

JOHNSON & JOHNSON  
Form 10-Q  
August 01, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended June 30, 2013  
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3215

(Exact name of registrant as specified in its charter)

NEW JERSEY

22-1024240

(State or other jurisdiction of  
incorporation or organization)

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

One Johnson & Johnson Plaza  
New Brunswick, New Jersey 08933

(Address of principal executive offices)

Registrant's telephone number, including area code (732) 524-0400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On July 26, 2013 2,818,073,863 shares of Common Stock, \$1.00 par value, were outstanding.

JOHNSON & JOHNSON AND SUBSIDIARIES  
TABLE OF CONTENTS

	Page No.
<u>Part I — Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements (unaudited)</u>	<u>3</u>
<u>Consolidated Balance Sheets — June 30, 2013 and December 30, 2012</u>	<u>3</u>
<u>Consolidated Statements of Earnings for the Fiscal Second Quarters Ended June 30, 2013 and July 1, 2012</u>	<u>4</u>
<u>Consolidated Statements of Earnings for the Fiscal Six Months Ended June 30, 2013 and July 1, 2012</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income for the Fiscal Second Quarters and Fiscal Six Months Ended June 30, 2013 and July 1, 2012</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Fiscal Six Months Ended June 30, 2013 and July 1, 2012</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 4. Controls and Procedures</u>	<u>47</u>
<u>Part II — Other Information</u>	<u>48</u>
<u>Item 1 - Legal Proceedings</u>	<u>48</u>
<u>Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 6 - Exhibits</u>	<u>48</u>
<u>Signatures</u>	<u>49</u>
EX-31.1	
EX-32.1	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

Table of Contents

## Part I — FINANCIAL INFORMATION

## Item 1 — FINANCIAL STATEMENTS

## JOHNSON &amp; JOHNSON AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited; Dollars in Millions Except Share and Per Share Data)

	June 30, 2013	December 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$17,307	\$14,911
Marketable securities	7,822	6,178
Accounts receivable, trade, less allowances for doubtful accounts \$421(2012, \$466)	11,614	11,309
Inventories (Note 2)	7,822	7,495
Deferred taxes on income	3,283	3,139
Prepaid expenses and other receivables	3,425	3,084
Total current assets	51,273	46,116
Property, plant and equipment at cost	35,401	34,654
Less: accumulated depreciation	(19,607	) (18,557
Property, plant and equipment, net	15,794	16,097
Intangible assets, net (Note 3)	27,704	28,752
Goodwill (Note 3)	22,337	22,424
Deferred taxes on income	4,740	4,541
Other assets	2,477	3,417
Total assets	\$124,325	\$121,347
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Loans and notes payable	\$5,339	\$4,676
Accounts payable	5,687	5,831
Accrued liabilities	6,646	7,299
Accrued rebates, returns and promotions	3,138	2,969
Accrued compensation and employee related obligations	2,001	2,423
Accrued taxes on income	956	1,064
Total current liabilities	23,767	24,262
Long-term debt (Note 4)	9,643	11,489
Deferred taxes on income	3,685	3,136
Employee related obligations	8,996	9,082
Other liabilities	8,569	8,552
Total liabilities	54,660	56,521
Shareholders' equity:		
Common stock — par value \$1.00 per share (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	\$3,120	\$3,120
Accumulated other comprehensive income (loss) (Note 7)	(6,810	) (5,810
Retained earnings	89,449	85,992
Less: common stock held in treasury, at cost (305,655,000 and 341,354,000 shares)	16,094	18,476
Total shareholders' equity	69,665	64,826
Total liabilities and shareholders' equity	\$124,325	\$121,347

See Notes to Consolidated Financial Statements

3

---

Table of ContentsJOHNSON & JOHNSON AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited; Dollars &amp; Shares in Millions Except Per Share Amounts)

	Fiscal Second Quarters Ended				Percent to Sales	Percent to Sales
	June 30, 2013	Percent to Sales	July 1, 2012	Percent to Sales		
Sales to customers (Note 9)	\$17,877	100.0	% \$16,475	100.0	%	
Cost of products sold	5,489	30.7	5,143	31.2		
Gross profit	12,388	69.3	11,332	68.8		
Selling, marketing and administrative expenses	5,376	30.1	4,965	30.1		
Research and development expense	1,946	10.9	1,766	10.7		
In-process research and development	—	—	429	2.6		
Interest income	(17	) (0.1	) (14	) (0.1	)	
Interest expense, net of portion capitalized	118	0.7	143	0.9		
Other (income) expense, net	172	0.9	2,008	12.2		
Earnings before provision for taxes on income	4,793	26.8	2,035	12.4		
Provision for taxes on income (Note 5)	960	5.4	627	3.9		
NET EARNINGS	\$3,833	21.4	% \$1,408	8.5	%	
NET EARNINGS PER SHARE (Note 8)						
Basic	\$1.36		\$0.51			
Diluted	\$1.33		\$0.50			
CASH DIVIDENDS PER SHARE	\$0.66		\$0.61			
AVG. SHARES OUTSTANDING						
Basic	2,809.7		2,747.4			
Diluted	2,893.0		2,798.2			
See Notes to Consolidated Financial Statements						

Table of ContentsJOHNSON & JOHNSON AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited; Dollars &amp; Shares in Millions Except Per Share Amounts)

	Fiscal Six Months Ended				
	June 30, 2013	Percent to Sales	July 1, 2012	Percent to Sales	
Sales to customers (Note 9)	\$ 35,382	100.0	% \$ 32,614	100.0	%
Cost of products sold	11,043	31.2	10,058	30.8	
Gross profit	24,339	68.8	22,556	69.2	
Selling, marketing and administrative expenses	10,599	30.0	9,980	30.6	
Research and development expense	3,730	10.5	3,411	10.5	
In-process research and development	64	0.2	429	1.3	
Interest income	(38	) (0.1	) (31	) (0.1	)
Interest expense, net of portion capitalized	243	0.7	290	0.9	
Other (income) expense, net	687	1.9	1,397	4.3	
Earnings before provision for taxes on income	9,054	25.6	7,080	21.7	
Provision for taxes on income (Note 5)	1,724	4.9	1,762	5.4	
NET EARNINGS	\$ 7,330	20.7	% \$ 5,318	16.3	%
NET EARNINGS PER SHARE (Note 8)					
Basic	\$ 2.62		\$ 1.94		
Diluted	\$ 2.55		\$ 1.91		
CASH DIVIDENDS PER SHARE	\$ 1.27		\$ 1.18		
AVG. SHARES OUTSTANDING					
Basic	2,799.5		2,741.7		
Diluted	2,878.8		2,792.4		

See Notes to Consolidated Financial Statements

Table of Contents

JOHNSON & JOHNSON AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited; Dollars in Millions)

	Fiscal Second Quarters Ended		Fiscal Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net Earnings	\$3,833	1,408	7,330	5,318
Other Comprehensive Income (Loss), net of tax				
Foreign currency translation	(116	) (1,619	) (1,326	) (796
Securities:				
Unrealized holding gain (loss) arising during period	2	(38	) 179	69
Reclassifications to earnings	(289	) —	(289	) (1
Net change	(287	) (38	) (110	) 68
Employee benefit plans:				
Prior service cost amortization during period	—	—	2	1
Gain (loss) amortization during period	131	95	260	188
Net change	131	95	262	189
Derivatives & hedges:				
Unrealized gain (loss) arising during period	178	(111	) 183	(85
Reclassifications to earnings	(27	) 9	(9	) 52
Net change	151	(102	) 174	(33
Other Comprehensive Income (Loss)	(121	) (1,664	) (1,000	) (572
Comprehensive Income (Loss)	\$3,712	(256	) 6,330	4,746

See Notes to Consolidated Financial Statements

The tax effects in other comprehensive income for the fiscal second quarters were as follows for 2013 and 2012, respectively: Securities: \$155 million and \$20 million; Employee Benefit Plans: \$67 million and \$49 million; Derivatives & Hedges: \$81 million and \$55 million.

The tax effects in other comprehensive income for the fiscal six months were as follows for 2013 and 2012, respectively: Securities: \$60 million and \$37 million; Employee Benefit Plans: \$136 million and \$98 million; Derivatives & Hedges: \$93 million and \$18 million.

Foreign currency translation is not adjusted for income taxes as it relates to permanent investments in international subsidiaries.

Table of Contents

JOHNSON & JOHNSON AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited; Dollars in Millions)

	Fiscal Six Months Ended	
	June 30, 2013	July 1, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$7,330	\$5,318
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property and intangibles	2,026	1,625
Stock based compensation	423	369
Venezuela currency devaluation	108	—
Asset write-downs	69	1,368
Net gain on equity investment transactions	(401)	) —
Deferred tax provision	92	(511)
Accounts receivable allowances	(29)	) 83
Changes in assets and liabilities, net of effects from acquisitions:		
(Increase)/decrease in accounts receivable	(647)	) 155
Increase in inventories	(547)	) (618)
(Decrease)/increase in accounts payable and accrued liabilities	(715)	) 899
Increase in other current and non-current assets	(437)	) (512)
Increase/(Decrease) in other current and non-current liabilities	56	(1,136)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>7,328</b>	<b>7,040</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(1,357)	) (1,100)
Proceeds from the disposal of assets	147	690
Acquisitions, net of cash acquired	(174)	) (4,324)
Purchases of investments	(8,569)	) (5,211)
Sales of investments	7,997	9,883
Other	(16)	) (8)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(1,972)</b>	<b>) (70)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends to shareholders	(3,562)	) (3,241)
Repurchase of common stock	—	(12,919)
Proceeds from short-term debt	1,682	2,518
Retirement of short-term debt	(1,274)	) (4,780)
Proceeds from long-term debt	6	6
Retirement of long-term debt	(1,504)	) (10)
Proceeds from the exercise of stock options/excess tax benefits	1,842	1,148
Other	56	(160)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(2,754)</b>	<b>) (17,438)</b>
Effect of exchange rate changes on cash and cash equivalents	(206)	) (32)
Increase/(decrease) in cash and cash equivalents	2,396	(10,500)



Edgar Filing: JOHNSON & JOHNSON - Form 10-Q

Cash and Cash equivalents, beginning of period	14,911	24,542
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$17,307	\$14,042

7

---

Table of Contents

JOHNSON & JOHNSON AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited; Dollars in Millions)

	Fiscal Six Months Ended	
	June 30, 2013	July 1, 2012
Supplemental schedule of non-cash investing and financing activities		
Issuance of common stock associated with the acquisition of Synthes, Inc.	\$—	13,335
Acquisitions		
Fair value of assets acquired	\$192	\$18,868
Fair value of liabilities assumed and noncontrolling interests	(18	) (1,209
Net fair value of acquisitions	174	17,659
Less: Issuance of common stock associated with the acquisition of Synthes, Inc.	—	13,335
Net cash paid for acquisitions	\$174	\$4,324
See Notes to Consolidated Financial Statements		

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Johnson & Johnson and its subsidiaries (the Company) and related notes as contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented.

During the fiscal first quarter of 2013, the Company adopted the Financial Accounting Standards Board (FASB) guidance and amendments related to testing indefinite-lived intangible assets for impairment. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to determine the fair value. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. This update became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. 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.

During the fiscal first quarter of 2013, the Company adopted the FASB guidance related to additional reporting and disclosure of amounts reclassified out of accumulated other comprehensive income (AOCI). Under this new guidance, companies are required to disclose the effect of significant reclassifications out of AOCI on the respective line items on the income statement if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional details about those amounts. This update became effective for annual and interim reporting periods for fiscal years beginning after December 15, 2012. The Company has disclosed the reclassification details in Note 7 to the Consolidated Financial Statements.

During the fiscal first quarter of 2013, the FASB issued amended guidance clarifying the release of accumulated Foreign Currency Translation from OCI into current year Net Earnings. The amendment requires that when the parent company ceases to have a controlling interest in a subsidiary or a business within a foreign entity the parent is to release accumulated Foreign Currency Translation from OCI. This update is required to be adopted for all annual periods and interim reporting periods beginning after December 15, 2013, with early adoption permitted. 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.

In July 2013, the FASB adopted clarifying guidance on the presentation of unrecognized tax benefits when various qualifying tax credits exist. The amendment requires that unrecognized tax benefits be presented on the Consolidated Balance Sheet as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. To the extent that the unrecognized tax benefit exceeds these credits, it shall be presented as a liability. This update is required to be adopted for all annual periods and interim reporting periods beginning after December 15, 2013, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the presentation of the Company's financial position.

Revision to previously issued Cash Flow Statement related to the Synthes acquisition

As previously disclosed in the third quarter of 2012, a misclassification was identified with respect to the manner in which the Company presented the shares of common stock issued in connection with the acquisition of Synthes, Inc. in the Consolidated Statement of Cash Flows for the six months ended July 1, 2012. The Company determined that the issuance of these shares, including appreciation between June 13, 2012 and June 14, 2012, should have been reported as supplemental non-cash information. The effect of the misclassification in the Statement of Cash Flows for the six months ended July 1, 2012 resulted in net cash used by investing activities to be overstated by \$13.3 billion, net cash used by financing activities to be understated by \$12.8 billion and net cash flows from operating activities to be overstated by \$0.5 billion. The Company assessed this misclassification and concluded that it was not material to the Company's previously issued financial statements. The revised Consolidated Statement of Cash Flows for the six month period ended July 1, 2012 is included in this Form 10-Q. The Company's Consolidated Statements of Earnings for the fiscal second quarter and fiscal six months ended July 1, 2012 and the Consolidated Balance Sheet as of July 1, 2012 remain unchanged.

Table of Contents

## NOTE 2 — INVENTORIES

(Dollars in Millions)	June 30, 2013	December 30, 2012
Raw materials and supplies	\$1,332	1,416
Goods in process	2,604	2,262
Finished goods	3,886	3,817
Total inventories	\$7,822	7,495

## NOTE 3 — INTANGIBLE ASSETS AND GOODWILL

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2012. Future impairment tests for goodwill and indefinite lived intangible assets will be performed annually in the fiscal fourth quarter, or sooner if warranted, as was the case for the Acclarent IPR&D in the fiscal first quarter of 2013.

(Dollars in Millions)	June 30, 2013	December 30, 2012
Intangible assets with definite lives:		
Patents and trademarks — gross	\$8,878	8,890
Less accumulated amortization	3,647	3,416
Patents and trademarks — net	5,231	5,474
Customer relationships and other intangibles — gross	18,539	18,755
Less accumulated amortization	4,410	4,030
Customer relationships and other intangibles — net	14,129	14,725
Intangible assets with indefinite lives:		
Trademarks	7,501	7,648
Purchased in-process research and development	843	905
Total intangible assets with indefinite lives	8,344	8,553
Total intangible assets — net	\$27,704	28,752

Goodwill as of June 30, 2013 was allocated by segment of business as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev & Diag	Total
Goodwill, net at December 30, 2012	\$8,519	1,792	12,113	22,424
Acquisitions	80	—	9	89
Currency translation/Other	(188)	(14)	26	(176)
Goodwill, net as of June 30, 2013	\$8,411	1,778	12,148	22,337

The weighted average amortization periods for patents and trademarks and customer relationships and other intangible assets are 17 years and 24 years, respectively. The amortization expense of amortizable intangible assets was \$653 million and \$488 million for the fiscal six months ended June 30, 2013 and July 1, 2012, respectively. The estimated amortization expense for the five succeeding years approximates \$1,300 million, before tax, per year. Amortization expense is included in cost of products sold.

## NOTE 4 — 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 materials denominated in foreign

10

---

Table of Contents

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 that 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 June 30, 2013, the Company had notional amounts outstanding for forward foreign exchange contracts and cross currency interest rate swaps of \$25.0 billion and \$2.4 billion, respectively.

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 designation as a cash flow hedge is made at the entrance date of 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) expense, net.

