

Johnson & Johnson



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CARING

Comforts · Fulfills
Heals · Touches · Empowers
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ON THE COVER Around the world, we're focused on making life-changing, long-term differences in the prevention and treatment of HIV/AIDS. Our HIV franchise continues to grow as we discover, develop and provide access to medicines like PREZISTA® (darunavir)

To Our Shareholders

The men and women of Johnson & Johnson come to work each day driven by a shared passion: *caring*. Our caring touches the lives of people around the world. It motivates us to identify unmet health care needs, reach increasing numbers of patients and consumers, and create broader solutions—not only for the most serious medical conditions but also for the general health and well-being of the world's population.

Our caring empowers others. It touches patients and consumers across the world, and it inspires hope. It's grounded in the fundamental tenets of Our Credo and in a decentralized management approach that keeps our people close to their customers and their markets. It drove our business success in 2008, and it mobilizes us to capitalize on new health care opportunities while we meet the challenges ahead in an unprecedented, difficult global economic setting.

2008 HIGHLIGHTS We remember 2008 as a year of extraordinary economic events that shook our financial markets and global economies. Against this backdrop, I am proud of our accomplishments.

Johnson & Johnson delivered on its financial commitments, driven by the strength of a broad base of human health care businesses. We achieved these results despite anticipated market challenges—such as increased generic competition worldwide and



WILLIAM C. WELDON

Chairman, Board of Directors, and Chief Executive Officer

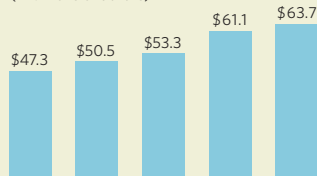
patent expirations—even as we faced an unanticipated deterioration of the global economy.

Worldwide sales grew to \$63.7 billion, an increase of 4.3 percent. Operational growth was 1.9 percent. We achieved strong adjusted earnings growth of 6.8⁽¹⁾ percent and adjusted earnings per share growth of 9.6⁽¹⁾ percent, which was higher than adjusted earnings growth due to our share-repurchase program. Free cash flow was strong at approximately \$12 billion.⁽²⁾

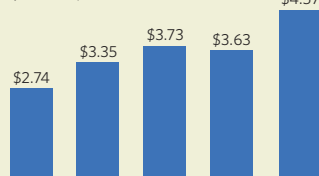
While growing our businesses, we also took thoughtful, disciplined actions to streamline and improve our cost structure. Within our Pharmaceuticals and Cordis businesses, approximately \$1.6 billion in annual savings were realized. We anticipate additional savings in 2009 from standardization initiatives we have invested in over time.

Meanwhile, we remain on track to fulfill the potential of the Pfizer Consumer Healthcare acquisition, expecting to meet or

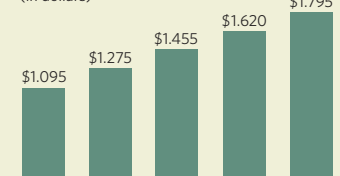
NET SALES
(in billions of dollars)



DILUTED EARNINGS PER SHARE
(in dollars)



DIVIDENDS PAID PER SHARE
(in dollars)



exceed our target of \$500 million to \$600 million in cost synergies. We expect this transaction to be break-even or modestly accretive this year, one year ahead of the original schedule.

These types of actions drove gains in our adjusted segment operating profit to \$17.3⁽³⁾ billion, or 27.1⁽³⁾ percent to sales, in 2008 compared with \$15.9⁽³⁾ billion, or 26.0⁽³⁾ percent to sales, in 2007. Our teams did an excellent job improving margins even as the volatile economic climate began driving increases in commodity costs and shifts in consumer and patient behaviors.

We also continued with our \$10 billion share-repurchase program, and as of year-end, we had purchased approximately \$8.1 billion of stock.

During the turbulent economic times of 2008, Johnson & Johnson was the third-best-performing stock on the Dow Jones Industrial Average. Our shareholder returns over one-, three-, five- and ten-year periods have exceeded our major comparative indices. While delivering financial results and cost structure improvements, we have been investing in our businesses for sustained growth. We made significant strides toward strengthening our market positions in the areas in which we compete today, identifying new high-growth opportunities and broadening our capabilities into more of the \$4.1 trillion health care market. We continue to deliver on four major business priorities that remain fundamental to our long-term growth:

- Winning in Health Care
- Capitalizing on Convergence
- Accelerating Growth in Emerging Markets
- Developing Leadership and Talent

WINNING IN HEALTH CARE Winning in health care requires a multi-pronged approach for long-term success. Accordingly, we continue to invest in internal development and to pursue selective licenses and acquisitions. Meanwhile, we are thoughtfully navigating the competitive and industry challenges affecting global health care.

