JOHNSON & JOHNSON
Form 10-Q
November 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 28, 2008

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
(State or other jurisdiction of incorporation or organization)

22-1024240
(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. (X) 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 (X)Accelerated filer ( ) Non-accelerated filer ( ) 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(X) No

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

On October 26, 2008 2,774,568,107 shares of Common Stock, $1.00 par value, were outstanding.

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JOHNSON & JOHNSON AND SUBSIDIARIES

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; Dollars in Millions)

ASSETS

	September 28, 2008	December 30, 2007
Current assets:		
Cash & cash equivalents	$ 14,018	$ 7,770
Marketable securities	781	1,545
Accounts receivable, trade, less allowances for doubtful accounts $254 (2007,$193)	10,156	9,444
Inventories (Note 4)	5,473	5,110
Deferred taxes on income	2,584	2,609
Prepaid expenses and other receivables	3,578	3,467
Total current assets	36,590	29,945
Marketable securities, non-current	2	2
Property, plant and equipment at cost	27,601	26,466
Less: accumulated depreciation	(13,246)	(12,281)
Property, plant and equipment, net	14,355	14,185
Intangible assets, net (Note 5)	14,296	14,640
Goodwill, net (Note 5)	14,275	14,123
Deferred taxes on income	5,191	4,889
Other assets	3,015	3,170
Total assets	$ 87,724	$ 80,954

See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; Dollars in Millions)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 28, 2008	December 30, 2007
Current liabilities:		
Loans and notes payable	$ 6,245	$ 2,463
Accounts payable	6,384	6,909
Accrued liabilities	5,521	6,412
Accrued rebates, returns and promotions	2,609	2,318
Accrued salaries, wages and commissions	1,513	1,512
Accrued taxes on income	458	223
Total current liabilities	22,730	19,837
Long-term debt	8,395	7,074
Deferred taxes on income	1,384	1,493
Employee related obligations	5,533	5,402
Other liabilities	3,948	3,829
Total liabilities	41,990	37,635
Shareholders’ equity:		
Common stock – par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,842,548 shares)	3,120	3,120
Accumulated other comprehensive income (Note 8)	(930)	(693)
Retained earnings	61,878	55,280
Less: common stock held in treasury, at cost (339,515,000 and 279,620,000 shares)	18,334	14,388
Total shareholders’ equity	45,734	43,319
Total liabilities and shareholders’ equity	$ 87,724	$ 80,954

See Notes to Consolidated Financial Statements

JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; dollars & shares in millions
except per share amounts)

	Fiscal Quarters Ended			
	Sept. 28, 2008	Percent to Sales	Sept. 30, 2007	Percent to Sales
Sales to customers (Note 6)	$ 15,921	100.0%	$ 14,970	100.0%
Cost of products sold	4,774	30.0	4,274	28.5
Gross profit	11,147	70.0	10,696	71.5
Selling, marketing and administrative expenses	5,195	32.6	4,899	32.7
Research expense	1,861	11.7	1,834	12.3
Restructuring (Note 11)	-	-	745	5.0
Interest income	(97)	(0.6)	(134)	(0.9)
Interest expense, net of portion capitalized	122	0.8	82	0.6
Other (income)expense, net	(224)	(1.4)	2	-
Earnings before provision for taxes on income	4,290	26.9	3,268	21.8
Provision for taxes on income (Note 3)	980	6.1	720	4.8
NET EARNINGS	$ 3,310	20.8%	$ 2,548	17.0%
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NET EARNINGS PER SHARE (Note 7)				
Basic	$ 1.19		$ 0.88	
Diluted	$ 1.17		$ 0.88	
CASH DIVIDENDS PER SHARE	$ 0.460		$ 0.415	
AVG. SHARES OUTSTANDING				
Basic	2,790.9		2,887.7	
Diluted	2,831.3		2,912.9	

See Notes to Consolidated Financial Statements

JOHNSON & JOHNSON AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited; dollars & shares in millions except per share amounts)