As of June 30, 2013, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was \$182 million after-tax. For additional information, see the Consolidated Statements of Comprehensive Income and Note 7. The Company expects that substantially all of the amounts 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 derivatives designated as hedges for the fiscal second quarters in 2013 and 2012:

Cash Flow Hedges by Income Statement Caption (Dollars in Millions)	Gain/(Loss) Recognized in Accumulated OCI <sup>(1)</sup>		Gain/(Loss) Reclassified from Accumulated OCI into Income <sup>(1)</sup>		Gain/(Loss) Recognized in Other Income/Expense <sup>(2)</sup>		
	Fiscal Second Quarters Ended						
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	
Sales to customers <sup>(3)</sup>	\$34	(42)	) 10	(10)	) —	(1)	)
Cost of products sold <sup>(3)</sup>	173	(97)	) 38	(13)	) 6	1	)

Edgar Filing: JOHNSON & JOHNSON - Form 10-Q

Research and development expense <sup>(3)</sup>	(17	)	30	(14	)	11	—	—		
Interest (income)/Interest expense, net <sup>(4)</sup>	18		(41	)	(2	)	(6	)	—	—
Other (income)expense, net <sup>(3)</sup>	(30	)	39	(5	)	9	(1	)	(1	)
Total	\$178		(111	)	27	(9	)	5	(1	)

The following table is a summary of the activity related to derivatives designated as hedges for the fiscal six months in 2013 and 2012:



Table of Contents

Caption	Gain/(Loss) Recognized in Accumulated OCI <sup>(1)</sup>		Gain/(Loss) Reclassified from Accumulated OCI into Income <sup>(1)</sup>		Gain/(Loss) Recognized in Other Income/Expense <sup>(2)</sup>	
	Fiscal Six Months Ended					
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Cash Flow Hedges by Income Statement						
Caption						
(Dollars in Millions)						
Sales to customers <sup>(3)</sup>	\$ (3 )	(14 )	7	(30 )	—	—
Cost of products sold <sup>(3)</sup>	178	(39 )	21	(34 )	4	—
Research and development expense <sup>(3)</sup>	(7 )	11	(17 )	13	(3 )	—
Interest (income)/Interest expense, net <sup>(4)</sup>	8	(42 )	(4 )	(9 )	—	—
Other (income)expense, net <sup>(3)</sup>	7	(1 )	2	8	(1 )	(1 )
Total	\$ 183	(85 )	9	(52 )	—	(1 )

All amounts shown in the tables above are net of tax.

(1) Effective portion

(2) Ineffective portion

(3) Foreign exchange contracts

(4) Cross currency interest rate swaps

For the fiscal second quarters ended June 30, 2013 and July 1, 2012, a gain of \$94 million and a loss of \$17 million, respectively, were recognized in Other (income)expense, net, relating to foreign exchange contracts not designated as hedging instruments.

For the first fiscal six months ended June 30, 2013 and July 1, 2012, a gain of \$50 million and a loss of \$26 million, respectively, were 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 is 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., foreign exchange contract or cross currency interest rate swap) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position. The Company also holds equity investments which are classified as Level 1 because they are traded in an active exchange market. The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The 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 June 30, 2013 and December 30, 2012 were as follows:

12

---

Table of Contents

(Dollars in Millions)	June 30, 2013				December 30,
	Level 1	Level 2	Level 3	Total	2012 Total <sup>(2)</sup>
Derivatives designated as hedging instruments:					
Assets:					
Foreign exchange contracts	\$—	693	—	693	423
Cross currency interest rate swaps <sup>(3)</sup>	—	59	—	59	98
Total	—	752	—	752	521
Liabilities:					
Foreign exchange contracts	—	163	—	163	252
Cross currency interest rate swaps <sup>(4)</sup>	—	28	—	28	10
Total	—	191	—	191	262
Derivatives not designated as hedging instruments:					
Assets:					
Foreign exchange contracts	—	27	—	27	75
Liabilities:					
Foreign exchange contracts	—	66	—	66	23
Other Investments <sup>(1)</sup>	\$295	—	—	295	1,247

(1) Classified as non-current other assets. The change in the fair value from December 30, 2012 was primarily due to the sale of Elan American Depositary Shares.

(2) As of December 30, 2012, these assets and liabilities are classified as Level 2 with the exception of Other Investments of \$1,247 million which are classified as Level 1.

(3) Includes \$57 million and \$96 million of non-current assets for June 30, 2013 and December 30, 2012, respectively.

(4) Includes \$25 million and \$4 million of non-current liabilities for June 30, 2013 and December 30, 2012, respectively.

Table of Contents

## Financial Instruments not measured at Fair Value:

The following financial assets and liabilities are held at carrying amount on the consolidated balance sheet as of June 30, 2013:

(Dollars in Millions)	Carrying Amount	Estimated Fair Value
Financial Assets		
Current Investments		
Cash	\$2,947	2,947
Government securities and obligations	19,695	19,695
Corporate debt securities	687	687
Money market funds	1,260	1,260
Time deposits	540	540
Total cash, cash equivalents and current marketable securities	\$25,129	25,129

Fair value of government securities and obligations and corporate debt securities was estimated using quoted broker prices and significant other observable inputs.

## Financial Liabilities

Current Debt	\$5,339	5,339
Non-Current Debt		
2.15% Notes due 2016	898	933
5.55% Debentures due 2017	1,000	1,162
5.15% Debentures due 2018	898	1,038
4.75% Notes due 2019 (1B Euro 1.3033)	1,298	1,556
3% Zero Coupon Convertible Subordinated Debentures due in 2020	204	298
2.95% Debentures due 2020	542	560
3.55% Notes due 2021	446	472
6.73% Debentures due 2023	250	327
5.50% Notes due 2024 (500 GBP 1.5248)	757	913
6.95% Notes due 2029	296	399
4.95% Debentures due 2033	500	556
5.95% Notes due 2037	995	1,240
5.85% Debentures due 2038	700	859
4.50% Debentures due 2040	539	562
4.85% Notes due 2041	298	322
Other	22	22
Total Non-Current Debt	\$9,643	11,219

The weighted average effective interest rate on non-current debt is 5.10%.

Fair value of the non-current debt was estimated using market prices, which were corroborated by quoted broker prices and significant other observable inputs.

Table of Contents

## NOTE 5 — INCOME TAXES

The worldwide effective income tax rates for the fiscal six months of 2013 and 2012 were 19.0% and 24.9%, respectively. The lower effective tax rate in 2013 as compared to 2012 was primarily due to the inclusion of the benefit from the U.S. Research & Development (R&D) tax credit and the Controlled Foreign Corporation (CFC) look-through provisions from the 2012 fiscal year and increases in taxable income in lower tax jurisdictions relative to higher tax jurisdictions. The higher effective tax rate in 2012 was also due to lower tax rates associated with the deductions for Synthes integration and transaction costs and litigation accruals, which added approximately 3.0 points to the tax rate. The R&D tax credit and the CFC look-through provisions were enacted into law in January 2013 and were retroactive to January 1, 2012. The entire 2012 R&D tax credit and the CFC look-through provisions were reflected in the fiscal six months of 2013 and decreased the tax rate by 1.2 points. Additionally, the quarterly impact of the 2013 R&D tax credit and the CFC look-through provisions is reflected in the 2013 fiscal six months financial results.

As of June 30, 2013, the Company had approximately \$2.9 billion of liabilities from unrecognized tax benefits. The Company believes it is possible that audits may be completed by tax authorities in some jurisdictions over the next twelve months, including the U.S. Internal Revenue Service audit related to tax years 2006-2009. However, 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.

## NOTE 6 — PENSIONS AND OTHER POSTRETIREMENT BENEFITS

## Components of Net Periodic Benefit Cost

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the fiscal second quarters of 2013 and 2012 include the following components:

(Dollars in Millions)	Retirement Plans		Other Benefit Plans	
	Fiscal Second Quarters Ended			
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Service cost	\$205	168	50	45
Interest cost	227	219	38	41
Expected return on plan assets	(361	) (308	) (2	) (1
Amortization of prior service credit	(1	) —	—	(1
Recognized actuarial losses	172	124	27	20
Net periodic benefit cost	\$242	203	113	104

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the first fiscal six months of 2013 and 2012 include the following components:

(Dollars in Millions)	Retirement Plans		Other Benefit Plans	
	Fiscal Six Months Ended			
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Service cost	\$411	329	98	89
Interest cost	455	441	75	82
Expected return on plan assets	(724	) (620	) (3	) (2
Amortization of prior service cost/(credit)	3	2	(1	) (2
Recognized actuarial losses	340	248	55	38
Curtailements and settlements	—	(1	) —	—

Net periodic benefit cost	\$485	399	224	205
---------------------------	-------	-----	-----	-----

Company Contributions

15

---

Table of Contents

For the first fiscal six months ended June 30, 2013, the Company contributed \$25 million and \$18 million to its U.S. and international retirement 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.

**NOTE 7 — ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

(Dollars in Millions)	Foreign Currency Translation	Gain/(Loss) on Securities (1)	Employee Benefit Plans (2)	Gain/(Loss) on Derivatives & Hedges (3)	Total Accumulated Other Comprehensive Income (Loss)
December 30, 2012	\$ (296 )	195	(5,717 )	8	(5,810 )
Net change	(1,326 )	(110 )	262	174	(1,000 )
June 30, 2013	\$ (1,622 )	85	(5,455 )	182	(6,810 )

Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation is not adjusted for income taxes as it relates to permanent investments in international subsidiaries. For additional details on comprehensive income see the Consolidated Statements of Comprehensive Income.

Details on reclassifications out of Accumulated Other Comprehensive Income:

- (1) Gain/(Loss) on Securities - reclassifications released to other (income) expense, net.
- (2) Employee Benefit Plans - reclassifications are included in net periodic benefit cost. See Note 6 for additional details.
- (3) Gain/(Loss) on Derivatives & Hedges - reclassifications to earnings are recorded in the same account as the hedged transaction. See Note 4 for additional details.

**NOTE 8 — EARNINGS PER SHARE**

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal second quarters ended June 30, 2013 and July 1, 2012:

(Shares in Millions)	Fiscal Second Quarters Ended	
	June 30, 2013	July 1, 2012
Basic net earnings per share	\$1.36	\$0.51
Average shares outstanding — basic	2,809.7	2,747.4
Potential shares exercisable under stock option plans	162.5	138.1
Less: shares which could be repurchased under treasury stock method	(115.2 )	(104.1 )
Convertible debt shares	3.5	3.6
Accelerated share repurchase program	32.5	13.2
Average shares outstanding — diluted	2,893.0	2,798.2
Diluted earnings per share	\$1.33	\$0.50

The diluted earnings per share calculation for both fiscal second quarters ended June 30, 2013 and July 1, 2012 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense.

The diluted earnings per share calculation for the fiscal second quarter ended June 30, 2013 and July 1, 2012 included the dilutive effect of 32.5 million shares and 13.2 million shares, respectively, related to the accelerated share repurchase program, associated with the acquisition of Synthes, Inc. See Note 10 to the Consolidated Financial Statements for additional details. A \$1 increase/decrease in the volume weighted average share price would impact this estimate by approximately 2.3 million shares.

The diluted earnings per share calculation for the fiscal second quarter ended June 30, 2013 included all shares related to stock options, as the exercise price of all options was less than the average market value of the Company's stock during the quarter. The



Table of Contents

diluted earnings per share calculation for the fiscal second quarter ended July 1, 2012, excluded 57 million shares related to stock options, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the first fiscal six months ended June 30, 2013 and July 1, 2012:

(Shares in Millions)	Fiscal Six Months Ended	
	June 30, 2013	July 1, 2012
Basic net earnings per share	\$2.62	\$1.94
Average shares outstanding — basic	2,799.5	2,741.7
Potential shares exercisable under stock option plans	163.0	138.0
Less: shares which could be repurchased under treasury stock method	(119.7	) (104.1
Convertible debt shares	3.5	3.6
Accelerated share repurchase program	32.5	13.2
Average shares outstanding — diluted	2,878.8	2,792.4
Diluted earnings per share	\$2.55	\$1.91

The diluted earnings per share calculation for both fiscal six months ended June 30, 2013 and July 1, 2012 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense.

The diluted earnings per share calculation for the fiscal six months ended June 30, 2013 and July 1, 2012 included the dilutive effect of 32.5 million shares and 13.2 million shares, respectively, related to the accelerated share repurchase program, associated with the acquisition of Synthes, Inc. See Note 10 to the Consolidated Financial Statements for additional details. A \$1 increase/decrease in the volume weighted average share price would impact this estimate by approximately 2.3 million shares.

The diluted earnings per share calculation for the fiscal six months ended June 30, 2013 included all shares related to stock options, as the exercise price of all options was less than the average market value of the Company's stock during the quarter. The diluted earnings per share calculation for the fiscal six months ended July 1, 2012, excluded 57 million shares related to stock options, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

Table of Contents

## NOTE 9 — SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS

## SALES BY SEGMENT OF BUSINESS

(Dollars in Millions)	Fiscal Second Quarters Ended			
	June 30, 2013	July 1, 2012	Percent Change	
Consumer				
United States	\$1,326	\$1,313	1.0	%
International	2,332	2,306	1.1	
Total	3,658	3,619	1.1	
Pharmaceutical				
United States	3,377	3,094	9.1	
International	3,648	3,197	14.1	
Total	7,025	6,291	11.7	
Medical Devices & Diagnostics				
United States	3,243	2,953	9.8	
International	3,951	3,612	9.4	
Total	7,194	6,565	9.6	
Worldwide				
United States	7,946	7,360	8.0	
International	9,931	9,115	9.0	
Total	\$17,877	\$16,475	8.5	%
(Dollars in Millions)	Fiscal Six Months Ended			
	June 30, 2013	July 1, 2012	Percent Change	
Consumer				
United States	\$2,674	\$2,629	1.7	%
International	4,659	4,585	1.6	
Total	7,333	7,214	1.6	
Pharmaceutical				
United States	6,848	6,120	11.9	
International	6,945	6,304	10.2	
Total	13,793	12,424	11.0	
Medical Devices & Diagnostics				
United States	6,449	5,830	10.6	
International	7,807	7,146	9.2	
Total	14,256	12,976	9.9	
Worldwide				
United States	15,971	14,579	9.5	
International	19,411	18,035	7.6	
Total	\$35,382	\$32,614	8.5	%

Table of Contents

## SEGMENT PRE-TAX PROFIT

(Dollars in Millions)	Fiscal Second Quarters Ended			
	June 30, 2013	July 1, 2012	Percent Change	
Consumer <sup>(1)</sup>	\$511	\$267	91.4	%
Pharmaceutical <sup>(2)</sup>	2,992	515	481.0	
Medical Devices & Diagnostics <sup>(3)</sup>	1,517	1,875	(19.1)	)
Segments operating profit	5,020	2,657	88.9	
Less: Expense not allocated to segments <sup>(4)</sup>	227	622		
Worldwide income before taxes	\$4,793	\$2,035	135.5	%

  

(Dollars in Millions)	Fiscal Six Months Ended			
	June 30, 2013	July 1, 2012	Percent Change	
Consumer <sup>(1)</sup>	\$1,058	\$729	45.1	%
Pharmaceutical <sup>(2)</sup>	5,409	3,106	74.1	
Medical Devices & Diagnostics <sup>(3)</sup>	3,035	3,953	(23.2)	)
Segments operating profit	9,502	7,788	22.0	
Less: Expense not allocated to segments <sup>(4)</sup>	448	708		
Worldwide income before taxes	\$9,054	\$7,080	27.9	%

(1) Includes a gain on the sale of intangible and other assets of \$55 million recorded in the first fiscal six months of 2013. Includes intangible asset write-downs of \$294 million recorded in the fiscal second quarter and the first fiscal six months of 2012.

(2) Includes litigation expense of \$178 million recorded in the first fiscal six months of 2013 and a net gain of \$420 million on equity investment transactions, primarily the sale of Elan American Depositary Shares in the fiscal second quarter and first fiscal six months of 2013. Includes litigation expense of \$658 million, intangible asset write-downs of \$499 million and in-process research and development charges of \$429 million recorded in the fiscal second quarter and the first fiscal six months of 2012.

(3) Includes litigation expense of \$375 million, Synthes integration/transaction costs of \$122 million and \$69 million for the ASR™ Hip program in the fiscal second quarter of 2013. Includes litigation expense of \$720 million, Synthes integration/transaction costs of \$380 million, an in-process research and development write-down of \$64 million and \$82 million for the ASR™ Hip program in the first fiscal six months of 2013. Includes Synthes integration/transaction costs of \$192 million and \$223 million recorded in the fiscal second quarter and first fiscal six months of 2012, respectively, and intangible asset write-downs of \$146 million recorded in the fiscal second quarter and first fiscal six months of 2012.

(4) Amounts not allocated to segments include interest income/(expense), noncontrolling interests and general corporate income/expense. The first fiscal six months of 2013 includes litigation expense of \$6 million. The fiscal second quarter and first fiscal six months of 2012 includes currency losses related to the Synthes acquisition of \$382 million and \$234 million, respectively, and litigation expense of \$11 million recorded in the fiscal second quarter and the first fiscal six months of 2012.

