

JOHNSON & JOHNSON
Form 11-K
June 28, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 11-K
FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS
AND SIMILAR PLANS PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE**
ACT OF 1934

For the Fiscal Year Ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE**
ACT OF 1934

Commission File Number 1-3215

JOHNSON & JOHNSON
SAVINGS PLAN

(Full title of the Plan)

JOHNSON & JOHNSON
ONE JOHNSON & JOHNSON PLAZA
NEW BRUNSWICK, NEW JERSEY 08933

(Name of issuer of the securities held pursuant to the Plan
and the address of its principal executive office)

REQUIRED INFORMATION

Item 4. Financial Statements and Exhibits

Financial statements prepared in accordance with the financial reporting requirements of ERISA filed herewith are listed below in lieu of the requirements of Items 1 to 3.

Report of Independent Registered Public Accounting Firm

Financial Statements:

Statements of Net Assets Available for Benefits

Statement of Changes in Net Assets Available for Benefits

Notes to Financial Statements

Supplemental Schedule*:

Schedule H, line 4i Schedule of Assets (Held at End of Year)

* Other supplemental schedules required by Section 2520.103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not required or are not applicable.

Exhibits:

23. Consent of PricewaterhouseCoopers LLP, dated June 28, 2007

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

JOHNSON & JOHNSON SAVINGS PLAN

By: /s/ Kaye Foster-Cheek
K. Foster-Cheek
Chairman, Pension Committee

June 28, 2007

JOHNSON & JOHNSON SAVINGS PLAN

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE
DECEMBER 31, 2006 AND 2005**

**Johnson & Johnson
Savings Plan
Index to Financial Statements and Supplemental Schedule
December 31, 2006 and 2005**

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* Other supplemental schedules required by Section 2520.103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, have been omitted because they are not required or are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants, the Pension Committee and the
Compensation & Benefits Committee of the
Johnson & Johnson Savings Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Johnson & Johnson Savings Plan (the Plan) at December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 2 to the financial statements, the Plan changed the manner in which it reports fully benefit-responsive investment contracts.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey

June 22, 2007

**Johnson & Johnson
Savings Plan
Statements of Net Assets Available for Benefits
December 31, 2006 and 2005**

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Assets | | |
| Interest in Johnson & Johnson Pension and Savings Plans Master Trust, at fair value | \$ 7,047,873,909 | \$ 6,164,686,053 |
| Participant loans | 72,825,166 | 65,996,981 |
| Total investments | 7,120,699,075 | 6,230,683,034 |
| Receivables | | |
| Employee contributions | 15,532,836 | 14,705,377 |
| Employer contributions | 5,364,112 | 4,940,006 |
| Total receivables | 20,896,948 | 19,645,383 |
| Total assets | 7,141,596,023 | 6,250,328,417 |
| Liabilities | | |
| Accrued expenses | 1,741,760 | 1,573,030 |
| Total liabilities | 1,741,760 | 1,573,030 |
| Net assets available for benefits, at fair value | 7,139,854,263 | 6,248,755,387 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 4,090,181 | 3,768,980 |
| Net assets available for benefits | \$ 7,143,944,444 | \$ 6,252,524,367 |

The accompanying notes are an integral part of these financial statements.

**Johnson & Johnson
Savings Plan
Statement of Changes in Net Assets Available for Benefits
December 31, 2006**

| | 2006 |
|---|------------------|
| Additions to net assets attributed to | |
| Investment Income | |
| Plan's interest in the Johnson & Johnson Pension and Savings Plans Master Trust net investment income | \$ 757,471,890 |
| Contributions | |
| Employee contributions | 439,555,934 |
| Employer contributions | 151,078,000 |
| Asset transfer due to plan mergers | 7,492,347 |
| Total additions | 1,355,598,171 |
| Deductions from net assets attributed to | |
| Benefits paid to participants | 449,729,362 |
| Administrative expenses | 14,448,732 |
| Total deductions | 464,178,094 |
| Net increase | 891,420,077 |
| Net assets available for benefits | |
| Beginning of year | 6,252,524,367 |
| End of year | \$ 7,143,944,444 |

The accompanying notes are an integral part of these financial statements.