Research and development remained strong at \$7.6 billion in 2008. Driven by strong science and unmet patient needs, we have advanced our pipelines.

Last year was one of the most productive for our pharmaceutical pipeline in terms of filings, approvals and positive regulatory opinions. Our pipeline is diverse and well-balanced, in both biopharmaceuticals and small molecules, covering therapeutic areas with high unmet needs. We sustained research productivity, and we are on track to complete filings for seven to 10 new products between the beginning of 2008 and the end of 2010. In doing so, we'll meet our target set back in 2007.

Our late-stage pipeline is robust. Eight new compounds are currently in registration, five of which were filed with the U.S. Food and Drug Administration (FDA) in 2008. NUCYNTA™ (tapentadol) immediate-release tablets for the relief of moderate to severe acute pain in adults age 18 and older were granted FDA approval. Regulatory authorities in Canada, the European Union

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HIV combination therapy. STELARA™ (ustekinumab) was approved in Canada and the EU for the treatment of moderate to severe plaque psoriasis; ustekinumab is currently under review with the FDA.

Our Medical Devices and Diagnostics pipeline is strong, both with new products and entries into new markets. For example, Ethicon Endo-Surgery, Inc. introduced the HARMONIC® Combination Hook Blade and HARMONIC® SYNERGY™ Curved Blade, taking these minimally invasive surgical instruments with proven clinical value and strong intellectual property into orthopaedic and plastic surgery, new specialties for the Company.

And our Vision Care Franchise continued its fifth year of solid growth with ACUVUE®, the world's most widely prescribed contact lens brand. It launched two new products: ACUVUE® OASYS™ Brand Contact Lenses

for *ASTIGMATISM* and, introduced in the United Kingdom, 1-DAY ACUVUE® TruEye™, the world's first daily disposable silicone hydrogel contact lens.

While developing our core businesses, we also expanded into new markets through acquisitions. Johnson & Johnson acquired Mentor Corporation, a leading supplier of medical products for the global aesthetic market. This acquisition provides our Ethicon Franchise with an opportunity to grow in aesthetic and reconstructive medicine while raising the standard for innovation and patient outcomes. We believe Mentor will become the cornerstone of a broader Johnson & Johnson leadership strategy for aesthetic medicine—a high-growth market serving both consumers and medical professionals.

Winning in health care also means going beyond the \$1.2 trillion market in which our businesses compete today and finding growth opportunities in the broader \$4.1 trillion health care market. Our Office of Strategy & Growth is charged with this mission.

As an initial step in the creation of a Wellness & Prevention business platform, Johnson & Johnson made two acquisitions and began laying the groundwork for this new business. HealthMedia, Inc. offers a suite of interventions that provide personalized web-based coaching for wellness, disease management, behavioral health and medication adherence with proven outcomes, improved compliance, reduced medical utilization and increased productivity. Meanwhile, HUMAN PERFORMANCE INSTITUTE™ is developing science-based training programs to improve employee health and wellness. We expect this new business to contribute to the performance of workforces through products and services that keep employees healthy, engaged and productive.

While building our businesses, we are also actively participating in public policy discussions around the world. Given our breadth of businesses and long-standing reputation, we are often called upon for our perspectives. As always, our focus remains on the consumer and patient, preserving access to care and incentives for innovation.

Johnson & Johnson is uniquely positioned to thrive in the rapidly changing health care landscape. Our blend of industry

cial strength provides us with a uniquely strong base for present and future growth.

CAPITALIZING ON CONVERGENCE For the future, breakthrough innovation lies in capitalizing on the convergence of products, technologies, patient-centric solutions and the power of the Johnson & Johnson enterprise. Our broad base of businesses working together creates this distinctive competitive advantage. And our diverse capabilities, expertise, talent and financial strength enable us to develop innovative solutions that advance health care around the world and build long-term success for Johnson & Johnson.