Table of Contents

## SALES BY GEOGRAPHIC AREA

(Dollars in Millions)	Fiscal Second Quarters Ended		
	June 30, 2013	July 1, 2012	Percent Change
United States	\$7,946	\$7,360	8.0 %
Europe	4,672	4,165	12.2
Western Hemisphere, excluding U.S.	1,905	1,728	10.2
Asia-Pacific, Africa	3,354	3,222	4.1
Total	\$17,877	\$16,475	8.5 %

(Dollars in Millions)	Fiscal Six Months Ended		
	June 30, 2013	July 1, 2012	Percent Change
United States	\$15,971	\$14,579	9.5 %
Europe	9,153	8,359	9.5
Western Hemisphere, excluding U.S.	3,688	3,442	7.1
Asia-Pacific, Africa	6,570	6,234	5.4
Total	\$35,382	\$32,614	8.5 %

## NOTE 10— BUSINESS COMBINATIONS AND DIVESTITURES

During the fiscal second quarter of 2013, the Company announced a definitive agreement to acquire Aragon Pharmaceuticals, Inc., a privately-held, pharmaceutical discovery and development company focused on drugs to treat hormonally-driven cancers. Under the terms of the agreement, the Company will make an upfront cash payment of \$650 million, plus additional contingent payments of up to \$350 million based on reaching predetermined milestones. The transaction is expected to close in the fiscal third quarter of 2013.

During the fiscal first quarter of 2013, the Company completed the acquisitions of Flexible Stenting Solutions, Inc., a leading developer of innovative flexible peripheral arterial, venous and biliary stents and Shanghai Elsker Mother & Baby Co., Ltd, a baby care company in China, known for its position in the naturals segment.

During the fiscal second quarter of 2012, the Company completed the acquisition of Synthes, Inc., a global developer and manufacturer of orthopaedics devices, for a purchase price of \$20.2 billion in cash and stock. The net acquisition cost of the transaction was \$17.5 billion based on cash on hand at closing of \$2.7 billion.

Under the terms of the agreement, each share of Synthes, Inc. common stock was exchanged for CHF 55.65 in cash and 1.717 shares of Johnson & Johnson common stock, based on the calculated exchange ratio. The exchange ratio was calculated on June 12, 2012 and based on the relevant exchange rate and closing price of Johnson & Johnson common stock on that date, the total fair value of consideration transferred was \$19.7 billion. When the acquisition was completed on June 14, 2012, based on the relevant exchange rate and closing price of Johnson & Johnson common stock on that date, the total fair value of the consideration transferred was \$20.2 billion. Janssen Pharmaceutical, a company organized under the laws of Ireland and a wholly-owned subsidiary of Johnson & Johnson, used cash on hand to satisfy the cash portion of the merger consideration.

The stock portion of the merger consideration consisted of shares of Johnson & Johnson common stock purchased by Janssen Pharmaceutical, from two banks, pursuant to two accelerated share repurchase (ASR) agreements dated June 12, 2012. On June 13, 2012, Janssen Pharmaceutical purchased an aggregate of approximately 203.7 million shares of Johnson & Johnson common stock at an initial purchase price of \$12.9 billion under the ASR agreements, with all of

the shares delivered to Janssen Pharmaceutical on June 13, 2012. Final settlement of the transactions under each ASR agreement is expected to occur in either stock or cash in the third quarter of 2013. Based on the theoretical settlement of the ASR agreements, an additional 32.5 million shares would be issued, or approximately \$2.8 billion in cash would be used, to settle the ASR agreements as of June 30, 2013.

Table of Contents

In addition, while the Company believes that the transactions under each ASR agreement and a series of related internal transactions were consummated in a tax efficient manner in accordance with applicable law, it is possible that the Internal Revenue Service could assert one or more contrary positions to challenge the transactions from a tax perspective. If challenged, an amount up to the total purchase price for the Synthes shares could be treated as subject to applicable U.S. tax at approximately the statutory rate to the Company, plus interest.

The following table summarizes the consideration transferred to acquire Synthes, Inc. valued on the acquisition date of June 14, 2012:

(Dollars in Millions)

Cash (multiply 55.65CHF by shares of Synthes common stock outstanding by the exchange rate) <sup>(A)</sup>	\$6,902
Common Stock (multiply 1.717 by shares of Synthes common stock outstanding by J&J stock price) <sup>(B)</sup>	\$13,335
Total fair value of consideration transferred	\$20,237

(A) Synthes common stock outstanding of 118.7 million shares as of the acquisition date and CHF/USD exchange rate of .95674

(B) Johnson & Johnson closing stock price on the New York Stock Exchange as of acquisition date of \$65.45 per share.

The Company has finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The following table presents the amounts recognized for assets acquired and liabilities assumed as of the acquisition date with adjustments made through June 30, 2013:

(Dollars in Millions)

Cash & Cash equivalents	\$2,749
Inventory	1,194
Accounts Receivable, net	738
Other current assets	238
Property, plant and equipment	1,253
Goodwill	6,074
Intangible assets	12,861
Other non-current assets	46
Total Assets Acquired	25,153
Current liabilities	1,081
Deferred Taxes	3,506
Other non-current liabilities	329
Total Liabilities Assumed	4,916
Net Assets Acquired	\$20,237

The adjustments made since the date of acquisition were to account for changes to inventory, based on the results of the physical inventory counts and deferred taxes, to reflect the statutory tax rate that is being applied to the intangible assets. The revisions to the purchase price allocation were not material to the Statements of Consolidated Earnings or the Consolidated Balance Sheet for the fiscal second quarter of 2013 and prior fiscal quarters.

The assets acquired are recorded in the Medical Devices and Diagnostics segment. The acquisition of Synthes, Inc. resulted in \$6.1 billion of goodwill. The goodwill is primarily attributable to synergies expected to arise from the acquisition of Synthes, Inc. The goodwill is not deductible for tax purposes.

Table of Contents

The purchase price allocation to the identifiable intangible assets is as follows:

(Dollars in Millions)

Intangible assets with definite lives:

Customer Relationships	\$9,870
Patents and Technology	1,508
Total amortizable intangibles	11,378
Trademark and Trade name	1,420
In-process research and development	63
Total intangible assets	\$12,861

The Customer Relationship intangible lives were determined using the projected customer retention period based on historical experience. Synthes has a broad product portfolio, including trauma, spine, cranio-maxillofacial, biomaterials and power tools. An analysis was performed to determine the lives for each of the Customer Relationship assets in the distinct product areas. The calculations to determine useful lives included attrition rates and discounted future cash flows by product area. This analysis resulted in a weighted average life of 22 years for the Customer Relationship assets.

The Patents and Technology intangible lives were derived based on technology obsolescence rates that are commensurate with the nature of the Synthes businesses. New product introductions are predominantly incremental enhancements to existing platforms and are infrequently transformational. An analysis was performed to determine the lives for each of the Patents and Technology assets in each distinct product area. The calculations to determine useful lives included assumptions on technology obsolescence and discounted future cash flows by product area. This analysis resulted in a weighted average life of 18 years for the Patents and Technology assets.

A weighted average of the values and lives ascribed to the Customer Relationship and Patents and Technology intangible assets results in a 21 year weighted average life.

The Trademark and Trade name asset values were determined to have an indefinite life based on a number of factors, including trade name history, the competitive environment, market share and future operating plans. Additionally, in-process research and development intangible assets were valued for technology programs for unapproved products.

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 14%.

The Company is in the process of executing the integration plans to combine businesses, sales organizations, systems and locations as a result of which the Company has and will continue to incur integration costs.

The operating results of Synthes were reported in the Company's financial statements beginning on June 14, 2012. The following table provides pro forma results of operations for the fiscal second quarter and first fiscal six months ended July 1, 2012, as if Synthes, Inc. had been acquired as of January 3, 2011. The pro forma results include the effect of divestitures and certain purchase accounting adjustments such as the estimated changes in depreciation and amortization expense on the acquired tangible and intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of Synthes, Inc. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated or which may occur in the future.



Edgar Filing: JOHNSON & JOHNSON - Form 10-Q

(Dollars in Millions Except Per Share Data)	Unaudited Pro forma consolidated results 2012	
	Fiscal Six Months Ended	Fiscal Second Quarter Ended
Net Sales	\$34,481	17,410
Net Earnings	\$5,641	1,631
Diluted Net Earnings per Common Share	\$2.02	0.58

Table of Contents

In the first fiscal six months of 2013, the Company recorded acquisition-related costs of \$380 million before tax, which were recorded in Cost of products sold and Other (income)expense.

In connection with the Synthes acquisition, DePuy Orthopaedics, Inc. agreed to divest certain rights and assets related to its trauma business to Biomet, Inc. and completed the initial closing for this transaction in the fiscal second quarter of 2012, including those countries that represented the majority of sales. As of December 30, 2012, the transaction had closed worldwide.

Additionally, during the fiscal second quarter of 2012, the Company acquired Guangzhou Bioseal Biotech Co., Ltd., a privately held biopharmaceutical company specializing in the design, development and commercialization of a porcine plasma-derived biologic product for controlling bleeding during surgery; CorImmun GmbH, a privately held drug development company in Germany, whose lead compound, COR-1, is a small cyclic peptide currently in early clinical development for the treatment of heart failure; and certain assets of the Angiotech Pharmaceuticals, Inc. barbed suture business.

During the fiscal first quarter of 2012, the Company completed the divestiture of its U.S. patents and other U.S. and Canadian intellectual property for BYSTOLIC® (nebivolol), which is currently approved in the U.S. for the treatment of hypertension, to Forest Laboratories, Inc. Proceeds received from the divestiture were \$357 million.

Table of Contents

NOTE 11 — LEGAL PROCEEDINGS

Johnson & Johnson and certain of its subsidiaries are involved in various lawsuits and claims regarding product liability, intellectual property, commercial and other matters; governmental investigations; and other legal proceedings that arise from time to time in the ordinary course of their business.

The Company records accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. As of June 30, 2013, the Company has determined that the liabilities associated with certain litigation matters are probable and can be reasonably estimated. The Company has accrued for these matters and will continue to monitor each related legal issue and adjust accruals for new information and further developments in accordance with ASC 450-20-25. For these and other litigation and regulatory matters currently disclosed for which a loss is probable or reasonably possible, the Company is unable to determine an estimate of the possible loss or range of loss beyond the amounts already accrued. These matters can be affected by various factors, including whether damages sought in the proceedings are unsubstantiated or indeterminate; scientific and legal discovery has not commenced or is not complete; proceedings are in early stages; matters present legal uncertainties; there are significant facts in dispute; or there are numerous parties involved.

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. However, the resolution in any reporting period of one or more of these matters, either alone or in the aggregate, may have a material adverse effect on the Company's results of operations and cash flows for that period.

PRODUCT LIABILITY

Certain subsidiaries of Johnson & Johnson are involved in numerous product liability cases. The damages claimed are substantial, and while these subsidiaries are confident of the adequacy of the warnings and instructions for use that accompany the products at issue, it is not feasible to predict the ultimate outcome of litigation. The Company has established product liability accruals in compliance with ASC 450-20 based on currently available information, which in some cases may be limited. Changes to the accruals may be required in the future as additional information becomes available.

Multiple products of Johnson & Johnson subsidiaries are subject to product liability claims and lawsuits in which claimants seek substantial compensatory and, where available, punitive damages, including LEVAQUIN<sup>®</sup>, the ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System, the PINNACLE<sup>®</sup> Acetabular Cup System, RISPERDAL<sup>®</sup>, pelvic meshes, DURAGESIC<sup>®</sup>/fentanyl patches and TOPAMAX<sup>®</sup>. As of June 30, 2013, in the U.S. there were approximately 1,540 plaintiffs with direct claims in pending lawsuits regarding injuries allegedly due to LEVAQUIN<sup>®</sup>, 11,500 with respect to the ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System, 4,450 with respect to the PINNACLE<sup>®</sup> Acetabular Cup System, 490 with respect to RISPERDAL<sup>®</sup>, 12,250 with respect to pelvic meshes, 30 with respect to DURAGESIC<sup>®</sup>/fentanyl patches and 130 with respect to TOPAMAX<sup>®</sup>.

In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System used in hip replacement surgery. Claims for personal injury have been made against DePuy and Johnson & Johnson, and the number of pending lawsuits continues to increase. Cases filed in Federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Northern District of Ohio. Litigation has also been filed in countries outside of the United States, primarily in the United Kingdom, Canada and Australia. The Company continues to receive information with respect to potential costs associated with this recall. During the fiscal second quarter of 2013, the Company increased its accruals for the DePuy ASR<sup>™</sup> Hip recall program and related product liability after the Company completed an analysis of additional information. Changes to these accruals may be required in the future as

additional information becomes available.

Claims for personal injury have also been made against DePuy and Johnson & Johnson relating to DePuy's PINNACLE® Acetabular Cup System. The number of pending product liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Cases filed in Federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Northern District of Texas. The Company has established a product liability accrual in anticipation of product liability litigation associated with DePuy's PINNACLE® Acetabular Cup System. Changes to this accrual may be required in the future as additional information becomes available.

Claims for personal injury have been made against Ethicon, Inc. (Ethicon) and Johnson & Johnson arising out of Ethicon's pelvic mesh devices used to treat stress urinary incontinence and pelvic organ prolapse. The number of pending product

## Table of Contents

liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Cases filed in Federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Southern District of West Virginia. In addition, a class action and several individual personal injury cases have been commenced in Canada, Australia, England, Italy, Scotland and the Netherlands seeking damages for alleged injury resulting from Ethicon's pelvic mesh devices. The Company has established a product liability accrual in anticipation of product liability litigation associated with Ethicon's pelvic mesh products. Changes to this accrual may be required in the future as additional information becomes available.

The Company believes that the ultimate resolution of these matters based on historical and reasonably likely future trends is not expected to have a material adverse effect on the Company's financial position, annual results of operations and cash flows. The resolution in any interim reporting period could have a material impact on the Company's results of operations and cash flows for that period.

## INTELLECTUAL PROPERTY

Certain subsidiaries of Johnson & Johnson are subject, from time to time, to legal proceedings and claims related to patent, trademark and other intellectual property matters arising out of their business. The most significant of these matters are described below.

## PATENT INFRINGEMENT

Certain subsidiaries of Johnson & Johnson are involved in lawsuits challenging the coverage and/or validity of the patents on their products. Although these subsidiaries believe that they have substantial defenses to these challenges with respect to all material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could potentially adversely affect the ability of these subsidiaries to sell their products, or require the payment of past damages and future royalties.

## Medical Devices and Diagnostics

In October 2004, Tyco Healthcare Group, LP (Tyco) and U.S. Surgical Corporation (now Covidien plc) filed a lawsuit against Ethicon Endo-Surgery, Inc. (EES) in the United States District Court for the District of Connecticut alleging that several features of EES's HARMONIC® Scalpel infringed four Tyco patents. In October 2007, on motions for summary judgment prior to the initial trial, a number of claims were found invalid and a number were found infringed. However, no claim was found both 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 United States District Court for the District of Connecticut asserting infringement of three of the four patents from the previous lawsuit and adding new products. Tyco is seeking monetary damages and injunctive relief. The case was tried in July 2012, and in March 2013, the Court ruled that EES's HARMONIC Scalpel infringed on Tyco's patents and ordered EES to pay damages of approximately \$176 million. The Company believes EES has strong arguments supporting its appeal. Because the Company believes that the potential for an unfavorable outcome is not probable, it has not established an accrual with respect to the case.

In October 2007, Bruce Saffran (Saffran) filed a patent infringement lawsuit against Johnson & Johnson and Cordis Corporation (Cordis) in the United States District Court for the Eastern District of Texas alleging infringement on U.S. Patent No. 5,653,760. In January 2011, a jury returned a verdict finding that Cordis's sales of its CYPHER® Stent willfully infringed the '760 patent. The jury awarded Saffran \$482 million. In March 2011, the Court entered judgment against Cordis in the amount of \$593 million, representing the jury verdict, plus \$111 million in pre-judgment interest.

Cordis appealed the judgment, and in April 2013, the United States Court of Appeals for the Federal Circuit reversed the judgment and held that Cordis did not infringe Plaintiff's patent as a matter of law. Plaintiff's petition with the Court of Appeals to reconsider the decision was denied.

In November 2007, Roche Diagnostics Operations, Inc., et al. (Roche) filed a patent infringement lawsuit against LifeScan, Inc. (LifeScan) in the United States District Court for the District of Delaware, accusing LifeScan's entire OneTouch® line of blood glucose monitoring systems of infringement of two patents related to the use of microelectrode sensors. In September 2009, LifeScan obtained a favorable ruling on claim construction that precluded a finding of infringement. The Court entered judgment against Roche in July 2010 and Roche appealed. The Court of Appeals reversed the District Court's ruling on claim construction and remanded the case to the District Court for new findings on the issue. The parties are awaiting a ruling on claim construction. Roche is seeking monetary damages and injunctive relief.