	Fiscal Nine Months Ended			
	Sept. 28, 2008	Percent to Sales	Sept. 30, 2007	Percent to Sales
Sales to customers (Note 6)	$ 48,565	100.0%	$ 45,138	100.0%
Cost of products sold	14,139	29.1	13,017	28.8
Gross profit	34,426	70.9	32,121	71.2
Selling, marketing and administrative expenses	15,825	32.6	14,730	32.6
Research expense	5,469	11.3	5,352	11.9
In-process research & development (IPR&D)	40	0.1	807	1.8
Restructuring (Note 11)	-	-	745	1.7
Interest income	(268)	(0.6)	(324)	(0.7)
Interest expense, net of portion capitalized	325	0.7	203	0.4
Other (income)expense, net	(377)	(0.8)	(343)	(0.8)
Earnings before provision for taxes on income	13,412	27.6	10,951	24.3
Provision for taxes on income (Note 3)	3,177	6.5	2,749	6.1
NET EARNINGS	$ 10,235	21.1%	$ 8,202	18.2%
NET EARNINGS PER SHARE (Note 7)				
Basic	$ 3.64		$ 2.84	
Diluted	$ 3.60		$ 2.81	
CASH DIVIDENDS PER SHARE	$ 1.335		$ 1.205	
AVG. SHARES OUTSTANDING				
Basic	2,811.9		2,892.0	
Diluted	2,847.8		2,919.3	

See Notes to Consolidated Financial Statements

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

	Fiscal Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	$ 10,235	$ 8,202
Adjustment to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property and intangibles	2,117	1,902
Stock based compensation	524	537
Purchased in-process research and development	40	807
Deferred tax provision	(354)	(900)
Accounts receivable allowances	62	13
Changes in assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(790)	(407)
Increase in inventories	(348)	(309)
(Decrease)/Increase in accounts payable and accrued liabilities	(1,103)	933
Increase in other current and non-current assets	(2)	(1,007)
Increase in other current and non-current liabilities	590	1,154
NET CASH FLOWS FROM OPERATING ACTIVITIES	10,971	10,925
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,938)	(1,704)
Proceeds from the disposal of assets	56	214
Acquisitions, net of cash acquired	(400)	(1,378)
Purchases of investments	(1,434)	(8,475)
Sales of investments	2,079	6,706
Other (primarily intangibles)	(36)	(101)
NET CASH USED BY INVESTING ACTIVITIES	(1,673)	(4,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends to shareholders	(3,750)	(3,486)
Repurchase of common stock	(5,773)	(2,581)
Proceeds from short-term debt	5,194	20,124
Retirement of short-term debt	(1,649)	(21,461)
Proceeds from long-term debt	1,640	2,605
Retirement of long-term debt	(16)	(12)
Proceeds from the exercise of stock options/excess tax benefits	1,360	961
NET CASH USED BY FINANCING ACTIVITIES	(2,994)	(3,850)
Effect of exchange rate changes on cash and cash equivalents	(56)	220
Increase/(decrease) in cash and cash equivalents	6,248	2,557
Cash and Cash equivalents, beginning of period	7,770	4,083

CASH AND CASH EQUIVALENTS, END OF PERIOD	$	14,018	$	6,640

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Acquisitions				
Fair value of assets acquired	$	416	$	1,609
Fair value of liabilities assumed		(16)		(231)
Net cash paid for acquisitions	$	400	$	1,378

See Notes to Consolidated Financial Statements

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, 2007. 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 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement was adopted in the fiscal first quarter of 2008 except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. See Note 13 for more details.

During the fiscal first quarter of 2008, the Company adopted SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities, which permits an entity to measure financial assets and financial liabilities at fair value. See Note 13 for more details.

During the fiscal first quarter of 2008, the Company adopted EITF Issue 07-03 Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities. This issue requires nonrefundable advance payments for research and development to be capitalized and recognized as an expense as related goods are delivered or services are performed. The adoption of EITF Issue 07-03 did not have a significant impact on the Company's results of operation, cash flows or financial position.