**Johnson & Johnson
Savings Plan
Notes to Financial Statements**

1. Description of the Plan

General

The Johnson & Johnson Savings Plan (the Plan) is a participant directed defined contribution plan which was established on June 1, 1982 for eligible salaried and non-union hourly employees of Johnson & Johnson (J&J or the Company) and certain domestic subsidiaries. The Plan was designed to enhance the existing retirement program of eligible employees. The funding of the Plan is made through employee and Company contributions. Prior to January 1, 2003, the assets of the Plan were maintained in the Johnson & Johnson Savings Plan Trust and the Johnson & Johnson Pension Trust Fund, and transactions therein were executed by the trustee, State Street Trust Company (State Street or Trustee). The Plan's interests in the Savings Plan Trust and the Pension Trust Fund were allocated to the Plan based upon the total of each participant's share in the Master Trust accounts. As of January 1, 2003, the Johnson & Johnson Savings Plan Trust and Johnson & Johnson Pension Trust Fund merged to form a single Master Trust, the Johnson & Johnson Pension and Savings Plans Master Trust (the Trust). The Plan's interest in the Trust is allocated to the Plan based upon the total of each participant's share in the Trust.

This brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for complete information.

Employee Stock Ownership Plan

Effective January 1, 1991, the Company implemented a Leveraged Employee Stock Ownership Plan (ESOP) to enhance its existing 401(k) plan. The ESOP is a leveraged employee stock ownership plan and is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended, and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended. The ESOP was used to fund one-third of the Company match based on employee contributions (referred to herein as the ESOP contribution). Additionally, the Company could utilize ESOP leveraged shares to fund the remaining portion of the employer match for the employee directed contributions.

Initial funding for the ESOP was made through an advance from J&J of \$100 million, which was used to purchase 12,438,400 shares (adjusted for subsequent stock splits) of J&J common stock on the open market (See Note 7). The ESOP was closed per contract on February 15, 2005. Shares were allocated to Plan participants under a formula set forth in the ESOP note agreement relating to the advance from J&J. As of December 31, 2006, all shares have been allocated and the net assets are \$488,769,163.

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account. The Company was entitled to exercise voting rights attributable to unallocated shares.

**Johnson & Johnson
Savings Plan
Notes to Financial Statements
Contributions**

In general, full-time salaried employees and certain non-union hourly, part-time and temporary employees can contribute to the Plan, as there is no service requirement for employee contributions.

Contributions are made to the Plan by participants through payroll deductions and by the Company on behalf of the participants. Participating employees may contribute a minimum of 3% up to a maximum of 35% of eligible pay, as defined by the Plan. Contributions can be pre-tax, post-tax or a combination of both. Pre-tax contributions may not exceed the smaller of (i) 35% of a participant's base salary or (ii) \$15,000 for 2006. The maximum contributions to a participant's account, including participant pre-tax and post-tax contributions and the employer match is \$44,000 for 2006.

Effective July 1, 2002, participants age 50 and over are eligible to contribute extra pre-tax contributions (catch-up contribution) above the annual IRS limitations up to \$5,000 in 2006. Participants can elect an amount to be contributed from each paycheck as their catch-up contribution. This amount will be in addition to the pre-tax and post-tax contribution percentages that participants have elected.

After one year of service, participants receive an employer matching contribution equal to 75% of the first 6% of a participant's contributions. The employer matching contribution is composed of cash, which is invested in any of nine investment funds as selected by the participating employees.

Investments

Participants may invest in one or more of the nine investment funds offered by the Plan. The investment mix chosen by the participant will apply to employee and Company matching contributions. Rollover contributions are invested at the election of the participant.

In the third quarter of 1998, J&J incorporated a dividend pass-through feature into the Plan. Up through 2001, the pass-through was distributed to each participant via check. Effective January 1, 2002, dividends are automatically reinvested in the Johnson & Johnson Stock Fund unless specific elections are made to receive payment via check. Participants who had their dividends reinvested in the Johnson & Johnson Stock Fund had an opportunity in early 2002 to receive those 2001 dividends in cash. The eligibility to receive a dividend pass-through is contingent on the ownership of shares in the Johnson & Johnson Stock Fund, which includes shares owned in the Employee Stock Ownership Plan Fund (ESOP). The 2006 dividend pass-through amount paid to participants of \$3,789,172 is reflected as benefits paid to participants in the Statement of Changes in Net Assets Available for Benefits.

All dividend and interest income is reinvested by the Trustee.

Vesting

A participant's interest in his/her account, including participant contributions, Company contributions and earnings thereon, will be at all times fully vested. As a result, there are no forfeitures under the Plan.