Table of Contents

In June 2009, Rembrandt Vision Technologies, L.P. (Rembrandt) filed a patent infringement lawsuit against Johnson & Johnson Vision Care, Inc. (JJVC) in the United States District Court for the Eastern District of Texas alleging that JJVC's manufacture and sale of its ACUVUE®ADVANCE® and ACUVUE® OASYS® Hydrogel Contact Lenses infringe their U.S. Patent No. 5,712,327 (the Chang patent). Rembrandt is seeking monetary relief. The case was transferred to the United States District Court for the Middle District of Florida. In May 2012, the jury returned a verdict holding that neither of the accused lenses infringe the '327 patent. Rembrandt has filed an appeal with the United States Court of Appeals for the Federal Circuit. Rembrandt has also asked the District Court to grant it a new trial based on alleged new evidence, and a hearing on that motion has been set for August 2013.

In September 2011, LifeScan filed a lawsuit against Shasta Technologies, Instacare Corp and Conductive Technologies (collectively, Shasta) in the United States District Court for the Northern District of Northern California for patent infringement for the making and marketing of a strip for use in LifeScan's OneTouch® Blood Glucose Meters. In November 2012, Shasta got a limited approval from the United States Food and Drug Administration for its strips. In December 2012, LifeScan filed an additional lawsuit alleging violation of the Lanham Act based on Shasta's packaging. LifeScan moved for, and the District Court granted, a preliminary injunction prohibiting Shasta from marketing their strips. Shasta appealed, and the Court of Appeals granted Shasta's motion for stay of the preliminary injunction. Oral argument on the appeal was heard in June 2013 and the parties are awaiting a decision. Litigation regarding the preliminary injunction and the underlying merits of the claims is continuing.

In November 2011, Howmedica Osteonics Corp. (Howmedica) and Stryker Ireland Ltd. (Stryker) filed a patent infringement lawsuit against DePuy Orthopaedics, Inc. (DePuy) in the United States District Court for the District of New Jersey alleging infringement by DePuy's PINNACLE® Acetabular Cup System and DURALOC® Acetabular Cup System of a patent relating to a dual-locking mechanism feature in an acetabular cup system. Howmedica and Stryker are seeking monetary damages and injunctive relief. DePuy filed its answer in February 2012 and filed a counterclaim asserting that Stryker's Trident Acetabular Hip System infringes DePuy's U.S. Patent No. 6,610,097. DePuy is seeking damages and injunctive relief from Howmedica and Stryker.

In May 2012, Medtronic MiniMed, Inc., Medtronic Puerto Rico Operations Co. and MiniMed Distribution Corp. (collectively, Medtronic MiniMed) filed a patent infringement lawsuit against Animas Corporation in the United States District Court for the Central District of California alleging that Animas' OneTouch® Ping® Glucose Management System infringes nine of their patents. Medtronic MiniMed is seeking monetary damages and injunctive relief.

In March 2013, Medinol Ltd. (Medinol) filed a patent infringement lawsuit against Cordis Corporation (Cordis) and Johnson & Johnson in the United States District Court for the Southern District of New York alleging that Cordis's past sales of the CYPHER® and CYPHER SELECT® Stents willfully infringed four of Medinol's patents directed to the geometry of articulated stents. Medinol is seeking damages and attorney's fees.

Pharmaceutical

In May 2009, Abbott Biotechnology Ltd. (Abbott) filed a patent infringement lawsuit against Centocor, Inc. (Centocor) (now Janssen Biotech, Inc. (JBI)) in the United States District Court for the District of Massachusetts alleging that SIMPONI® infringes Abbott's U.S. Patent Nos. 7,223,394 and 7,541,031 (the Salfeld patents). Abbott is seeking monetary damages and injunctive relief. In April 2012, the parties participated in an arbitration on the issue of JBI's defense that Abbott is equitably estopped from asserting the patents. In May 2012, the arbitrator rejected JBI's defense. The case has been reinstated in the District Court. Oral argument on summary judgment motions is scheduled for October 2013.

In August 2009, Abbott GmbH & Co. (Abbott GmbH) and Abbott Bioresearch Center filed a patent infringement lawsuit against Centocor (now JBI) in the United States District Court for the District of Massachusetts alleging that STELARA® infringes two United States patents assigned to Abbott GmbH. JBI filed a complaint in the United States District Court for the District of Columbia for a declaratory judgment of non-infringement and invalidity of the Abbott GmbH patents, as well as a Complaint for Review of a Patent Interference Decision that granted priority of invention on one of the two asserted patents to Abbott GmbH. The cases have been transferred from the District of Columbia to the District of Massachusetts. Trial was held in September 2012 with a jury verdict in favor of JBI, invalidating Abbott's patent claims. In March 2013, the Court denied Abbott's post-trial motions challenging the outcome and granted JBI's motion on the appeal of the interference decision. Abbott filed its notice of appeal in April 2013. Also in August 2009, Abbott GmbH and Abbott Laboratories Limited brought a patent infringement lawsuit in The Federal Court of Canada alleging that STELARA® infringes Abbott GmbH's Canadian patent. A trial is scheduled for December 2013 in the Canadian Case. In addition to the U.S. and Canadian litigations, in August 2012, Abbott filed patent infringement lawsuits in the Netherlands, Switzerland and Germany. In each of the above cases, Abbott is seeking monetary damages and injunctive relief.



Table of Contents

LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAs)

The following summarizes lawsuits pending against generic companies that filed Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of products sold by various subsidiaries of Johnson & Johnson 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 subsidiaries are not successful in these actions, or the statutory 30-month stays expire before the United States District Court rulings are obtained, the third-party companies involved will have the ability, upon approval of the United States Food and Drug Administration (FDA), to introduce generic versions of the products at issue, resulting in very substantial market share and revenue losses for those products.

ORTHO TRI-CYCLEN® LO

A number of generic companies have filed ANDAs seeking approval to market generic versions of ORTHO TRI-CYCLEN® LO. Janssen Pharmaceuticals, Inc. (JPI) filed patent infringement lawsuits against these generic companies seeking an Order enjoining them from marketing their generic versions of ORTHO TRI-CYCLEN® LO prior to the expiration of JPI's patent relating to ORTHO TRI-CYCLEN® LO (the OTCLO patent). In 2012, JPI entered into settlement agreements with certain of these generic companies. The two remaining cases were concluded in the fiscal first quarter of 2013, as described below.

In January 2010, Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) (now JPI) filed a patent infringement lawsuit against Lupin Ltd. and Lupin Pharmaceuticals, Inc. (collectively, Lupin) in the United States District Court for the District of New Jersey in response to Lupin's ANDA seeking approval to market a generic version of ORTHO TRI-CYCLEN® LO prior to the expiration of the OTCLO patent. Lupin filed a counterclaim alleging invalidity of the patent. Trial concluded in June 2012, and in September 2012, the Court issued a decision in favor of JPI upholding the validity of the patent. In particular, the Court ordered that the effective date of the approval of Lupin's ANDA (which had previously been approved) be not earlier than the expiration of the OTCLO patent. Lupin appealed the decision to the Court of Appeals for the Federal Circuit. Oral argument was heard in February 2013. In March 2013, JPI and Lupin entered into a settlement agreement pursuant to which Lupin was granted a license under the OTCLO patent to market its generic version of ORTHO TRI-CYCLEN® LO starting December 31, 2015 (or earlier under certain circumstances).

In October 2011, JPI filed a patent infringement lawsuit against Sun Pharma Global FZE and Sun Pharmaceutical Industries (collectively, Sun) in the United States District Court for the District of New Jersey in response to Sun's ANDA seeking approval to market a generic version of ORTHO TRI-CYCLEN® LO prior to the expiration of the OTCLO patent. In February 2013, JPI and Sun entered into a settlement agreement pursuant to which Sun was granted a license under the OTCLO patent to market its generic version of ORTHO TRI-CYCLEN® LO starting December 31, 2015 (or earlier under certain circumstances), if and when they obtain FDA approval.

PREZISTA®

A number of generic companies have filed ANDAs seeking approval to market generic versions of PREZISTA®. In November 2010, Tibotec, Inc. (now Tibotec, LLC) and Tibotec Pharmaceuticals (now Janssen R&D Ireland) (collectively, Tibotec) filed a patent infringement lawsuit against Lupin, Ltd., Lupin Pharmaceuticals, Inc. (collectively, Lupin), Mylan, Inc. and Mylan Pharmaceuticals, Inc. (collectively, Mylan) in the United States District Court for the District of New Jersey in response to Lupin's and Mylan's respective ANDAs seeking approval to market generic versions of Tibotec's PREZISTA® product before the expiration of Tibotec's patent relating to PREZISTA®. Lupin and Mylan each filed counterclaims alleging non-infringement and invalidity. In July 2011, Tibotec filed

another patent infringement lawsuit against Lupin in the United States District Court for the District of New Jersey in response to Lupin's supplement to its ANDA to add new dosage strengths for its proposed product. In August 2011, Tibotec and G.D. Searle & Company (G.D. Searle) filed a patent infringement lawsuit against Lupin and Mylan in response to their notice letters advising that their ANDAs are seeking approval to market generic versions of Tibotec's PREZISTA<sup>®</sup> product before the expiration of two patents relating to PREZISTA<sup>®</sup> that Tibotec exclusively licenses from G.D. Searle.

In March 2011, Tibotec and G.D. Searle filed a patent infringement lawsuit against Teva Pharmaceuticals USA, Inc. and Teva Pharmaceuticals, Ltd. (collectively, Teva) in the United States District Court for the District of New Jersey in response to Teva's ANDA seeking approval to market a generic version of PREZISTA<sup>®</sup> before the expiration of certain patents relating to PREZISTA<sup>®</sup> that Tibotec either owns or exclusively licenses from G.D. Searle.

Table of Contents

In March 2011, Tibotec filed a patent infringement lawsuit against Hetero Drugs, Ltd. Unit III and Hetero USA Inc. (collectively, Hetero) in the United States District Court for the District of New Jersey in response to Hetero's ANDA seeking approval to market a generic version of PREZISTA® before the expiration of certain patents relating to PREZISTA® that Tibotec exclusively licenses from G.D. Searle. In July 2011, upon agreement by the parties, the Court entered a stay of the lawsuit pending a final decision in the lawsuit against Teva with respect to the validity and/or enforceability of the patents that Tibotec licenses from G.D. Searle, with Hetero agreeing to be bound by such final decision.

In September 2011, the Court consolidated the above lawsuits, as well as lawsuits brought by the United States Government against each of the defendants for infringement of a United States Government-owned patent relating to PREZISTA®, for purposes of pre-trial discovery and trial, with the proviso that after discovery is completed, any party can move to have the cases de-consolidated for trial.

In May and June 2012, Janssen Products, LP and Janssen R&D Ireland (collectively, Janssen) and G.D. Searle filed a patent infringement lawsuit against Lupin, Teva and Mylan in the United States District Court for the District of New Jersey, alleging infringement of newly issued United States Reissue Patent No. Re42,889, which Janssen exclusively licenses from G.D. Searle. In August 2012, Janssen and G.D. Searle filed a patent infringement lawsuit against Lupin, Teva and Mylan in the United States District Court for the District of New Jersey, alleging infringement of newly issued United States Reissue Patent No. Re43,596, which Janssen exclusively licenses from G.D. Searle. These cases have been consolidated with the above lawsuits. In October 2012, Janssen filed a motion to file a Supplemental Complaint against Lupin, Teva and Mylan in the United States District Court for the District of New Jersey, alleging infringement of United States Patent Nos. 7,772,411 (Mylan only), 7,126,015 (Lupin and Teva only) and 7,595,408 (Lupin and Teva only). In January 2013, the Court permitted these three additional patents to be added to the consolidated action. In March 2013, Janssen filed a patent infringement lawsuit against Hetero in the United States District Court for the District of New Jersey, alleging infringement of United States Patent Nos. 7,126,015 and 7,595,408. In June 2013, Janssen and G.D. Searle dismissed their claims relating to the patents owned by G.D. Searle against Lupin and Mylan. A trial on the remaining patents has been scheduled for March 2014.

In May 2013, Lupin notified Janssen that it filed an ANDA seeking approval to market a new dosage strength of its generic version of PREZISTA®. In response, Janssen filed a patent infringement lawsuit in the United States District Court for the District of New Jersey, alleging that Lupin's new dosage strength would infringe the same patents that Janssen is asserting against Lupin in the original action.

In each of the above lawsuits, Tibotec and Janssen are seeking an Order enjoining the defendants from marketing their generic versions of PREZISTA® before the expiration of the relevant patents.

**CONCERTA®**

In June 2013, ALZA Corporation and Janssen Pharmaceuticals, Inc. (collectively, Janssen) filed patent infringement lawsuits against (1) Par Pharmaceuticals, Inc., Actavis Elizabeth LLC and Actavis, Inc. (collectively, Actavis) in the United States District Court for the District of Delaware and (2) Osmotica Kereskedelmies Szolgaltato Kft (Osmotica) in the United States District Court for the Northern District of Illinois, in response to those parties' ANDAs seeking approval to market a generic version of CONCERTA® before the expiration of United States Patent No. 8,163,798 (the '798 patent). In each of the above lawsuits, Janssen is seeking an Order enjoining the defendants from marketing their generic versions of CONCERTA® before the expiration of the '798 patent.

**NUCYNTA® AND NUCYNTA® ER**

In July 2013, Janssen Pharmaceuticals, Inc. (JPI) filed patent infringement lawsuits in the United States District Court for the District of New Jersey against Actavis Elizabeth LLC, Actavis Inc. and Actavis LLC (collectively, Actavis), as well as Alkem Laboratories Limited and Ascend Laboratories, LLC (collectively, Alkem). The patent infringement claims against Actavis and Alkem relate to their respective ANDAs seeking approval to market a generic version of NUCYNTA<sup>®</sup> ER before the expiration of United States Reissue Patent No. 39,593 (the '593 patent), United States Patent No. 7,994,364 (the '364 patent) and, as to Actavis only, United States Patent No. 8,309,060 (the '060 patent). The lawsuit also includes a patent infringement claim against Alkem in response to its ANDA seeking approval to market a generic version of NUCYNTA<sup>®</sup> before the expiration of the '593 and '364 patents. JPI is seeking an Order enjoining the defendants from marketing their generic versions of NUCYNTA<sup>®</sup> ER and NUCYNTA<sup>®</sup> before the expiration of the asserted patents.

Table of Contents

OTHER INTELLECTUAL PROPERTY MATTERS

In December 2009, the State of Israel filed a lawsuit in the District Court in Tel Aviv Jaffa against Omrix Biopharmaceuticals, Inc. and various affiliates (Omrix). 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 the employee 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 royalties on QUIXIL™ and EVICEL™ products, or alternatively, transfer of the patents to the State.

In March 2012, Noramco, Inc. (Noramco) moved to intervene in three patent infringement lawsuits filed in the United States District Court for the Southern District of New York (SDNY) by Purdue Pharma L.P. and others (Purdue) against Noramco oxycodone customers, Impax Laboratories, Inc. (Impax), Teva Pharmaceuticals USA, Inc. (Teva) and Amneal Pharmaceuticals, LLC (Amneal). In February 2013, Noramco appeared on behalf of Noramco customers Watson Laboratories, Inc. - Florida and Andrx Labs, LLC (collectively, Watson/Andrx) in a similar lawsuit filed by Purdue in the SDNY. The lawsuits are in response to the defendants' respective ANDAs seeking approval to market generic extended release oxycodone products before the expiration of certain Purdue patents. Three of the asserted patents relate to oxycodone and processes for making oxycodone, and Noramco has agreed to defend the lawsuits on behalf of Impax, Teva, Amneal and Watson/Andrx. Although Noramco did not participate, in November 2012, a trial in a lawsuit brought by Purdue against another Noramco customer, Actavis Elizabeth, LLC (Actavis), took place. Because the active ingredient at issue in the Actavis lawsuit is the same as the active ingredient at issue in the above lawsuits, the District Court's decision in the Actavis case may affect those lawsuits. In April 2013, Actavis and Watson/Andrx entered into confidential settlements with Purdue. Another trial is scheduled to take place in September 2013 in a similar lawsuit brought by Purdue against two Noramco customers, Sandoz, Inc. (Sandoz) and Par Pharmaceuticals, Inc. (Par) in the SDNY. The lawsuits against Teva and Impax will also be tried with the Sandoz/Par case, and as discussed above, Noramco will defend Teva and Impax.

In May 2012, Hospira UK Limited (Hospira) filed a revocation proceeding against The Kennedy Institute of Rheumatology (Kennedy) against European Patent (UK) Nos. 0914157, 1593393 and 1941904, which relate to REMICADE®. Janssen Biotech, Inc. licenses those patents, as well as their foreign counterparts, from Kennedy. Hospira is also seeking a declaration of non-infringement of those patents. In July 2013, the parties entered into a confidential settlement. In addition, in March, May and June 2013, Hospira affiliates filed impeachment/revocation proceedings against Kennedy's Canadian, Finnish and Hong Kong counterpart patents, respectively; however, the revocation proceedings in Finland and Hong Kong were withdrawn in July 2013.