NOTE 2 - FINANCIAL INSTRUMENTS

The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) 133, SFAS 138 and SFAS 149 requiring that all derivative instruments be recorded on the balance sheet at fair value.

As of September 28, 2008, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $64 million after-tax. For additional information, see Note 8. The Company expects that substantially all of this amount will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. Transactions with third parties will cause the amount in accumulated other comprehensive income to affect net earnings. The length of time over which the Company is hedging typically does not exceed 18 months. The Company also uses currency swaps to manage currency risk primarily related to borrowings, which may exceed 18 months.

For the fiscal third quarters ended September 28, 2008 and September 30, 2007, the net impact of the hedges' ineffectiveness, transactions not qualifying for hedge accounting and discontinuance of hedges, to the Company's financial statements was insignificant. Refer to Note 8 for disclosures of movements in Accumulated Other Comprehensive Income.

NOTE 3 - INCOME TAXES
The worldwide effective income tax rates for the first fiscal nine months of 2008 and 2007 were 23.7% and 25.1%, respectively. The decrease in the effective tax rate was primarily due to the lower in-process research and development (IPR&D) charge of $40 million with no tax benefit recorded in the first fiscal nine months of 2008 versus the IPR&D charge of $807 million with no tax benefit recorded in the first fiscal nine months of 2007. This benefit is reduced by higher taxes in 2008 due to the expiration of the Research and Development (R&D) credit at the end of 2007. The R&D credit was extended as part of the Emergency Economic Stabilization Act of 2008, signed in October of 2008 but is not included in the results of the first fiscal nine months of 2008.

NOTE 4 - INVENTORIES
(Dollars in Millions)

	September 28, 2008	December 30, 2007
Raw materials and supplies	$ 943	$ 905
Goods in process	1,655	1,384
Finished goods	2,875	2,821
Total	$ 5,473	$ 5,110

NOTE 5 - INTANGIBLE ASSETS AND GOODWILL
Intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and indefinite lived intangible assets are assessed annually for impairment. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2007. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if warranted.

(Dollars in Millions)	September 28, 2008	December 30, 2007
Trademarks (non-amortizable)	$ 6,223	$ 6,457
Less accumulated amortization	147	144
Trademarks (non-amortizable)- net	6,076	6,313
Patents and trademarks	4,746	4,597
Less accumulated amortization	1,758	1,615
Patents and trademarks – net	2,988	2,982
Other amortizable intangibles	7,594	7,399
Less accumulated amortization	2,362	2,054
Other intangibles – net	5,232	5,345
Total intangible assets - gross	18,563	18,453
Less accumulated amortization	4,267	3,813
Total intangible assets - net	14,296	14,640
Goodwill – gross	15,014	14,866
Less accumulated amortization	739	743
Goodwill – net	$ 14,275	$ 14,123

Goodwill as of September 28, 2008 as allocated by segment of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev & Diag	Total
Goodwill, net of accumulated amortization at December 30, 2007	$ 8,125	$ 964	$ 5,034	$ 14,123
Acquisitions	190	-	6	196
Translation & Other	(61)	11	6	(44)
Goodwill, net as of September 28, 2008	$ 8,254	$ 975	$ 5,046	$ 14,275

The weighted average amortization periods for patents and trademarks and other intangible assets are 16 years and 28 years, respectively. The amortization expense of amortizable intangible assets for the fiscal nine months ended September 28, 2008 was $593 million and the estimated amortization expense for the five succeeding years approximates $750 million, per year.

NOTE 6 - SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS
(Dollars in Millions)

SALES BY SEGMENT OF BUSINESS (1)

	Fiscal Quarters Ended		
(Dollars in Millions)	Sept. 28, 2008	Sept. 30, 2007	Percent Change
Consumer			
U.S.	$ 1,769	$ 1,591	11.2%
International	2,330	2,032	14.7
Total	4,099	3,623	13.1
Pharmaceutical			
U.S.	3,538	3,765	(6.0)
International	2,575	2,334	10.3
Total	6,113	6,099	0.2
Medical Devices & Diagnostics			
U.S.	2,648	2,569	3.1
International	3,061	2,679	14.3
Total	5,709	5,248	8.8
Worldwide			
U.S.	7,955	7,925	0.4
International	7,966	7,045	13.1
Total	$ 15,921	$ 14,970	6.4%