Good collaborative thinking leads to important new products. The Fibrin Pad, developed jointly by our scientists at Ethicon, Inc. and Centocor, Inc., along with Omrix Biopharmaceuticals, Inc., combines mechanical and biological action for advanced hemostasis, reducing surgery time and the need for blood transfusions. Johnson & Johnson acquired Omrix Biopharmaceuticals in late 2008 to further our capabilities in this area.

The companies that comprise our Diabetes Care Franchise are creating a full range of solutions that empower patients through technology, education and services. New product introductions allow patients to consistently monitor blood glucose levels and discreetly administer insulin. We also acquired two online communities—Children with Diabetes, Inc. and the Spanish-language Diabetes Juvenil—to help connect families virtually. Also, the Johnson & Johnson Diabetes Institute, LLC brings together diverse medical professionals with the common goal of improving outcomes for people with diabetes.

Capitalizing on the power and scope of the Johnson & Johnson enterprise is also a source of competitive advantage for our businesses. The launch of ZYRTEC® (cetirizine HCl) for sale without a prescription in the United States was our most successful product launch in 2008. It also marked the largest prescription to over-the-counter (OTC) switch in Company history. The ZYRTEC® launch demonstrated the unique advantage we have when our Consumer and Pharmaceuticals businesses work together to combine strong consumer marketing expertise with our in-depth knowledge of the managed-care market.

Our scientists and marketers continue to develop convergent and personalized health care solutions in other high-growth areas, such as skin care, obesity, oncology and cardiology. The potential for making an impact on standards of care in these categories is tremendous, and we believe the breadth of Johnson & Johnson makes us uniquely able to seize the opportunities that lie ahead.

ACCELERATING GROWTH IN EMERGING MARKETS One of the largest growth opportunities rests in emerging global markets such as Brazil, Russia, China and India. Other rapidly developing countries, such as Turkey and Mexico, are also showing solid growth. Johnson & Johnson has maintained a significant and well-established presence in these markets for decades, utilizing our decentralized

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providers with local market insights, products and strategies.

Three components are core to our emerging-markets strategy. First, we are training health care professionals to provide optimal patient care. We opened a professional education center in Beijing in conjunction with our 2008 Olympic Games sponsorship. We also established a professional education center in Russia. Meanwhile, the Vision Care Institute, LLC is providing important training and information on eye care in 11 diverse cities, including Shanghai, Dubai and Bangkok, and plans to continue its global expansion. We launched the Johnson & Johnson Diabetes Institute, LLC in four global markets. In all, we have more than 20 professional education centers across the world.

Second, we continue to build local capabilities to fully integrate with the market and its people. As the official health care sponsor of the Beijing 2008 Olympic and Paralympic Games, our Company and businesses built a lasting bond with the Chinese people, opening opportunities for sustained business growth and recruitment of the best talent. Local capabilities were further enhanced with the acquisition of Beijing Dabao Cosmetics Co., Ltd., maker of a well-known and respected skin care brand in China; this is our first significant acquisition in this market. Additionally, we began manufacturing at our new orthopaedic facility in Suzhou, China, and our Emerging Market Innovation Center in Shanghai develops products for emerging markets and gathers in-depth insights about the Chinese consumer.

Finally, we are developing a number of market-appropriate products, such as endosurgical instruments, sutures and baby care products, to better meet local needs.

DEVELOPING LEADERSHIP AND TALENT While we are well-positioned with long-term growth strategies, I remain most passionate about the people of Johnson & Johnson. Inspired by Our Credo, our teams overcome daily competitive challenges in their quests to discover new ways to improve health care, satisfy unmet needs and open new markets.

The professional development of our people remains a top priority. With more than 250 operating companies around the world, we have the capability to develop leaders by exposing them to a wide variety of businesses, with ever-increasing responsibility. We allow them to take prudent risks as they enhance their own judgment and business-building capabilities. Our focus on leadership development ensures smooth succession through our most senior management levels.

In addition to making excellent progress on our business priorities throughout 2008, we achieved sustained results in each of our business segments, driven by our solid management teams and dedicated employees.

CONSUMER HEALTH CARE Our Consumer Health Care business delivered strong growth in 2008, with sales of \$16 billion and a

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