In August 2012, Dr. James M. Swanson filed a lawsuit against ALZA Corporation (ALZA) in the Northern District of California seeking to be added as an inventor on three ALZA-owned patents relating to CONCERTA®. Alternatively, Dr. Swanson has alleged, among other things, that the patents-in-suit are invalid and/or unenforceable as a result of ALZA's alleged omission of Dr. Swanson as a named inventor on the patents. Dr. Swanson is seeking damages and an award of unjust enrichment. ALZA filed a motion to dismiss Dr. Swanson's claims. The Court granted the motion in part, and denied it in part. Discovery in the case is ongoing.

GOVERNMENT PROCEEDINGS

Like other companies in the pharmaceutical and medical devices and diagnostics industries, Johnson & Johnson and certain of its subsidiaries are subject to extensive regulation by national, state and local government agencies in the United States and other countries in which they operate. As a result, interaction with government agencies is ongoing. The most significant litigation brought by, and investigations conducted by, government agencies are listed below. It is possible that criminal charges and substantial fines and/or civil penalties or damages could result from government investigations or litigation.

## AVERAGE WHOLESALE PRICE (AWP) LITIGATION

Johnson & Johnson and several of its pharmaceutical subsidiaries (the J&J AWP Defendants), 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. Payors alleged that they used those AWP's in calculating provider reimbursement levels. Many of these cases, both federal actions and state actions removed to federal court, were consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in the United States District Court for the District of Massachusetts.

The plaintiffs in these cases included three 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.

## Table of Contents

In June 2007, after a trial on the merits, the MDL Court dismissed the claims of two of the plaintiff classes against the J&J AWP Defendants. In March 2011, the Court dismissed the claims of the third class against the J&J AWP Defendants without prejudice.

AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Several state cases against certain subsidiaries of Johnson & Johnson have been settled, including Kentucky, which had been set for trial in January 2012 and Kansas which had been set for trial in March 2013. Mississippi is set for trial in October 2013, Illinois is set for trial in May 2014, and Alaska is set for trial in July 2014. Other state cases are likely to be set for trial in due course. In addition, an AWP case against the J&J AWP Defendants brought by the Commonwealth of Pennsylvania was tried in Commonwealth Court in October and November 2010. The Court found in the Commonwealth's favor with regard to certain of its claims under the Pennsylvania Unfair Trade Practices and Consumer Protection Law ("UTPL"), entered an injunction, and awarded \$45 million in restitution and \$6.5 million in civil penalties. The Court found in the J&J AWP Defendants' favor on the Commonwealth's claims of unjust enrichment, misrepresentation/fraud, civil conspiracy, and on certain of the Commonwealth's claims under the UTPL. The J&J AWP Defendants have appealed the Commonwealth Court's UTPL ruling to the Pennsylvania Supreme Court. The Company believes that the J&J AWP Defendants have strong arguments supporting their appeal. Because the Company believes that the potential for an unfavorable outcome is not probable, it has not established an accrual with respect to the verdict.

## RISPERDAL<sup>®</sup>

In January 2004, Janssen Pharmaceutica Inc. (Janssen Pharmaceutica) (now Janssen Pharmaceuticals, Inc. (JPI)) received a subpoena from the Office of the Inspector General of the United States 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<sup>®</sup> from 1997 to 2002. Documents subsequent to 2002 have also been requested by the Department of Justice. An additional subpoena seeking information about marketing of, and adverse reactions to, RISPERDAL<sup>®</sup> was received from the United States Attorney's Office for the Eastern District of Pennsylvania in November 2005. Numerous subpoenas seeking testimony from various witnesses before a grand jury were also received. JPI cooperated in responding to these requests for documents and witnesses. The United States Department of Justice and the United States Attorney's Office for the Eastern District of Pennsylvania (the Government) are continuing to actively pursue both criminal and civil actions. In February 2010, the Government served Civil Investigative Demands seeking additional information relating to sales and marketing of RISPERDAL<sup>®</sup> and sales and marketing of INVEGA<sup>®</sup>. The focus of these matters is the alleged promotion of RISPERDAL<sup>®</sup> and INVEGA<sup>®</sup> for off-label uses. The Government has notified JPI that there are also pending qui tam actions alleging off-label promotion of RISPERDAL<sup>®</sup>. The Government informed JPI that it will intervene in these qui tam actions and file a superseding complaint.

In 2011, discussions to resolve criminal penalties under the Food Drug and Cosmetic Act related to the promotion of RISPERDAL<sup>®</sup> resulted in an agreement in principle with the United States Attorney's Office for the Eastern District of Pennsylvania on key issues relevant to a disposition of criminal charges pursuant to a single misdemeanor violation of the Food Drug and Cosmetic Act, but certain issues remain open before a settlement can be finalized. During 2011, the Company accrued amounts to cover the financial component of the proposed criminal settlement.

In 2012, the Company also reached an agreement in principle with the United States Department of Justice to settle three pending civil False Claims Act matters that are pending in (1) the Eastern District of Pennsylvania concerning sales and marketing of RISPERDAL<sup>®</sup> and INVEGA<sup>®</sup>; (2) the Northern District of California regarding the sales and marketing of NATRECOR<sup>®</sup>, discussed separately below; and (3) the District of Massachusetts alleging that the defendants provided the Omnicare, Inc. (Omnicare) long-term care pharmacy with rebates and other payments regarding RISPERDAL<sup>®</sup> and other products, discussed separately below. Assuming these agreements are finalized,

they will resolve the federal government's claims under the federal False Claims Act, resolve all pending state and federal government litigation regarding Omnicare and NATRECOR<sup>®</sup>, and settle the RISPERDAL<sup>®</sup> Medicaid-related claims for those states that opt into the settlement. With the tentative settlement agreements described above, issues remain open that must be resolved before the settlements can be finalized.

The Company has accrued amounts to cover these tentative settlement agreements. However, the settlements will not resolve all pending state litigation matters regarding RISPERDAL<sup>®</sup>, and some states may elect to opt out of the settlements. To the extent any state has a claim and has or will elect to opt out of these settlements, the Company has not accrued an amount to cover the claimed amounts but rather an amount at least equal to what that state would receive if it was participating in the settlements. Among other states, Arkansas, Louisiana and South Carolina are not expected to participate in the settlements (as discussed below).



Table of Contents

In addition, the Attorneys General of multiple states, including Alaska, Arkansas, Kentucky, Louisiana, Massachusetts, Mississippi, Montana, New Mexico, South Carolina, and Utah, have pending actions against Janssen Pharmaceutica (now JPI) seeking one or more of the following remedies: reimbursement of Medicaid or other public funds for RISPERDAL<sup>®</sup> prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL<sup>®</sup>, civil fines or penalties, damages for “overpayments” by the state and others, violations of state consumer fraud statutes, punitive damages, or other relief relating to alleged unfair business practices. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL<sup>®</sup>. In January 2012, JPI settled a lawsuit filed by the Attorney General of Texas. In April 2012, in the lawsuit brought by the Attorney General of Arkansas, the jury found against both JPI and Johnson & Johnson, and the Court imposed penalties in the amount of approximately \$1.2 billion. JPI and Johnson & Johnson have filed an appeal and believe that they have strong arguments supporting the appeal. In January 2013, the same court awarded attorney fees of approximately \$180 million. This judgment will also be appealed.

The Attorney General of West Virginia commenced a lawsuit in 2004 against Janssen Pharmaceutica (now JPI) based on claims of alleged consumer fraud as to DURAGESIC<sup>®</sup>, as well as RISPERDAL<sup>®</sup>. JPI was found liable and damages were assessed at \$4.5 million. JPI filed an appeal, and in November 2010, the West Virginia Supreme Court reversed the trial court's decision. In December 2010, the Attorney General of West Virginia dismissed the case as it related to RISPERDAL<sup>®</sup> without any payment. Thereafter, JPI settled the case insofar as it related to DURAGESIC<sup>®</sup>.

In 2004, the Attorney General of Louisiana filed a multi-count Complaint against Janssen Pharmaceutica (now JPI). Johnson & Johnson was later added as a defendant. The case was tried in October 2010. The issue tried to the jury was whether Johnson & Johnson or JPI had violated the State's Medicaid Fraud Act (the Act) through misrepresentations allegedly made in the mailing of a November 2003 Dear Health Care Professional letter regarding RISPERDAL<sup>®</sup>. The jury returned a verdict that JPI and Johnson & Johnson had violated the Act and awarded \$257.7 million in damages. The trial judge subsequently awarded the Attorney General counsel fees and expenses in the amount of \$73 million. In August 2012, an interlocutory appellate court affirmed the judgment. In January 2013, the Louisiana Supreme Court accepted Johnson & Johnson and JPI's request for appeal. Oral argument on the appeal took place in March 2013 and the parties are awaiting a decision.

In 2007, the Office of General Counsel of the Commonwealth of Pennsylvania filed a lawsuit against Janssen Pharmaceutica (now JPI) on a multi-Count Complaint related to Janssen Pharmaceutica's sale of RISPERDAL<sup>®</sup> to the Commonwealth's Medicaid program. The trial occurred in June 2010. The trial judge dismissed the case after the close of the plaintiff's evidence. The Commonwealth filed an appeal in April 2011, and in July 2012, the Pennsylvania Appeals Court upheld the dismissal of the Commonwealth's case.

In 2007, the Attorney General of South Carolina filed a lawsuit against Johnson & Johnson and Janssen Pharmaceutica (now JPI) on several counts. In March 2011, the matter was tried on liability only, at which time the lawsuit was limited to claims of violation of the South Carolina Unfair Trade Practice Act, including, among others, questions of whether Johnson & Johnson or JPI engaged in unfair or deceptive acts or practices in the conduct of any trade or commerce by distributing the November 2003 Dear Health Care Professional letter regarding RISPERDAL<sup>®</sup> or in their use of the product's FDA-approved label. The jury found in favor of Johnson & Johnson and against JPI. In June 2011, the Court awarded civil penalties of approximately \$327.1 million. JPI has appealed this judgment and the Company believes it has strong arguments supporting the appeal. Oral argument on the appeal took place before the South Carolina Supreme Court in March 2013 and the parties are awaiting a decision.

The Attorneys General of approximately 40 other states and the District of Columbia indicated an interest in pursuing similar litigation against JPI, and obtained a tolling agreement staying the running of the statute of limitations while they pursued an investigation of JPI regarding potential consumer fraud actions in connection with the marketing of RISPERDAL<sup>®</sup>. In September 2012, JPI settled with 36 of the states and the District of Columbia non-Medicaid claims

in connection with the sales and marketing of RISPERDAL<sup>®</sup> and INVEGA<sup>®</sup> for a total of approximately \$181 million, an amount which had been previously accrued.

In the Company's opinion, the ultimate resolution of any of the above RISPERDAL<sup>®</sup> 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.

#### OMNICARE

In September 2005, Johnson & Johnson received a subpoena from the United States Attorney's Office for the District of Massachusetts, seeking documents related to the sales and marketing of eight drugs to Omnicare, Inc. (Omnicare), a manager of pharmaceutical benefits for long-term care facilities. In April 2009, Johnson & Johnson and certain of its pharmaceutical

Table of Contents

subsidiaries were served in two civil qui tam cases asserting claims under the Federal False Claims Act and related state law claims alleging that the defendants provided Omnicare with rebates and other alleged kickbacks, causing Omnicare to file false claims with Medicaid and other government programs. In January 2010, the government intervened in both of these cases, naming Johnson & Johnson, Ortho-McNeil-Janssen Pharmaceuticals, Inc. (now Janssen Pharmaceuticals, Inc. (JPI)), and Johnson & Johnson Health Care Systems Inc. as defendants. Subsequently, the Commonwealth of Massachusetts, Virginia, and Kentucky, and the States of California and Indiana intervened in the action. In February 2011, the United States District Court for the District of Massachusetts dismissed one qui tam case entirely and dismissed the other case in part, rejecting allegations that the defendants had violated their obligation to report its “best price” to health care program officials. The claims of the United States and individual states remain pending. In June 2012, the parties were granted their joint motion to stay the case pending resolution of the potential settlement discussed in the RISPERDAL<sup>®</sup> section above.

MCNEIL CONSUMER HEALTHCARE

Starting in June 2010, McNeil Consumer Healthcare Division of McNEIL-PPC, Inc. (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 recalls of various products of McNeil Consumer Healthcare, and the FDA inspections of the Fort Washington, Pennsylvania and Lancaster, Pennsylvania manufacturing facilities, as well as certain documents relating to recalls of a small number of products of other subsidiaries. In addition, in February 2011, the government served McNEIL-PPC, Inc. (McNEIL-PPC) with a Civil Investigative Demand seeking records relevant to its investigation to determine if there was a violation of the Federal False Claims Act. The grand jury and False Claims investigations are continuing. The Companies are cooperating with the United States Attorney's Office in responding to these investigations.

The Companies have also received Civil Investigative Demands from multiple State Attorneys General Offices broadly relating to the McNeil recall issues. The Companies continue to cooperate with these inquiries, which are being coordinated through a multi-state coalition. If a resolution cannot be reached with this multi-state coalition, it is possible that individual State Attorneys General Offices may file civil money claims against the Companies. In January 2011, the Oregon Attorney General filed a civil complaint against Johnson & Johnson, McNEIL-PPC 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. In November 2012, the state court granted a motion by the Companies to dismiss Oregon's complaint in its entirety, with prejudice. In December 2012, Oregon filed a Notice of Appeal in the Court of Appeals of the State of Oregon.

In March 2011, the United States filed a complaint for injunctive relief in the United States District Court for the Eastern District of Pennsylvania against McNEIL-PPC and two of its employees, alleging that McNEIL-PPC is in violation of FDA regulations regarding the manufacture of drugs at the facilities it operates in Lancaster, Pennsylvania, Fort Washington, Pennsylvania, and Las Piedras, Puerto Rico. On the same day, the parties filed a consent decree of permanent injunction resolving the claims set forth in the complaint. The Court approved and entered the consent decree on March 16, 2011.

The consent decree, which is subject to ongoing enforcement by the Court, requires McNEIL-PPC to take enhanced measures to remediate the three facilities. The Fort Washington facility, which was voluntarily shut down in April 2010, will remain shut down until a third-party consultant certifies that its operations will be in compliance with applicable law, and the FDA concurs with the third-party certification. The Lancaster and Las Piedras facilities may continue to manufacture and distribute drugs, provided that a third party reviews manufacturing records for selected batches of drugs released from the facilities, and certifies that any deviations reviewed do not adversely affect the quality of the selected batches. McNEIL-PPC submitted a workplan to the FDA for remediation of the Lancaster and Las Piedras facilities, and that plan was approved by the FDA in October 2012. Third-party batch record review may

cease if the FDA has stated that the facilities appear to be in compliance with applicable law. Each facility is subject to a five-year audit period by a third party after the facility has been deemed by the FDA to be in apparent compliance with applicable law.

OTHER

In July 2005, Scios Inc. (Scios) received a subpoena from the United States Attorney's Office for the District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR®. In August 2005, Scios was advised that the investigation would be handled by the United States Attorney's Office for the Northern District of California in San Francisco. In February 2009, two qui tam complaints were unsealed in the United States District Court for the Northern District of California, alleging, among other things, improper activities in the promotion of NATRECOR®. In June 2009, the United States government intervened in one of the qui tam actions, and filed a complaint against Scios and Johnson & Johnson seeking relief under the Federal False Claims Act and asserting a claim of unjust enrichment. In October 2011, the criminal matter was

Table of Contents

resolved. The civil case has been stayed pending resolution of the potential settlement discussed in the RISPERDAL<sup>®</sup> section above.

In June 2008, Johnson & Johnson received a subpoena from the United States Attorney's Office for the District of Massachusetts relating to the marketing of biliary stents by Cordis Corporation (Cordis). In February 2012, the government informed Cordis that it was closing its investigation. In addition, in January 2010, a complaint was unsealed in the United States District Court for the Northern District of Texas, filed by Kevin Colquitt, seeking damages against Cordis and other parties for alleged violations of the Federal False Claims Act and several similar state laws in connection with the marketing of biliary stents. The United States Department of Justice and several states declined to intervene. In January 2013, the Court granted Cordis's motion to dismiss the claims against Cordis, with prejudice. Plaintiff appealed, and in May 2013, Plaintiff dismissed his appeal, concluding the matter.

In September 2011, Synthes, Inc. (Synthes) received a Civil Investigative Demand issued pursuant to the False Claims Act from the United States Attorney's Office for the Eastern District of Pennsylvania. The Demand sought information regarding allegations that fellowships had been offered to hospitals in exchange for agreements to purchase products. Synthes has produced documents and information in response to the Demand and is cooperating with the inquiry.