	Fiscal Nine Months Ended		
(Dollars in Millions)	Sept. 28, 2008	Sept. 30, 2007	Percent Change
Consumer			
U.S.	$ 5,282	$ 4,782	10.5%
International	6,917	5,901	17.2
Total	12,199	10,683	14.2
Pharmaceutical			
U.S.	11,401	11,659	(2.2)
International	7,481	6,810	9.9
Total	18,882	18,469	2.2
Medical Devices & Diagnostics			
U.S.	7,959	7,772	2.4
International	9,525	8,214	16.0
Total	17,484	15,986	9.4
Worldwide			
U.S.	24,642	24,213	1.8

International		23,923		20,925	14.3
Total	$	48,565	$	45,138	7.6%

(1) Export sales are not significant.

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OPERATING PROFIT BY SEGMENT OF BUSINESS

	Fiscal Quarters Ended		
(Dollars in Millions)	Sept. 28, 2008	Sept. 30, 2007	Percent Change
Consumer (1)	$ 764	$ 586	30.4%
Pharmaceutical (2)	2,003	1,594	25.7
Medical Devices & Diagnostics (3)	1,657	1,140	45.4
Segments total	4,424	3,320	33.3
Expense not allocated to segments (4)	(134)	(52)	
Worldwide total	$ 4,290	$ 3,268	31.3%

	Fiscal Nine Months Ended		
(Dollars in Millions)	Sept. 28, 2008	Sept.30, 2007	Percent Change
Consumer (1)	$ 2,175	$ 1,828	19.0%
Pharmaceutical (2)	6,513	6,006	8.4
Medical Devices & Diagnostics(3)(5)	5,159	3,378	52.7
Segments total	13,847	11,212	23.5
Expense not allocated to segments (4)	(435)	(261)	
Worldwide total	$ 13,412	$ 10,951	22.5%

(1) Includes restructuring charges of $15 million recorded in the fiscal third quarter and the first fiscal nine months of 2007.
(2) Includes restructuring charges of $429 million recorded in the fiscal third quarter and the first fiscal nine months of 2007.
(3) Includes restructuring charges of $301 million recorded in the fiscal third quarter and the first fiscal nine months of 2007.
(4) Amounts not allocated to segments include interest income/(expense), minority interest and general corporate income/(expense).
(5) Includes $40 million and $807 million of IPR&D charges related to acquisitions completed in the first fiscal nine months of 2008 and first fiscal nine months of 2007, respectively.

SALES BY GEOGRAPHIC AREA
(Dollars in Millions)

	Fiscal Quarters Ended		
(Dollars in Millions)	Sept. 28, 2008	Sept. 30, 2007	Percent Change
U.S.	$ 7,955	$ 7,925	0.4%
Europe	4,076	3,765	8.3
Western Hemisphere, excluding U.S.	1,461	1,195	22.3
Asia-Pacific, Africa	2,429	2,085	16.5
Total	$ 15,921	$ 14,970	6.4%

(Dollars in Millions)	Fiscal Nine Months Ended Sept. 28, 2008	Sept. 30, 2007	Percent Change
U.S.	$ 24,642	$ 24,213	1.8%
Europe	12,931	11,485	12.6
Western Hemisphere, excluding U.S.	3,986	3,372	18.2
Asia-Pacific, Africa	7,006	6,068	15.5
Total	$ 48,565	$ 45,138	7.6%

NOTE 7 - EARNINGS PER SHARE

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal third quarters ended September 28, 2008 and September 30, 2007.

(Shares in Millions)	Fiscal Quarters Ended Sept. 28, 2008	Sept. 30, 2007
Basic net earnings per share	$ 1.19	$ 0.88
Average shares outstanding – basic	2,790.9	2,887.7
Potential shares exercisable under stock option plans	242.0	192.0
Less: shares which could be repurchased under treasury stock method	(205.3)	(170.6)
Convertible debt shares	3.7	3.8
Average shares outstanding – diluted	2,831.3	2,912.9
Diluted earnings per share	$ 1.17	$ 0.88

The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $1 million for both the fiscal third quarters ended September 28, 2008 and September 30, 2007.

