qui tam actions alleging off-label promotion of RISPERDAL®. Discussions are ongoing in an effort to resolve potential criminal and civil claims arising from these matters. Whether a resolution can be reached and on what terms is uncertain. While a loss is probable with respect to this matter, the Company is unable to estimate a potential loss at this time. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period could have a material impact on the Company's results of operations and cash flows for that period.

In September 2004, Ortho Biotech Inc. (now COBI) received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to the sales and marketing of PROCRIT® (Epoetin alfa) from 1997 to the present, as well as to dealings with U.S. Oncology Inc., a healthcare services network for oncologists. COBI has responded to the subpoena.

In November 2007, the Attorney General of the Commonwealth of Massachusetts issued a Civil Investigative Demand to DePuy Orthopaedics, Inc. (DePuy) seeking information regarding financial relationships between a number of Massachusetts-based orthopedic surgeons and providers, and DePuy Orthopaedics, Inc. DePuy has responded to Massachusetts' additional requests.

In July 2005, Scios Inc. (Scios) 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 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., (Omnicare) a manager of pharmaceutical benefits for long-term care facilities. The Company's subsidiaries involved responded to the subpoena. Several employees of the Company's pharmaceutical subsidiaries were 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. 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. The complaints allege that Johnson & Johnson provided Omnicare with rebates and other alleged kickbacks, and in so doing, caused Omnicare to file false claims with Medicaid and other government programs. Subsequently, the Commonwealth of Massachusetts, Virginia, and Kentucky, and the States of California and Indiana intervened in the action. The Company's motion to dismiss the government's and relators' complaints, the government's and relators' oppositions, and the Company's reply brief have been filed. A hearing on the Company's motion to dismiss was held on October 7, 2010. The court has not ruled on the motion.

In November 2005, a lawsuit was filed under seal against the Company, along with codefendants McKesson Corporation and Omnicare, Inc., by a former employee in the United States District Court for the Eastern District of Pennsylvania, United States ex rel. Scott Bartz v. Ortho McNeil Pharmaceutical, Inc., et al. After investigation, the United States declined to intervene. The case was subsequently unsealed, and the Company was served with the operative complaint on January 3, 2011. The complaint alleges that Defendants engaged in various improper transactions that were allegedly designed to report false prescription drug prices to the federal government in order to reduce the Company's Medicaid rebate obligations. The complaint further alleges that the Company improperly retaliated against the Plaintiff for having raised these allegations internally. The complaint alleges a variety of causes of action under the federal False Claims Act and corresponding state and local statutes. The Company has not yet responded to the complaint, but anticipates filing a motion to dismiss.

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 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 May 2007, the New York State Attorney General issued a subpoena seeking information relating to the marketing and safety of PROCRIT®. The Company has responded 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 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.

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. A False Claims Act complaint was filed in Dallas relating to similar issues. The U.S. Department of Justice and several states have declined to intervene at this time. A motion to dismiss the Texas qui tam case is pending.

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 has responded 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 complied with the subpoena. In November 2010, the Antitrust Division provided notice that it has closed its investigation. 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. DePuy Orthopaedics has responded to these requests.

In May 2010, the Company received a letter from the United States House of Representatives' Committee on Oversight and Government Reform (Committee) requesting information and documents regarding the April 2010 recall of various infants' and children's liquid products by McNeil Consumer Healthcare Division of McNEIL-PPC, Inc. (McNeil Consumer Healthcare). The Company produced documents and other information in response to these requests. In May 2010, the Committee conducted a public hearing. Thereafter, the Company received additional information requests from the Committee, including requests regarding the recall of certain Motrin products by McNeil Consumer Healthcare. The Company produced documents and other information in response to these requests. The Committee held another public hearing on September 30, 2010, and the Company continues to cooperate fully with the Committee's ongoing information requests.

In addition, McNeil Consumer Healthcare, and certain affiliates including Johnson & Johnson ("the Companies"), received grand jury subpoenas from the United States Attorney's Office for the Eastern District of Pennsylvania requesting documents broadly relating to recent recalls of various products of McNeil Consumer Healthcare, and the FDA inspections of the Fort Washington, Pennsylvania and Lancaster, Pennsylvania manufacturing facilities. In addition, the government has served McNEIL-PPC Inc. with a Civil Investigative Demand seeking records relevant to its investigation to determine if there was a violation of the False Claims Act. The Companies are cooperating with the United States Attorney's Office in responding to these subpoenas.

The Companies have also received Civil Investigative Demands (CIDs) from multiple State Attorneys General Offices broadly relating to the McNeil recall issues. The Companies continue to produce documents in response to these CIDs and otherwise cooperate with these inquiries. On January 12, 2011, the Oregon Attorney General filed a civil complaint against Johnson & Johnson, McNEIL-PPC, Inc, and McNeil Healthcare LLC in state court alleging civil violations of the Oregon unlawful trade practices act relating to an earlier recall of a McNeil OTC product. The defendants intend to seek dismissal of this civil complaint.

Furthermore, a lawsuit was filed in September 2010 by a shareholder in the United States District Court for the District of New Jersey: Monk v. Johnson & Johnson. The complaint seeks class certification based upon the anti-fraud provisions of the federal securities laws related to the McNeil manufacturing facilities. More specifically, this complaint alleges that the Companies and certain individuals, including officers and employees, failed to disclose that a number of manufacturing facilities were failing to maintain current good manufacturing practices (cGMPs) and, that as a result, the price of the Company's stock has declined significantly.

Multiple complaints seeking class action certification related to the McNeil recalls have been filed in the United States District Court for the Eastern District of Pennsylvania, the Northern District of Illinois, the Central District of California, and the Southern District of Ohio. These consumer complaints allege generally that purchasers of various McNeil medicines are owed monetary damages and penalties because they paid premium prices for defective medications rather than less expensive alternative medications. Each complaint seeks certification of a nation-wide class of purchasers of these medicines. On October 8, 2010, the Judicial Panel on Multidistrict Litigation consolidated these consumer complaints: Haviland v. McNeil (E.D. Pa.); Smith v. McNeil (N.D. Ill.); Burrell v. McNeil (N.D. Ill.); DeGroot v. McNeil (N.D. Ill.); Michaud v. McNeil, (N.D. Ill.); Nguyen v. McNeil (N.D. Ill.); Roberson v. McNeil (N.D. Ill.); Rivera v. Johnson & Johnson (C.D. Cal.), and Coleman v. McNeil (S.D. Ohio) for pretrial proceedings in the United States District Court for the Eastern District of Pennsylvania. Plaintiffs filed a "Consolidated Amended Civil Consumer Class Action Complaint" (CAC) naming additional parties and claims on January 12, 2011. Defendants currently intend to file a motion to dismiss the CAC, which motion will be filed on March 2, 2011, and is scheduled to be heard on May 10, 2011.

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 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 reasonably estimated. However, in the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a material 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 5,000 have been eliminated since the restructuring was announced.

The following table summarizes the severance charges and the associated spending for the fiscal year ended 2010:

| (Dollars in Millions) | Severance |
|---|---|
| 2009 restructuring charge | $ 748 |
| Cash outlays | (62) |
| Reserve balance, January 3, 2010 | 686 |
| Cash outlays | (341) |
| Reserve balance, January 2, 2011* | $ 345 |

** Cash outlays for severance are expected to be substantially paid out over the next 12 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.