In October 2011, the European Commission (EC) announced that it opened an investigation concerning an agreement between Janssen-Cilag B.V. (Janssen-Cilag) and Sandoz B.V. relating to the supply of fentanyl patches in the Netherlands and whether the agreement infringes European competition law. In January 2013, the EC issued a Statement of Objections setting out facts regarding a potential violation of EU antitrust laws. Janssen-Cilag has submitted its response to the Statement of Objections.

In April 2012, Janssen Pharmaceuticals, Inc. (JPI) received a letter requesting certain documents from the United States Department of Justice relating to the marketing and promotion of DORIBAX<sup>®</sup>. In 2012, JPI provided documents and will continue to cooperate with any further inquiries if and when they are received.

In May 2012, Acclarent, Inc. (Acclarent) received a subpoena from the United States Attorney's Office for the District of Massachusetts requesting documents broadly relating to the sales, marketing and promotion by Acclarent of RELIEVA STRATUS<sup>™</sup> MicroFlow Spacer products. Acclarent is cooperating with the United States Attorney's Office in responding to the subpoena.

In August 2012, DePuy Orthopaedics, Inc., DePuy, Inc. (now DePuy Synthes, Inc. (DePuy Synthes)), and Johnson & Johnson Services, Inc. received an informal request from the United States Attorney's Office for the District of Massachusetts and the Civil Division of the United States Department of Justice for the production of materials relating to the ASR<sup>™</sup> XL Hip device. The government has since made additional informal requests for the production of documents as to the device. The government is investigating whether any person or entity submitted or caused to be submitted false claims or false statements affecting federal health care programs in connection with the marketing and use of the ASR<sup>™</sup> XL Hip device. DePuy Orthopaedics, Inc., DePuy Synthes, and Johnson & Johnson Services, Inc. have voluntarily produced documents in response to the government's informal requests and are fully cooperating with the government's civil investigation. In addition, the Company has received Civil Investigative Demands from the Attorneys General of several states. These demands seek documents and information relating to the development, sales and marketing of several of DePuy Orthopaedics, Inc.'s hip replacement devices. The Company is responding to these demands.

In October 2012, Johnson & Johnson was contacted by the California Attorney General's office regarding a multi-state Attorney General investigation of the marketing of surgical mesh products for hernia and urogynecological purposes by Johnson & Johnson subsidiaries. Johnson & Johnson and its subsidiaries have since entered into a tolling agreement with the 42 states participating in the multi-state investigation and are in the process of responding to Civil

Investigative Demands served by certain of the participating states.

In December 2012, Therakos, Inc. (Therakos), formerly a subsidiary of Johnson & Johnson and part of the Ortho-Clinical Diagnostics, Inc. (OCD) franchise, received a letter from the civil division of the United States Attorney's Office for the Eastern District of Pennsylvania informing Therakos that the United States Attorney's Office was investigating the sales and marketing of UVADEX<sup>®</sup> (methoxsalen) and the UVAR XTS<sup>®</sup> System during the period 2000 to the present. The United States Attorney's Office requested that OCD and Johnson & Johnson preserve documents that could relate to the investigation. Therakos was subsequently acquired by an affiliate of Gores Capital Partners III, L.P. OCD and Johnson & Johnson retain certain liabilities that may result from the investigation for activity that occurred prior to the sale of Therakos, and have taken appropriate steps to retain potentially relevant documents and will cooperate with the United States Attorney's Office's investigation with respect to such activity.

## Table of Contents

In May 2013, Janssen Pharmaceuticals, Inc. (JPI) received a subpoena from the Atlanta Regional Office of the Department of Health and Human Services, Office of Inspector General, seeking production of documents and information regarding: (1) the sales, marketing and promotional practices, including the remuneration of healthcare providers, related to NUCYNTA<sup>®</sup> IR and NUCYNTA<sup>®</sup> ER; and (2) any studies, reports and/or complaints regarding the safety and/or actual or potential side effects of NUCYNTA<sup>®</sup> IR and NUCYNTA<sup>®</sup> ER. JPI is in the process of responding to the subpoena.

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

## GENERAL LITIGATION

In June 2009, following the public announcement that Ortho-Clinical Diagnostics, Inc. (OCD) had received a grand jury subpoena from the United States Department of Justice, Antitrust Division, in connection with an investigation that has since been closed, multiple class action complaints were filed against OCD by direct purchasers seeking damages for alleged price fixing. These cases were consolidated for pre-trial purposes in the United States District Court for the Eastern District of Pennsylvania as *In re Blood Reagent Antitrust Litigation*. In August 2012, the District Court granted a motion filed by Plaintiffs for class certification. In October 2012, the United States Court of Appeals for the Third Circuit granted OCD's petition for interlocutory review of the class certification ruling. That appeal is pending.

In September 2010, a shareholder, Ronald Monk, filed a lawsuit in the United States District Court for the District of New Jersey seeking class certification and alleging that Johnson & Johnson and certain individuals, including executive officers and employees of Johnson & Johnson, failed to disclose that a number of manufacturing facilities failed to maintain current good manufacturing practices, and that as a result, the price of the Company's stock declined significantly. Plaintiff sought to pursue remedies under the Securities Exchange Act of 1934 to recover his alleged economic losses. In December 2011, a motion by Johnson & Johnson to dismiss was granted in part and denied in part. Plaintiff moved the Court to reconsider part of the December 2011 ruling. In May 2012, the Court denied Plaintiff's motion for reconsideration. In September 2012, Plaintiff filed a Second Amended Complaint and Johnson & Johnson and the individual defendants moved to dismiss Plaintiff's Second Amended Complaint in part. Following mediation, the parties reached an agreement in principle to settle the case, and in July 2013, filed for preliminary approval of the proposed settlement.

In April 2011, OMJ Pharmaceuticals, Inc. (OMJ PR) filed a lawsuit against the United States in United States District Court for the District of Puerto Rico alleging overpayment of federal income taxes for the tax years ended November 30, 1999 and November 30, 2000. If OMJ PR loses this lawsuit, it may face liability for subsequent tax years. OMJ PR alleges that the Internal Revenue Service erroneously calculated OMJ PR's tax credits under Section 936 of the Tax Code. OMJ PR filed a motion for summary judgment, and the United States filed a cross motion for summary judgment. In October 2012, the Court granted a motion by the United States for summary judgment and denied a motion by OMJ PR for summary judgment. OMJ PR has appealed this decision.

In August 2011, an arbitration panel ruled that Mitsubishi Tanabe Pharma Corporation (Tanabe), Janssen Biotech, Inc.'s (JBI's) distributor of REMICADE<sup>®</sup> in Japan, could seek to modify the proportion of net sales revenue that Tanabe must remit to JBI in exchange for distribution rights and commercial supply of REMICADE<sup>®</sup> (the Supply Price). Tanabe commenced the arbitration against Centocor Ortho Biotech, Inc. (now JBI) in 2009 pursuant to the parties' distribution agreement, which grants Tanabe the right to distribute REMICADE<sup>®</sup> in Japan and certain other parts of Asia. JBI counterclaimed for an increase in the Supply Price. A hearing was held in November 2011 to determine the appropriate split of revenue. In February 2013, the arbitration panel determined that the Supply Price

should be modified in favor of Tanabe, and in July 2013 issued its Final Award. The Company previously accrued an amount to cover the impact of the arbitration decision.

In September 2011, Johnson & Johnson, Johnson & Johnson Inc. and McNeil Consumer Healthcare Division of Johnson & Johnson Inc. received a Notice of Civil Claim filed by Nick Field in the Supreme Court of British Columbia, Canada (the BC Civil Claim). The BC Civil Claim is a putative class action brought on behalf of persons who reside in British Columbia and who purchased during the period between September 20, 2001 and the present one or more various McNeil infants' or children's over-the-counter medicines that were manufactured at the Fort Washington facility. The BC Civil Claim alleges that the defendants violated the BC Business Practices and Consumer Protection Act, and other Canadian statutes and common laws, by selling medicines that were allegedly not safe and/or effective or did not comply with Canadian Good Manufacturing Practices. The class certification hearing is scheduled for October 2013.



Table of Contents

Johnson & Johnson or its subsidiaries are also parties to a number of proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, and comparable state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.

SHAREHOLDER DERIVATIVE ACTIONS

Starting in April 2010, a number of shareholder derivative lawsuits were filed in the United States District Court for the District of New Jersey against certain current and former directors and officers of Johnson & Johnson. Johnson & Johnson is named as a nominal defendant. These actions were consolidated in August 2010 into In re Johnson & Johnson Derivative Litigation. Additionally, in September 2010, another shareholder derivative lawsuit was filed by Michael Wolin in New Jersey Superior Court against certain current and former directors and officers of Johnson & Johnson. Johnson & Johnson is named as a nominal defendant in this action as well. The parties to this action have stipulated that it shall be stayed until the In re Johnson & Johnson Derivative Litigation is completely resolved.

Collectively, these shareholder derivative actions 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 that the defendants 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. Johnson & Johnson moved to dismiss these actions on the grounds, inter alia, that the plaintiffs failed to make a demand upon the Board of Directors. In September 2011, In re Johnson & Johnson Derivative Litigation was dismissed without prejudice and with leave to file an amended complaint.

Johnson & Johnson filed a report in the In re Johnson & Johnson Derivative Litigation matter in July 2011, prepared by a Special Committee of the Board of Directors of Johnson & Johnson (the Special Committee), which investigated the allegations contained in the derivative actions and in a number of shareholder demand letters that the Board of Directors of Johnson & Johnson (the Board) received in 2010 raising similar issues. The Special Committee was assisted in its investigation by independent counsel. The Special Committee's report recommended: i) that Johnson & Johnson reject the shareholder demands and take whatever steps are necessary or appropriate to secure dismissal of the derivative litigation, and ii) that the Board create a new Regulatory and Compliance Committee charged with responsibility for monitoring and oversight of the Company's Health Care Compliance and Quality & Compliance systems and issues. The Board unanimously adopted the Special Committee's recommendations, and in April 2012, the Board created the Regulatory, Compliance & Government Affairs Committee.

In August 2011, two shareholders who had submitted shareholder demand letters in 2010 filed shareholder derivative lawsuits in the United States District Court for the District of New Jersey naming various current and former officers and directors as defendants and challenging the Board's rejection of their demands. In November 2011, the Court consolidated these two cases into Copeland v. Prince.

Two additional shareholder derivative lawsuits were filed in May 2011 in the United States District Court for the District of New Jersey, and two other shareholder derivative lawsuits were filed in New Jersey Superior Court in May 2011 and August 2011, all naming current directors of Johnson & Johnson as defendants and Johnson & Johnson as the nominal defendant. The complaints allege breaches of fiduciary duties related to the Company's compliance with the Foreign Corrupt Practices Act and participation in the United Nations Iraq Oil For Food Program, that the Company has suffered damages as a result of those alleged breaches, and that the defendants failed to disclose the alleged misconduct in the Company's filings under the Securities Exchange Act of 1934. Plaintiffs seek monetary damages, and the state court plaintiffs also seek corporate governance reforms. The federal lawsuits were consolidated in July 2011 into In re J&J FCPA Derivative Shareholder Litigation. The state lawsuits were consolidated in

November 2011 into In re J&J Shareholder Derivative Litigation. In May 2012, the Court granted a motion by Johnson & Johnson to stay the state lawsuits pending resolution of In re J&J FCPA Derivative Shareholder Litigation.

In July 2012, the parties in each of the shareholder derivative cases pending in federal court discussed above (specifically, In re Johnson & Johnson Derivative Litigation, Copeland v. Prince, and In re J&J FCPA Derivative Shareholder Litigation) filed a Stipulation of Settlement (the Settlement) to permanently resolve all of the actions in their entirety. In October 2012, the Settlement was approved by the United States District Court for the District of New Jersey. In November 2012, a notice of appeal was filed in the United States Court of Appeals for the Third Circuit by a shareholder who objected to the approval of the Settlement in the District Court on the grounds that the lawsuit and the Settlement did not provide any benefit to the Company, and that plaintiffs' counsel had requested an excessive fee award.

Table of Contents

In September 2011, two additional shareholder derivative lawsuits were filed in the United States District Court for the District of New Jersey by Donovan Spamer and The George Leon Family Trust naming current directors and one former director of Johnson & Johnson as defendants and Johnson & Johnson as the nominal defendant. These lawsuits allege that the defendants breached their fiduciary duties in their decisions with respect to the compensation of the Chief Executive Officer during the period from 2008 through 2011, and that the defendants made misleading statements in the Company's annual proxy statements. Both of these lawsuits have been voluntarily dismissed without prejudice, but a similar lawsuit, The George Leon Family Trust v. Coleman, was refiled in July 2012. That lawsuit seeks a variety of relief, including monetary damages, injunctive relief, and corporate governance reforms. The Settlement does not resolve these potential claims. In June 2013, the Board of Directors of Johnson & Johnson (the Board) received a report prepared by special, independent counsel to the Board, which investigated the allegations contained in the derivative actions filed by Donovan Spamer and by The George Leon Family Trust, and in several shareholder demand letters that the Board received in 2011 and 2012 raising similar issues. The report recommended that Johnson & Johnson reject the shareholder demands and take whatever steps are necessary or appropriate to secure dismissal of the derivative litigation. The Board unanimously adopted the report's recommendations.

Table of Contents

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

RESULTS OF OPERATIONS

Analysis of Consolidated Sales

For the first fiscal six months of 2013, worldwide sales were \$35.4 billion, a total increase of 8.5%, including operational growth of 9.9% as compared to 2012 fiscal six months sales of \$32.6 billion. Currency fluctuations had a negative impact of 1.4% for the first fiscal six months of 2013. The acquisition of Synthes, Inc., net of the related trauma business divestiture, increased operational growth by 5.1%. Worldwide operational growth was impacted by 0.6% due to a positive adjustment to previous estimates for managed Medicaid rebates under the Affordable Care Act, primarily related to new data received from the states in the fiscal first quarter of 2013.

Sales by U.S. companies were \$16.0 billion in the first fiscal six months of 2013, which represented an increase of 9.5% as compared to the prior year. Sales by international companies were \$19.4 billion, which represented a total increase of 7.6%, including an operational increase of 10.2%, and a negative currency impact of 2.6% as compared to the fiscal six months sales of 2012.

Sales by companies in Europe achieved growth of 9.5%, including operational growth of 8.8%, and a currency impact of 0.7%. Sales by companies in the Western Hemisphere, excluding the U.S., achieved growth of 7.1%, including operational growth of 11.5%, and a negative currency impact of 4.4%. Sales by companies in the Asia-Pacific, Africa region achieved sales growth of 5.4%, including operational growth of 11.4%, and a negative currency impact of 6.0%.

For the fiscal second quarter of 2013, worldwide sales were \$17.9 billion, a total increase of 8.5%, including operational growth of 10.0% as compared to 2012 fiscal second quarter sales of \$16.5 billion. Currency fluctuations had a negative impact of 1.5% for the fiscal second quarter of 2013. The acquisition of Synthes, Inc., net of the related trauma business divestiture, increased operational growth by 4.4%.

Sales by U.S. companies were \$8.0 billion in the fiscal second quarter of 2013, which represented an increase of 8.0% as compared to the prior year. Sales by international companies were \$9.9 billion, which represented a total increase of 9.0%, including an operational increase of 11.8%, and a negative currency impact of 2.8% as compared to the fiscal second quarter sales of 2012.

Sales by companies in Europe achieved growth of 12.2%, including operational growth of 11.4%, and a positive currency impact of 0.8%. Sales by companies in the Western Hemisphere, excluding the U.S., achieved growth of 10.2%, including operational growth of 14.0%, and a negative currency impact of 3.8%. Sales by companies in the Asia-Pacific, Africa region achieved sales growth of 4.1%, including operational growth of 11.0%, and a negative currency impact of 6.9%.

U.S. Health Care Reform

Under the provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, beginning in 2013, the Company began paying a tax deductible 2.3% excise tax imposed on the sale of certain medical devices. The 2013 full-year impact of the excise tax is estimated to be between \$200 - \$300 million.



Table of Contents

## ANALYSIS OF SALES BY BUSINESS SEGMENTS

## Consumer

Consumer segment sales in the first fiscal six months of 2013 were \$7.3 billion, an increase of 1.6% as compared to the same period a year ago, including operational growth of 2.4% and a negative currency impact of 0.8%. U.S. Consumer segment sales increased by 1.7%. International Consumer segment sales increased by 1.6%, including operational growth of 2.9% and a negative currency impact of 1.3%.