The diluted earnings per share calculation for the fiscal third quarter ended September 30, 2007, excluded 66 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. For the fiscal third quarter ended September 28, 2008 the number of shares related to stock options for which the exercise price of these options was greater than their average market value was insignificant.

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal nine months ended September 28, 2008 and September 30, 2007.

(Shares in Millions)	Fiscal Nine Months Ended Sept. 28, 2008	Fiscal Nine Months Ended Sept. 30, 2007
Basic net earnings per share	$ 3.64	$ 2.84
Average shares outstanding – basic	2,811.9	2,892.0
Potential shares exercisable under stock option plans	241.5	192.3
Less: shares which could be repurchased under treasury stock method	(209.3)	(168.8)
Convertible debt shares	3.7	3.8
Average shares outstanding – diluted	2,847.8	2,919.3
Diluted earnings per share	$ 3.60	$ 2.81

The diluted earnings per share calculation included the dilutive effect of convertible debt that was offset by the related reduction in interest expense of $3 million for both the fiscal nine months ended September 28, 2008 and September 30, 2007.

The diluted earnings per share calculation for the first fiscal nine months ended September 28, 2008 and September 30, 2007, excluded 1 million and 65 million shares, respectively, related to stock options as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Total comprehensive income for the first fiscal nine months ended September 28, 2008 was $10.0 billion, compared with $8.8 billion for the same period a year ago. Total comprehensive income for the fiscal third quarter ended September 28, 2008 was $1.8 billion, compared with $2.9 billion for the same period a year ago. Total comprehensive income included net earnings, net unrealized currency gains and losses on translation, adjustments related to Employee Benefit Plans, net unrealized gains and losses on securities available for sale and net gains and losses on derivative instruments qualifying and designated as cash flow hedges. The following table sets forth the components of accumulated other comprehensive income.

(Dollars in Millions)		For. Cur. Trans.	Unrld Gains/ (Losses) on Sec	Employee Benefit Plans	Gains/(Losses) on Deriv & Hedges		Total Accum Other Comp Inc/(Loss)
December 30, 2007	$	628	84	(1,360)	(45	)	(693)
2008 nine months changes							
Net change associated with current period hedging transactions					4		
Net amount reclassed to net earnings					105	*	
Net nine months changes		(406)	(47)	107	109		(237)
September 28, 2008	$	222	37	(1,253)	64		(930)

Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation adjustments are not currently adjusted for income taxes, as they relate to permanent investments in international subsidiaries.

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

NOTE 9 – MERGERS, ACQUISITIONS AND DIVESTITURES
During the fiscal third quarter of 2008 the Company acquired Beijing Dabao Cosmetics Co., Ltd., a company that sells personal care brands in China.

During the fiscal third quarter of 2008 the Company entered into a definitive agreement to sell Ethicon's Professional Wound Care business. The divestiture is expected to close in the fiscal fourth quarter of 2008.

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

During the fiscal first quarter of 2007, the Company acquired Conor Medsystems, Inc. for a purchase price of $1.4 billion in cash. Conor Medsystems, Inc., is a cardiovascular device company, with new drug delivery technology. An IPR&D charge of $807 million before and after tax was recorded related to the acquisition of Conor Medsystems, Inc.

During the fiscal first quarter of 2007, the Company completed the divestiture of the KAOPECTATE®, UNISOM®, CORTIZONE®, BALMEX® and ACT® consumer products to Chattem, Inc. for $410 million in cash.