**Johnson & Johnson
Savings Plan
Notes to Financial Statements
Payment of Benefits**

Benefits are paid to participants upon termination of employment, long-term disability or retirement. Participants can elect to defer payment until age 70 1/2 if account balances are greater than \$5,000. Distributions are paid either in a lump sum payment or installment payments made on a monthly, quarterly, or annual basis. Installment payments are made over a period of years selected by the participant.

A participant's account may be distributed to his/her beneficiaries in lump sum, in installments or maintained in the Trust upon the participant's death only if the beneficiary is a spouse. Otherwise, it is paid to the beneficiary in a lump sum.

Participants are allowed to withdraw an amount equal to their pre-August 1, 2003 post-tax contributions and earnings thereon, and unmatched post-tax contributions made after August 1, 2003 by the employee and earnings thereon, at any time. Participants may withdraw pre-tax contributions, post-tax matched contributions, and the employer match after August 1, 2003, only upon meeting certain hardship conditions. The benefits to which participants are entitled are the amounts provided by contributions (Company and participant) and investment earnings thereon, including net realized and unrealized gains and losses which have been allocated to the participant's account balance. Participants have the option of receiving all or part of their balance in the Johnson & Johnson Stock Fund as either cash or in shares of Johnson & Johnson Common Stock (plus cash for fractional shares) for lump sum distributions other than a hardship.

Administrative Expenses

All third party administrative expenses are paid by the Plan, unless otherwise provided for by the Company.

Participant Loans

Participants may borrow up to a maximum of 50% of their account balance. The minimum loan amount is \$1,000 and the maximum amount of all outstanding loans cannot exceed \$50,000. Loans bear an interest rate of prime plus 1% and are repayable within one to five years. The collateralized balance in the participant's account bears interest at rates that range from 3.8% to 10.5%. Principal and interest is paid ratably through payroll deductions for active employees. Loans must be paid within two months following retirement or termination of employment with the Company. If the loan is not repaid in full, the unpaid balance, plus accrued interest, will be deducted from the participant's account balance and reported to the IRS as a distribution.

Termination

Although it has not expressed an intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of a partial or full Plan termination, all Plan funds must be used exclusively for the benefit of the Plan participants, in that participants would receive the respective value in their account.

**Johnson & Johnson
Savings Plan
Notes to Financial Statements**

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition of the Trust

The Plan's interest in the Trust is stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. Securities not traded on a national securities exchange are valued using external pricing vendors.

As the investment funds contain various underlying assets such as stock and short-term investments, the participant's account balance is reported in units of participation, which allows for immediate transfers in and out of the funds. The purchase or redemption price of the units is determined by the Trustee, based on the current market value of the underlying assets of the funds. Each fund's net asset value is the value of a single unit, which is computed by adding the value of the fund's investments, cash and other assets, and subtracting liabilities, then dividing the result by the number of units outstanding.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on the sale of investment securities are determined on the average cost method. Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

Net Appreciation (Depreciation)

The Plan presents, in the Statement of Changes in Net Assets Available for Benefits, the Plan's interest in the net appreciation (depreciation) of the fair value of investments held in the Trust, which consists of unrealized appreciation (depreciation) of the underlying investments and realized gains and losses on sales of investments.

Payment of Benefits

Benefits are recorded when paid.

Derivatives

The Trust will invest in securities from time to time that are denominated in currencies other than the U.S. dollar. To hedge against adverse changes in foreign exchange rates relating to non-U.S. dollar denominated investments, the Trust may enter into forward foreign exchange contracts. Forward foreign exchange contracts qualify as a derivative under Statement of Financial Accounting Standard, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The holder is exposed to credit risk for nonperformance and to market risk for changes in interest and currency rates. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Statements of Net Assets Available For Benefits. The Trust attempts to mitigate this credit risk by utilizing the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments, and through structured trading with reputable parties and continual monitoring procedures. Accordingly the Trust does not anticipate losses for nonperformance. The Trust does not require collateral or

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Savings Plan

Notes to Financial Statements

other security to support forward foreign exchange contracts. The Trust accounts for forward foreign exchange contracts at fair value. The Trust has forward exchange contracts outstanding at December 31, 2006 and 2005 in various currencies. At December 31, 2006 and 2005, the notional amount outstanding for these contracts in the Trust was \$3,162,281 and \$15,175,043, respectively, and the net currency (loss)/gain recognized during 2006 and 2005 by the Trust was (\$94,770) and (\$155,355), respectively. The Trust holds no other material derivative financial instruments at December 31, 2006 and 2005.