## Major Consumer Franchise Sales — Fiscal Six Months Ended\*

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change		Operations Change		Currency Change	
OTC	\$1,974	\$1,834	7.6	%	7.9	%	(0.3)	)%
Skin Care	1,810	1,820	(0.5)	)	(0.3)	)	(0.2)	)
Baby Care	1,150	1,118	2.9		5.0		(2.1)	)
Women's Health	812	811	0.1		2.2		(2.1)	)
Oral Care	809	795	1.8		2.6		(0.8)	)
Wound Care/Other	778	836	(6.9)	)	(6.7)	)	(0.2)	)
Total Consumer Sales	\$7,333	\$7,214	1.6	%	2.4	%	(0.8)	)%

\*Prior year amounts have been reclassified to conform to current year presentation. Nutritionals is included in Wound Care/Other, previously included in OTC.

Consumer segment sales in the fiscal second quarter of 2013 were \$3.7 billion, an increase of 1.1% as compared to the same period a year ago, including operational growth of 1.7% and a negative currency impact of 0.6%. U.S. Consumer segment sales increased by 1.0%. International Consumer segment sales increased by 1.1%, including operational growth of 2.0% and a negative currency impact of 0.9%.

## Major Consumer Franchise Sales — Fiscal Second Quarters Ended\*

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change		Operations Change		Currency Change	
OTC	\$931	\$883	5.4	%	5.4	%	0.0%	
Skin Care	908	913	(0.5)	)	(0.4)	)	(0.1)	)
Baby Care	586	578	1.4		3.1		(1.7)	)
Women's Health	411	402	2.2		3.6		(1.4)	)
Oral Care	406	408	(0.5)	)	0.2		(0.7)	)
Wound Care/Other	416	435	(4.4)	)	(4.3)	)	(0.1)	)
Total Consumer Sales	\$3,658	\$3,619	1.1	%	1.7	%	(0.6)	)%

\*Prior year amounts have been reclassified to conform to current year presentation. Nutritionals is included in Wound Care/Other previously included in OTC.

The OTC franchise achieved operational growth of 5.4% as compared to the prior year fiscal second quarter. The strong sales results in the U.S. were driven by analgesics and upper respiratory products, due to progress in returning a reliable supply of products to the marketplace.

The Skin Care franchise experienced an operational decline of 0.4% as compared to the prior year primarily due to timing of sun care shipments and the impact of divestitures partially offset by strong results for AVEENO®.

The Baby Care franchise achieved operational growth of 3.1% as compared to the prior year, primarily due to haircare, cleansers and newly acquired products from the acquisition of Elsker Mother & Baby Co., Ltd.

The Women's Health franchise achieved operational growth of 3.6% as compared to the prior year primarily due to growth in women's sanitary protection products.

Table of Contents

The Oral Care franchise achieved operational growth of 0.2% as compared to the prior year, primarily attributable to strong sales of LISTERINE® outside the U.S., due to the continued success of new product launches. This growth was partially offset by the impact of the divestiture of the manual toothbrush product line in the U.S.

The Wound Care/Other franchise experienced an operational decline of 4.3% as compared to the prior year, due to competitive pressures and the impact of divestitures.

## Pharmaceutical

Pharmaceutical segment sales in the first fiscal six months of 2013 were \$13.8 billion, a total increase of 11.0% as compared to the same period a year ago with an operational increase of 12.1% and a negative currency impact of 1.1%. U.S. Pharmaceutical sales increased by 11.9% as compared to the same period a year ago. International Pharmaceutical sales increased by 10.2%, including operational growth of 12.4% and a negative currency impact of 2.2%. The Pharmaceutical segment operational growth was impacted by 1.6% in the first fiscal six months of 2013 due to a positive adjustment to previous estimates for managed Medicaid rebates.

## Major Pharmaceutical Therapeutic Area Sales — Fiscal Six Months Ended\*

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change	Operations Change	Currency Change
Total Immunology	\$4,445	\$3,814	16.5	% 17.2	% (0.7)
REMICADE®	3,272	3,044	7.5	7.9	(0.4)
SIMPONI®	412	241	71.0	73.5	(2.5)
STELARA®	717	469	52.9	53.4	(0.5)
Other Immunology	44	60	(26.7)	(26.1)	(0.6)
Total Infectious Diseases	1,785	1,543	15.7	16.5	(0.8)
INCIVO®	334	234	42.7	45.4	(2.7)
INTELENCE®	192	171	12.3	12.6	(0.3)
PREZISTA®	802	697	15.1	15.3	(0.2)
Other Infectious Diseases	457	441	3.6	4.3	(0.7)
Total Neuroscience	3,424	3,361	1.9	4.0	(2.1)
CONCERTA®/methylphenidate	471	576	(18.2)	(17.4)	(0.8)
INVEGA®	282	263	7.2	9.7	(2.5)
INVEGA® SUSTENNA®/XEPLION®	574	356	61.2	60.9	0.3
RISPERDAL® CONSTA®	671	716	(6.3)	(4.8)	(1.5)
Other Neuroscience	1,426	1,450	(1.7)	1.8	(3.5)
Total Oncology	1,679	1,182	42.0	44.0	(2.0)
VELCADE®	732	671	9.1	12.1	(3.0)
ZYTIGA®	739	432	71.1	71.1	0.0
Other Oncology	208	79	**	**	(5.0)
Total Other	2,460	2,524	(2.5)	(2.2)	(0.3)
ACIPHEX®/PARIET®	308	454	(32.2)	(32.1)	(0.1)
PROCRIT®/EPREX®	713	777	(8.2)	(8.3)	0.1
XARELTO®	347	76	**	**	—
Other	1,092	1,217	(10.3)	(9.7)	(0.6)
Total Pharmaceutical Sales	\$13,793	\$12,424	11.0	% 12.1	% (1.1)

\*Prior year amounts have been reclassified to conform to current year product disclosure.

\*\* Percentage greater than 100%





Table of Contents

Pharmaceutical segment sales in the fiscal second quarter of 2013 were \$7.0 billion, a total increase of 11.7% as compared to the same period a year ago with an operational increase of 12.9% and a negative currency impact of 1.2%. U.S. Pharmaceutical sales increased by 9.1% as compared to the same period a year ago. International Pharmaceutical sales increased by 14.1%, including operational growth of 16.5% and a negative currency impact of 2.4%.

## Major Pharmaceutical Therapeutic Area Sales — Fiscal Second Quarters Ended\*

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change	Operations Change	Currency Change
Total Immunology	\$2,241	\$1,919	16.8	% 17.6	% (0.8)
REMICADE®	1,672	1,523	9.8	10.3	(0.5)
SIMPONI®	175	125	40.0	43.2	(3.2)
STELARA®	371	248	49.6	50.2	(0.6)
Other Immunology	23	23	0.0	1.1	(1.1)
Total Infectious Diseases	970	788	23.1	23.9	(0.8)
INCIVO®	172	102	68.6	71.8	(3.2)
INTELENCE®	103	91	13.2	13.5	(0.3)
PREZISTA®	435	373	16.6	16.9	(0.3)
Other Infectious Diseases	260	222	17.1	17.9	(0.8)
Total Neuroscience	1,680	1,714	(2.0)	0.4	(2.4)
CONCERTA®/methylphenidate	215	268	(19.8)	(18.7)	(1.1)
INVEGA®	150	142	5.6	8.4	(2.8)
INVEGA® SUSTENNA®/XEPLION®	290	195	48.7	48.3	0.4
RISPERDAL® CONSTA®	336	355	(5.4)	(3.5)	(1.9)
Other Neuroscience	689	754	(8.6)	(4.8)	(3.8)
Total Oncology	885	586	51.0	53.2	(2.2)
VELCADE®	379	318	19.2	22.7	(3.5)
ZYTIGA®	395	232	70.3	70.0	0.3
Other Oncology	111	36	**	**	(6.1)
Total Other	1,249	1,284	(2.7)	(2.7)	0.0
ACIPHEX®/PARIET®	156	232	(32.8)	(32.8)	0.0
PROCRIPT®/EPREX®	335	401	(16.5)	(16.7)	0.2
XARELTO®	189	49	**	**	—
Other	569	602	(5.5)	(5.3)	(0.2)
Total Pharmaceutical Sales	\$7,025	\$6,291	11.7	% 12.9	% (1.2)

\*Prior year amounts have been reclassified to conform to current year product disclosure.

\*\* Percentage greater than 100%

Immunology products achieved operational sales growth of 17.6% as compared to the same period a year ago. The increased sales of STELARA® (ustekinumab), SIMPONI® (golimumab) and REMICADE® (infliximab) were primarily due to market growth and international market share gains.

Infectious disease products achieved operational sales growth of 23.9% as compared to the same period a year ago. Major contributors were INCIVO® (telaprevir), due to the success of the continued roll-out, primarily in Latin America, the continued momentum and market share growth of PREZISTA® (darunavir) and sales of EDURANT® (rilpivirine).

Neuroscience products achieved operational sales growth of 0.4% as compared to the same period a year ago. Strong sales of INVEGA® SUSTENNA®/XEPLION® (paliperidone palmitate) were partially offset by a decline in RISPERSDAL® CONSTA®(risperidone) as well as lower sales of CONCERTA®/methylphenidate and DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system) due to continued generic competition. The Company's U.S. Supply and Distribution Agreement with Watson Laboratories, Inc. to distribute an authorized generic version of CONCERTA® became effective May 1, 2011. The

Table of Contents

original CONCERTA<sup>®</sup> patent expired in 2004, and parties have received approval from the U.S. Food and Drug Administration (FDA) to manufacture and market a generic version of CONCERTA<sup>®</sup>. Another generic version of CONCERTA<sup>®</sup> was launched on December 31, 2012 resulting in a further reduction in CONCERTA<sup>®</sup> sales.

Oncology products achieved strong operational sales growth of 53.2% as compared to the same period a year ago. This growth was primarily due to sales of ZYTIGA<sup>®</sup>(abiraterone acetate) and VELCADE<sup>®</sup> (bortezomib). Additionally, Other Oncology increased, primarily due to DOXIL<sup>®</sup>(doxorubicin HCl liposome injection)/CAELYX<sup>®</sup>(pegylated liposomal doxorubicin hydrochloride).

In the fiscal second quarter of 2013, Other Pharmaceutical sales experienced an operational decline of 2.7% as compared to the prior year fiscal second quarter. Lower sales of EPREX<sup>®</sup> (Epoetin alfa) and PARIET<sup>®</sup>(rabeprazole sodium) were primarily due to generic competition. PROCRI<sup>®</sup> (Epoetin alfa) sales declined primarily due to a market decline. Strong sales of XARELTO<sup>®</sup>(rivaroxaban) and the launch of INVOKANA<sup>™</sup> (canagliflozin) partially offset the decline in Other Pharmaceuticals.

### Medical Devices and Diagnostics

Medical Devices and Diagnostics segment sales in the first fiscal six months of 2013 were \$14.3 billion, an increase of 9.9% as compared to the same period a year ago, including operational growth of 12.0% and a negative currency impact of 2.1%. U.S. Medical Devices and Diagnostics sales increased 10.6%. The international Medical Devices and Diagnostics sales increase of 9.2% included operational growth of 12.9% and a negative currency impact of 3.7%. The acquisition of Synthes, Inc., net of the related trauma business divestiture, increased operational growth for the total Medical Devices and Diagnostics segment by 13.0%.

### Major Medical Devices and Diagnostics Franchise Sales — Fiscal Six Months Ended

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change	Operations Change	Currency Change
Orthopaedics	\$ 4,770	\$ 3,121	52.8 %	54.5 %	(1.7) %
Surgical Care	3,096	3,265	(5.2 )	(3.3 )	(1.9 )
Vision Care	1,470	1,487	(1.1 )	3.5	(4.6 )
Specialty Surgery	1,283	1,274	0.7	1.9	(1.2 )
Diabetes Care	1,189	1,343	(11.5 )	(10.9 )	(0.6 )
Cardiovascular Care	1,042	986	5.7	8.1	(2.4 )
Diagnostics	960	1,026	(6.4 )	(4.5 )	(1.9 )
Infection Prevention/Other	446	474	(5.9 )	(2.9 )	(3.0 )
Total Medical Devices and Diagnostics Sales	\$ 14,256	\$ 12,976	9.9 %	12.0 %	(2.1) %

Medical Devices and Diagnostics segment sales in the fiscal second quarter of 2013 were \$7.2 billion, an increase of 9.6% as compared to the same period a year ago, including operational growth of 12.0% and a negative currency impact of 2.4%.

U.S. Medical Devices and Diagnostics sales increased 9.8%. The international Medical Devices and Diagnostics sales increase of 9.4% included operational growth of 13.7% and a negative currency impact of 4.3%. The acquisition of Synthes, Inc., net of the related trauma business divestiture, increased operational growth for the total Medical Devices and Diagnostics segment by 11.5%.

Table of Contents

## Major Medical Devices and Diagnostics Franchise Sales — Fiscal Second Quarters Ended

(Dollars in Millions)	June 30, 2013	July 1, 2012	Total Change	Operations Change	Currency Change
Orthopaedics	\$2,385	\$1,628	46.5 %	48.9 %	(2.4 )%
Surgical Care	1,588	1,640	(3.2 )	(1.2 )	(2.0 )
Vision Care	730	730	0.0	5.4	(5.4 )
Specialty Surgery	656	646	1.5	2.8	(1.3 )
Diabetes Care	589	673	(12.5 )	(11.8 )	(0.7 )
Cardiovascular Care	529	504	5.0	7.7	(2.7 )
Diagnostics	483	514	(6.0 )	(4.0 )	(2.0 )
Infection Prevention/Other	234	230	1.7	5.2	(3.5 )
Total Medical Devices and Diagnostics Sales	\$7,194	\$6,565	9.6 %	12.0 %	(2.4 )%

The Orthopaedics franchise achieved operational sales growth of 48.9% as compared to the prior year fiscal second quarter. Growth was primarily due to sales of newly acquired products from Synthes, Inc., hips, knees and Mitek sports medicine products. The positive impact on the Orthopaedics franchise operational sales growth due to the newly acquired products from Synthes, Inc. net of the related trauma business divestiture was 45.9%.

The Surgical Care franchise experienced an operational sales decline of 1.2% as compared to the prior year fiscal second quarter. The sales decline was due to divestitures and the Company's decision to exit from certain women's health product lines.

The Vision Care franchise achieved operational sales growth of 5.4% as compared to the prior year fiscal second quarter. The growth was driven by ACUVUE® TruEye™, 1-DAY ACUVUE® MOIST® for Astigmatism and 1-DAY ACUVUE® MOIST®, partially offset by lower sales of reusable lenses.

The Specialty Surgery franchise achieved operational sales growth of 2.8% as compared to the prior year fiscal second quarter primarily due to sales from Acclarent and biosurgical products partially offset by lower sales of Mentor aesthetic products.

The Diabetes Care franchise experienced an operational sales decline of 11.8% as compared to the prior year fiscal second quarter. Sales declined primarily due to the impact of lower price, competitive pressures and softness in the retail market. The decline was partially offset by strong growth in the emerging markets.

The Cardiovascular Care franchise achieved operational sales growth of 7.7% as compared to the prior year fiscal second quarter. Growth was primarily driven by sales of Biosense Webster products.

The Diagnostics franchise experienced an operational sales decline of 4.0% as compared to the prior year. The decline was primarily due to the divestitures of RhoGAM® and the Therakos business, partially offset by U.S. growth in donor screening and emerging markets outside the U.S. In January 2013, the Company announced it is exploring strategic alternatives for the Ortho-Clinical Diagnostics business, including a possible divestiture.

The Infection Prevention/Other franchise achieved operational sales growth of 5.2% as compared to the prior year fiscal second quarter due to sales growth outside the U.S.

## ANALYSIS OF CONSOLIDATED EARNINGS BEFORE PROVISION FOR TAXES ON INCOME

Consolidated earnings before provision for taxes on income for the first fiscal six months of 2013 increased to \$9.1 billion as compared to \$7.1 billion in the first fiscal six months of 2012, an increase of 27.9%. The first fiscal six

months of 2013 was favorably impacted by sales growth, a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, positive mix and cost containment initiatives partially offset by higher litigation expenses of \$0.2 billion and \$0.1 billion related to the DePuy ASR™ Hip program. The first fiscal six months of 2012 included \$1.3 billion of higher write-downs of intangible assets and in-process research and development, primarily related to the Crucell vaccine business and higher costs of \$0.1 billion related to the Synthes acquisition as compared to the first fiscal six months of 2013. Additionally, the first fiscal six months of 2012 included higher gains of \$0.3 billion related to divestitures. Consolidated earnings before provision for taxes on income for the fiscal second quarter of 2013 increased to \$4.8 billion as compared to \$2.0 billion in the fiscal second quarter of 2012, an increase of 135.5%. The fiscal second quarter of 2013, was

## Table of Contents

favorably impacted by sales growth, a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, positive mix and cost containment initiatives partially offset by \$0.1 billion related to the DePuy ASR™ Hip program. The fiscal second quarter of 2012 included \$1.4 billion of higher write-downs of intangible assets and in-process research and development, primarily related to the Crucell vaccine business, higher litigation expenses of \$0.3 billion and higher costs of \$0.5 billion related to the Synthes acquisition as compared to the fiscal second quarter of 2013.