NOTE 10 – PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Components of Net Periodic Benefit Cost

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the fiscal third quarters of 2008 and 2007 include the following components:

		Retirement Plans		Other Benefit Plans	
		Fiscal Quarters Ended			
(Dollars in Millions)		Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Service cost	$	126	148	35	34
Interest cost		177	169	43	37
Expected return on plan assets		(220)	(208)	(1)	(1)
Amortization of prior service cost		2	2	(1)	(1)
Amortization of net transition asset		-	1	-	-
Recognized actuarial losses		16	47	15	17
Curtailments and settlements		-	(2)	-	-
Net periodic benefit cost	$	101	157	91	86

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the first fiscal nine months of 2008 and 2007 include the following components:

		Retirement Plans		Other Benefit Plans	
		Fiscal Nine Months Ended			
(Dollars in Millions)		Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Service cost	$	381	417	106	104
Interest cost		534	489	126	111
Expected return on plan assets		(666)	(603)	(2)	(2)
Amortization of prior service cost		8	7	(4)	(4)
Amortization of net transition asset		1	1	-	-
Recognized actuarial losses		47	142	48	50
Curtailments and settlements		4	(2)	-	-
Net periodic benefit cost	$	309	451	274	259

Company Contributions

For the fiscal nine months ended September 28, 2008, the Company contributed $21 million and $17 million to its U.S. and international retirement plans, respectively. The Company is not required to fund the U.S. retirement plans due to minimum statutory funding requirements for its U.S. retirement plans in 2008. Additional contributions may be made when deemed appropriate. International plans are funded in accordance with local regulations.

NOTE 11 – RESTRUCTURING

In the third quarter of 2007, the Company announced restructuring initiatives in an effort to improve its overall cost structure. This action was taken to offset the anticipated negative impacts associated with generic competition in the Pharmaceutical segment and challenges in the drug-eluting stent market. The Company's Pharmaceuticals segment is reducing its cost base by consolidating certain operations, while continuing to invest in recently launched products and its late-stage pipeline of new products. The Cordis franchise is moving to a more integrated business model to address the market changes underway with drug-eluting stents and to better serve the broad spectrum of its patients' cardiovascular needs, while reducing its cost base. Additionally, as part of this initiative the Company plans to eliminate approximately 4,400 positions of which 3,300 have been eliminated since this restructuring initiative was announced. The Company is also accelerating steps to standardize and streamline certain aspects of its enterprise-wide functions such as human resources, finance and information technology to support growth across the business, while also leveraging its scale more effectively in areas such as procurement to benefit its operating companies.

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

The following table summarizes the severance reserve and the associated spending under this initiative through the third quarter of 2008:

(Dollars in Millions)	Severance
Reserve balance as of:	
December 30, 2007	$404
Cash outlays*	(195)
September 28, 2008	$209

*Cash outlays for severance are expected to be substantially paid out over the next 9-12 months in accordance with the Company’s plans and local laws.

NOTE 12 - LEGAL PROCEEDINGS
PRODUCT LIABILITY

The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any product liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet and, where available, by third-party product liability insurance.

Multiple products of Johnson & Johnson subsidiaries are subject to numerous product liability claims and lawsuits, including ORTHO EVRA®, RISPERDAL®, DURAGESIC® and the CHARITÉ™ Artificial Disc. There are approximately 1,200 claimants who have pending lawsuits or claims regarding injuries allegedly due to ORTHO EVRA®, 535 with respect to RISPERDAL®, 288 with respect to CHARITÉ™ and 100 with respect to DURAGESIC®. These claimants seek substantial compensatory and, where available, punitive damages.

With respect to RISPERDAL®, the Attorneys General of eight states and the Office of General Counsel of the Commonwealth of Pennsylvania have filed actions seeking reimbursement of Medicaid or other public funds for RISPERDAL® prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL®, civil fines or penalties, punitive damages, or other relief. The Attorney General of Texas has joined a qui tam action in that state seeking similar relief. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL®. The Attorneys General of more than 40 other states have indicated a potential interest in pursuing similar litigation against the Company's Janssen subsidiary, and have obtained a tolling agreement staying the running of the statute of limitations while they inquire into the issues. In addition, there are six cases filed by union health plans seeking damages for alleged overpayments for RISPERDAL®, several of which seek certification as class actions. In the case brought by the Attorney General of West Virginia, based on claims for alleged consumer fraud as to DURAGESIC® as well as RISPERDAL®, Janssen was found liable on motion, and damages are likely to be assessed at less than $20 million. Janssen intends to appeal.

