

# JOHNSON & JOHNSON

## FORM 10-K (Annual Report)

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

### STOCK OPTIONS

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

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

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

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stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 139.7 million at the end of 2009.

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> Average contractual life remaining in years.

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

## RESTRICTED SHARE UNITS

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

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

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

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

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-163857, 333-129542, 333-124785, 333-106007, 333-104828, 333-96541, 333-87736, 333-67370, 333-59380, 333-39238, 333-94367, 333-86611, 333-40681, 333-38055, 333-26979, 333-00391, 33-59009, 33-52252, 33-40295, 33-40294, 33-32875) and Form S-3 (No. 333-149632, 333-67020, 333-91349) of Johnson & Johnson of our report dated March 1, 2010 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 1, 2010 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

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PricewaterhouseCoopers LLP

New York, New York  
March 1, 2010