### Cost of Products Sold

Consolidated costs of products sold for the first fiscal six months of 2013 increased to 31.2% from 30.8% of sales as compared to the same period a year ago. Increased costs of \$0.3 billion recorded in costs of products sold was primarily the result of an inventory step-up charge and incremental amortization expense related to Synthes. This was partially offset by positive mix and cost reduction efforts. Intangible amortization expense for the first fiscal six months of 2013 and 2012 was \$653 million and \$488 million, respectively. Consolidated costs of products sold for the fiscal second quarter of 2013 decreased to 30.7% from 31.2% of sales as compared to the same period a year ago primarily due to positive mix, lower costs associated with strong volume growth in the pharmaceutical business and cost reduction efforts across all the businesses. Intangible amortization expense for the fiscal second quarters of 2013 and 2012 was \$318 million and \$283 million, respectively.

### Selling, Marketing and Administrative Expenses

Consolidated selling, marketing and administrative expenses for the first fiscal six months of 2013 decreased to 30.0% from 30.6% of sales as compared to the same period a year ago. The decrease was primarily due to cost containment initiatives in the Pharmaceutical and Consumer segments. Consolidated selling, marketing and administrative expenses for the fiscal second quarter of 2013 was 30.1%, which was consistent with the prior year.

### Research and Development Expense

Research and development activities represent a significant part of the Company's business. These expenditures relate to the processes of discovering, testing and developing new products, improving existing products, as well as ensuring product efficacy and regulatory compliance prior to launch. The Company remains committed to investing in research and development with the aim of delivering high quality and innovative products. Worldwide costs of research and development activities for the first fiscal six months of 2013 were 10.5% of sales. Spending as a percent of sales was consistent with the prior year fiscal six months of 2012. Worldwide costs of research and development activities for the fiscal second quarter of 2013 increased to 10.9% from 10.7% of sales primarily due to higher milestone payments.

### In-Process Research and Development (IPR&D)

During the first fiscal six months of 2013, the Company recorded a charge in the amount of \$0.1 billion for the write-down of the IPR&D for Acclarent related to the discontinuation of development projects. During the fiscal second quarter of 2012, the Company recorded a charge for the partial impairment of the IPR&D related to the Crucell vaccine business in the amount of \$0.4 billion.

### Interest (Income) Expense

Interest income increased slightly in both the first fiscal six months and the fiscal second quarter of 2013 as compared to the same period a year ago, due to higher average cash balances. The ending balance of cash, cash equivalents and marketable securities, was \$25.1 billion at the end of the fiscal second quarter of 2013. This is an increase of \$8.2 billion from the same period a year ago. The increase in the average cash balance was due to cash generated from

operating activities.

Interest expense decreased in both the first fiscal six months and the fiscal second quarter of 2013 as compared to the same period a year ago due to a lower average debt balance. At the end of the fiscal second quarter of 2013, the Company's debt position was \$15.0 billion compared to \$17.6 billion from the same period a year ago. The decrease in debt was primarily due to the maturity and retirement of \$1.5 billion long term debt.

#### Other (Income) Expense, Net

Other (income) expense, net is the account where the Company records gains and losses related to the sale and write-down of certain equity securities of the Johnson & Johnson Development Corporation, gains and losses on the disposal of assets, currency gains and losses, acquisition-related costs, litigation settlements, as well as royalty income. The change in other (income) expense, net for the first fiscal six months of 2013, was favorable by \$0.7 billion as compared to the same period a



Table of Contents

year ago. The fiscal six months of 2013, included a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, partially offset by higher litigation expenses of \$0.2 billion and \$0.1 billion related to the DePuy ASR™ Hip program. The fiscal six months of 2012 included \$0.9 billion attributed to write-downs of intangible assets, primarily related to the Crucell vaccine business and higher costs of \$0.2 billion related to the Synthes acquisition. Additionally, the fiscal six months of 2012 included higher gains of \$0.3 billion related to divestitures. The change in other (income) expense, net for the fiscal second quarter of 2013, was favorable by \$1.8 billion as compared to the same period a year ago. The fiscal second quarter of 2013, included a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, partially offset by \$0.1 billion related to the DePuy ASR™ Hip program. The fiscal second quarter of 2012, included \$0.9 billion attributed to write-downs of intangible assets, primarily related to the Crucell vaccine business, higher litigation expenses of \$0.3 billion and higher costs of \$0.5 billion related to the Synthes acquisition.

## SEGMENT PRE-TAX PROFIT

## Consumer Segment

Pre-tax profit for the Consumer segment as a percent to sales in the first fiscal six months of 2013 was 14.4% versus 10.1% for the same period a year ago. The favorable pre-tax profit for the fiscal six months was primarily due to a gain of \$55 million on the sale of intangible and other assets as well as cost containment initiatives realized in selling, marketing and administrative expenses partially offset by higher remediation costs in the McNeil OTC business. Additionally, the first fiscal six months of 2012 included intangible asset write-downs of \$0.3 billion. Pre-tax profit for the Consumer segment as a percent to sales in the fiscal second quarter of 2013 was 14.0% versus 7.4% for the same period a year ago primarily due to intangible asset write-downs of \$0.3 billion included in the fiscal second quarter of 2012.

## Pharmaceutical Segment

Pre-tax profit for the Pharmaceutical segment as a percent to sales in the first fiscal six months of 2013 was 39.2% versus 25.0% for the same period a year ago. The favorable pre-tax profit was attributable to a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, a positive adjustment of approximately \$0.2 billion to previous estimates for managed Medicaid rebates and cost containment initiatives. Additionally, the first fiscal six months of 2012 was unfavorably impacted by \$0.9 billion attributed to the write-down of intangible assets and in-process research and development, primarily related to the Crucell vaccine business and higher net litigation expense of \$0.5 billion. This was partially offset by a gain of \$0.3 billion related to the divestiture of BYSTOLIC® recorded in the fiscal first quarter of 2012. Pre-tax profit for the Pharmaceutical segment as a percent to sales in the fiscal second quarter of 2013 was 42.6% versus 8.2% for the same period a year ago. The favorable pre-tax profit was attributable to a net gain of \$0.4 billion on equity investment transactions, primarily the sale of Elan American Depositary Shares, positive mix, lower costs associated with strong volume growth and cost containment initiatives realized in selling, marketing and administrative expenses. Additionally, the fiscal second quarter of 2012 was unfavorably impacted by \$0.9 billion attributed to the write-down of intangible assets and in-process research and development, primarily related to the Crucell vaccine business and higher net litigation expense of \$0.7 billion.

## Medical Devices and Diagnostics Segment

Pre-tax profit for the Medical Devices and Diagnostics segment as a percent to sales in the first fiscal six months of 2013 was 21.3% versus 30.5% for the same period a year ago. Pre-tax profit for the first fiscal six months of 2013 was unfavorably impacted by higher costs of \$0.7 billion for litigation expense, \$0.4 billion for amortization of the inventory step-up and the incremental amortization expense related to Synthes and \$0.1 billion related to the DePuy

ASR™ Hip program. The first fiscal six months of 2012 included higher write-downs of intangible assets of \$0.1 billion. Pre-tax profit for the Medical Devices and Diagnostics segment as a percent to sales in the fiscal second quarter of 2013 was 21.1% versus 28.6% for the same period a year ago. Pre-tax profit for the fiscal second quarter of 2013 was unfavorably impacted by higher costs of \$0.4 billion for litigation expense and \$0.1 billion related to the DePuy ASR™ Hip program. The fiscal second quarter of 2012 included \$0.1 billion attributable to the write-down of intangible assets.

#### Provision for Taxes on Income

The worldwide effective income tax rates for the first fiscal six months of 2013 and 2012 were 19.0% and 24.9%, respectively. The lower effective tax rate in 2013 as compared to 2012 was primarily due to the inclusion of the benefit from the U.S. Research & Development (R&D) tax credit and the Controlled Foreign Corporation (CFC) look-through provisions from the 2012 fiscal year and increases in taxable income in lower tax jurisdictions relative to higher tax jurisdictions. The higher

## Table of Contents

effective tax rate in 2012 was also due to lower tax rates associated with the deductions for Synthes integration and transaction costs and litigation accruals, which added approximately 3.0 points to the tax rate. The R&D tax credit and the CFC look-through provisions were enacted into law in January 2013 and were retroactive to January 1, 2012. The entire 2012 R&D tax credit and the CFC look-through provisions were reflected in the fiscal six months of 2013 and decreased the tax rate by 1.2 points. Additionally, the quarterly impact of the 2013 R&D tax credit and the CFC look-through provisions is reflected in the 2013 fiscal six months financial results.

As of June 30, 2013, the Company had approximately \$2.9 billion of liabilities from unrecognized tax benefits. The Company believes it is possible that audits may be completed by tax authorities in some jurisdictions over the next twelve months, including the U.S. Internal Revenue Service audit related to tax years 2006-2009. However, 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.

See Note 8 to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended December 30, 2012 for more detailed information regarding unrecognized tax benefits.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Cash and cash equivalents were \$17.3 billion at the end of the fiscal second quarter of 2013 as compared with \$14.9 billion at the fiscal year end of 2012. The primary sources of cash were approximately \$7.3 billion net cash generated from operating activities offset by \$2.0 billion used by investing activities and \$2.8 billion used by financing activities.

Cash flow from operations of \$7.3 billion was the result of \$7.3 billion of net earnings and \$2.3 billion of non-cash charges and other adjustments related to depreciation and amortization, stock-based compensation, the Venezuela currency devaluation, asset write-downs, net gain on equity investment transactions and deferred tax provision reduced by \$2.3 billion related to changes in assets and liabilities, net of effects from acquisitions.

Investing activities use of \$2.0 billion of cash was primarily for net purchases of investments in marketable securities of \$0.6 billion; additions to property, plant and equipment of \$1.4 billion; and acquisitions, net of cash acquired, of \$0.2 billion partially offset by \$0.1 billion of proceeds from the disposal of assets.

Financing activities used \$2.8 billion of cash primarily for dividends to shareholders of \$3.6 billion and net retirement of short and long-term debt of \$1.1 billion partially offset by \$1.8 billion of net proceeds from stock options exercised and excess tax benefits.

Final settlement of the accelerated share repurchase (ASR) agreements in connection with the Synthes transaction is expected to occur in either stock or cash in the third quarter of 2013. Based on the theoretical settlement of the ASR agreements, an additional 32.5 million shares would be issued, or approximately \$2.8 billion in cash would be used, to settle the ASR agreements as of June 30, 2013.

In the fiscal second quarter of 2013, the Company continued to have access to liquidity through the commercial paper market. The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will continue to provide sufficient resources to fund operating needs. However, the Company monitors the global capital markets on an ongoing basis and from time to time may raise capital when market conditions are favorable.

Dividends

On April 25, 2013, the Board of Directors declared a regular cash dividend of \$0.66 per share, paid on June 11, 2013 to shareholders of record as of May 28, 2013.

On July 15, 2013, the Board of Directors declared a regular cash dividend of \$0.66 per share, payable on September 10, 2013 to shareholders of record as of August 27, 2013. The Company expects to continue the practice of paying regular quarterly cash dividends.

Concentration of Credit Risk

Global concentration of credit risk with respect to trade accounts receivables continues to be limited due to the large number of customers globally and adherence to internal credit policies and credit limits. Economic challenges in Italy, Spain, Greece

45

---

## Table of Contents

and Portugal (the Southern European Region) have impacted certain payment patterns, which have historically been longer than those experienced in the U.S. and other international markets. The total net trade accounts receivable balance in the Southern European Region was approximately \$2.3 billion as of June 30, 2013 and approximately \$2.1 billion as of December 30, 2012. Approximately \$1.4 billion as of June 30, 2013 and approximately \$1.2 billion as of December 30, 2012 of the Southern European Region net trade accounts receivable balance related to the Company's Consumer, Vision Care and Diabetes Care businesses as well as certain Pharmaceutical and Medical Devices and Diagnostics customers, which are in line with historical collection patterns.

The remaining balance of net trade accounts receivable in the Southern European Region has been negatively impacted by the timing of payments from certain government owned or supported health care customers as well as certain distributors of the Pharmaceutical and Medical Devices and Diagnostics local affiliates. The total net trade accounts receivable balance for these customers was approximately \$0.9 billion at June 30, 2013 and December 30, 2012. The Company continues to receive payments from these customers and in some cases late payment premiums. For customers where payment is expected over periods of time longer than one year, revenue and trade receivables have been discounted over the estimated period of time for collection. Allowances for doubtful accounts have been increased for these customers, but have been immaterial to date. The Company will continue to work closely with these customers on payment plans, monitor the economic situation and take appropriate actions, as necessary.

## OTHER INFORMATION

### New Accounting Pronouncements

Refer to Note 1 to the Consolidated Financial Statements for new accounting pronouncements.

### Economic and Market Factors

The Company is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concern about the rising cost of health care. The Company has a long-standing policy of pricing products responsibly. For the period 2002 through 2012 in the United States, the weighted average compound annual growth rate of the Company's price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

The Company operates in certain countries where the economic conditions continue to present significant challenges. The Company continues to monitor these situations and take appropriate actions. Inflation rates continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may continue to result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

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

The Company also operates in an environment increasingly hostile to intellectual property rights. Generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending a lawsuit resulting from an Abbreviated New Drug Application filing, the generic firms will then introduce generic versions of the product at issue, resulting in very substantial market share

and revenue losses. For further information see the discussion on “Litigation Against Filers of Abbreviated New Drug Applications” included in Item 1. Financial Statements (unaudited) - Notes to Consolidated Financial Statements, Note 11.

Table of Contents

**CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Form 10-Q contains forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approval, market position and expenditures.

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or that unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

Risks and uncertainties include, but are not limited to, general industry conditions and competition; economic factors, such as interest rate and currency exchange rate fluctuations; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approvals; challenges to patents; significant adverse litigation or government action; impact of business combinations; financial distress and bankruptcies experienced by significant customers and suppliers; changes to governmental laws and regulations and U.S. and foreign health care reforms; trends toward health care cost containment; increased scrutiny of the health care industry by government agencies; changes in behavior and spending patterns of purchasers of health care products and services; financial instability of international economies and sovereign risk; disruptions due to natural disasters; manufacturing difficulties or delays; complex global supply chains with increasing regulatory requirements; and product efficacy or safety concerns resulting in product recalls or regulatory action.

The Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2012 contains, as Exhibit 99, a discussion of additional factors that could cause actual results to differ from expectations. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995.

**Item 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in its Annual Report on Form 10-K for the fiscal year ended December 30, 2012.

**Item 4 — CONTROLS AND PROCEDURES**

Disclosure controls and procedures. At the end of the period covered by this report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Alex Gorsky, Chairman, Board of Directors and Chief Executive Officer, and Dominic J. Caruso, Vice President, Finance and Chief Financial Officer, reviewed and

participated in this evaluation. Based on this evaluation, Messrs. Gorsky and Caruso concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

Internal control. During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

## Part II — OTHER INFORMATION

## Item 1 — LEGAL PROCEEDINGS

The information called for by this item is incorporated herein by reference to Note 11 included in Part I, Item 1, Financial Statements (unaudited) — Notes to Consolidated Financial Statements.

## Item 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## (c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table provides information with respect to Common Stock purchases by the Company during the fiscal second quarter of 2013. Pursuant to the accelerated stock repurchase agreements in connection with the acquisition of Synthes, Inc., the Company has not made any purchases of Common Stock on the open market during the fiscal second quarter. The repurchases below represent the stock-for-stock option exercises that settled in the fiscal second quarter.

Period	Total Number of Shares Purchased	Avg. Price Per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2013 through April 28, 2013	89,874	82.11	-	-
April 29, 2013 through May 26, 2013	57,816	85.12	-	-
May 27, 2013 through June 30, 2013	32,134	87.24	-	-
Total	179,824			

## Item 6 — EXHIBITS

Exhibit 31.1 Certifications under Rule 13a-14(a) of the Securities Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 — Filed with this document.

Exhibit 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Furnished with this document.

Exhibit 101 XBRL (Extensible Business Reporting Language) The following materials from Johnson & Johnson's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in Extensive Business Reporting Language (XBRL), (i) consolidated balance sheets, (ii) consolidated statements of earnings, (iii) consolidated statements of comprehensive income (iv) consolidated statements of cash flows, and (v) the notes to the consolidated

financial statements.

48

---

Table of Contents

SIGNATURES

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

JOHNSON & JOHNSON  
(Registrant)

Date: August 1, 2013

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

Date: August 1, 2013

By /s/ S. J. COSGROVE  
S. J. COSGROVE  
Controller (Principal Accounting Officer)