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

AFFIRMATIVE STENT PATENT LITIGATION

In patent infringement actions tried in Delaware Federal District Court in late 2000, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards against Boston Scientific Corporation (Boston Scientific) and Medtronic AVE, Inc. (Medtronic) based on a number of Cordis vascular stent patents. In December 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and the jury in the Medtronic action returned a verdict of $271 million. The Court of Appeals for the Federal Circuit has upheld liability in these cases, and on September 30, 2008, the district court entered judgments, including interest, in the amounts of $702 million and $521 million against Boston Scientific and Medtronic, respectively. Boston Scientific has appealed the judgment, but Medtronic paid $472 million in October 2008, representing the judgment, net of amounts exchanged in settlement of a number of other litigations between the companies.

Cordis also has two arbitrations against Medtronic seeking royalties for the sale of stent products introduced by Medtronic subsequent to December 2000 pursuant to a 1997 cross-license agreement between Cordis and Medtronic. The hearing on the first of these arbitrations will take place in March 2009.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte® stents of infringing the Palmaz patent that expired in November 2005. The Liberte® stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2™, Taxus® and Liberte® stents infringed the Palmaz patent and that the Liberte® stent also infringed the Gray patent. Boston Scientific has appealed to the U.S. Court of Appeals for the Federal Circuit.

Cordis has filed several lawsuits in New Jersey Federal District Court against Guidant Corporation, Abbott Laboratories, Inc., Boston Scientific and Medtronic alleging that the Xience V™ (Abbott), Promus™ (Boston Scientific) and Endeavor® (Medtronic) drug eluting stents infringe several patents owned by or licensed to Cordis. In October 2008, Cordis filed suit against Boston Scientific in Delaware Federal Court accusing the Taxus® Liberte® stent of infringing the Gray patent.

PATENT LITIGATION AGAINST VARIOUS JOHNSON & JOHNSON SUBSIDIARIES

The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties.

In July 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER® Stent infringed Boston Scientific's Ding '536 patent and that the Cordis CYPHER® and BX VELOCITY® Stents also infringed Boston Scientific's Jang '021 patent. The jury also found both of those patents valid. Boston Scientific seeks substantial damages and an injunction in that action. The District Court denied motions by Cordis to overturn the jury verdicts or grant a new trial. Cordis has appealed to the Court of Appeals for the Federal Circuit. The District Court indicated it will consider damages, willfulness and injunctive relief after the appeals have been decided.

Boston Scientific has brought actions in Belgium, the Netherlands, Germany, France and Italy under its Kastenhofer patent, which purports to cover two-layer catheters such as those used to deliver the CYPHER® Stent, to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. A decision by the lower court in the Netherlands in Boston Scientific's favor was reversed on appeal in April 2007. Boston Scientific has filed an appeal to the Dutch Supreme Court. In October 2007, Boston Scientific prevailed in the nullity action challenging the validity of the Kastenhofer patent filed by Cordis in Germany. Cordis has appealed. No substantive hearings have been scheduled in the French or Italian actions.

Trial in Boston Scientific's U.S. case based on the Kastenhofer patent in Federal District Court in California concluded in October 2007 with a jury finding that the patent was invalid. The jury also found for Cordis on its counterclaim that sale by Boston Scientific of its balloon catheters and stent delivery systems infringe Cordis' Fontirroche patent. The Court has denied Boston Scientific's post trial motions and is considering the appropriate remedy for future infringement.

In Germany, Boston Scientific has several actions based on its Ding patents pending against the Cordis CYPHER® Stent. Cordis was successful in these actions at the trial level, but Boston Scientific has appealed.

The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries that have yet to proceed to trial:

J&J Product	Company	Patents	Plaintiff/Patent Holder	Court	Trial Date	Date Filed
Two-layer Catheters	Cordis	Kasten-hofer	Boston Scientific Corp.	Multiple European		