Use of Estimates

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the changes in net assets available for benefits during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risk and Uncertainties

The Plan provides for various investment options in funds which can invest in a combination of equity, fixed income securities and other investments. Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

Reporting of Fully Benefit-Responsive Investment Contracts

On December 29, 2005, the Financial Accounting Standards Board (FASB) released FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP)*, which became effective for the Plan on December 31, 2006. The FSP requires that investment contracts held by a defined-contribution plan be reported at fair value. However, contract value is the relevant measurement criteria for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, the Statements of Net Assets Available for Benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. Prior year balances have been revised accordingly. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

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Savings Plan
Notes to Financial Statements

3. Non-Participant Directed Investments

The ESOP includes participant directed and non-participant directed investments. Information about the ESOP's net assets and the significant components of the changes in net assets of this fund is as follows:

| | As of December 31, | |
|---|---------------------------|---------------------|
| | 2006 | 2005 |
| | Allocated | Allocated |
| Assets | | |
| Investments at fair value | \$ 488,769,163 | \$ 487,286,792 |
| Receivables | | |
| Liabilities | | |
| Net assets J&J common stock | \$ 488,769,163 | \$ 487,286,792 |
| | | For the |
| | | Year Ended |
| | | December 31, |
| | | 2006 |
| | | Allocated |
| Changes in net assets | | |
| Investment income | | \$ 11,226,113 |
| Net appreciation in fair value | | 45,177,675 |
| Benefits paid to participants | | (32,539,106) |
| Transfers to participant-directed investments | | (22,382,311) |
| | | \$ 1,482,371 |

**Johnson & Johnson
Savings Plan
Notes to Financial Statements
4. Investments in Plan Trust**

Effective January 1, 2003, the assets of the Plan are maintained in the Johnson & Johnson Pension and Savings Plans Master Trust. The Plan holds approximately 52.65% and 51.63%, respectively of the Trust's net assets as of December 31, 2006 and 2005. The Plan's sole investment is its interest in the Trust and therefore is greater than 5% of the Plan assets.

Net assets, income, and expenses are allocated to the Plan based on the total of each participant's share in the respective funds.

The following table represents the total of investments in the Trust:

| | As of December 31, | |
|--|---------------------------|-------------------|
| | 2006 | 2005 |
| Investments at fair value | | |
| Short term investment funds | \$ 538,645,020 | \$ 525,961,309 |
| U.S. Government and Agency securities | 1,086,336,359 | 1,203,887,637 |
| Corporate debt | 489,780,887 | 384,540,272 |
| Preferred stock | 11,726,687 | 12,642,943 |
| Commons stock | 8,535,090,404 | 7,248,778,441 |
| Equities and other | 1,866,018,076 | 1,718,940,364 |
| Deposits in group annuity contracts and synthetic GICs | 1,063,517,625 | 1,033,318,956 |
| | | |
| Total Trust investments at fair value | 13,591,115,058 | 12,128,069,922 |
| | | |
| Receivables | 105,521,725 | 91,846,840 |
| Liabilities | (308,776,008) | (273,456,135) |
| | | |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 4,133,018 | 3,809,099 |
| | | |
| Net assets held in the Trust | \$ 13,391,993,793 | \$ 11,950,269,726 |

**Johnson & Johnson
Savings Plan
Notes to Financial Statements**

The net investment income of the Johnson & Johnson Pension and Savings Plans Master Trust was composed of the following:

| | For the Year Ended December 31, 2006 |
|--|---|
| Net appreciation/(depreciation) in fair value of investments | |
| Short term investment funds | \$ 7,521,992 |
| U.S. Government and Agency securities | (20,490,083) |
| Corporate debt | 12,121,276 |
| Preferred stock | 19,904,398 |
| Common stock | 841,356,587 |
| Equities and other | 322,188,937 |
| | 1,182,603,107 |
| Interest | 176,146,904 |
| Dividends | 196,561,170 |
| Net investment income | \$ 1,555,311,181 |

5. Guaranteed and Synthetic Investment Contracts

The Trust holds investments in traditional and synthetic guaranteed investment contracts (GICs). The weighted average insurance financial strength rating of the insurers for these contracts is AA. These investments are recorded at their fair values. The traditional GICs' contract value represents contributions made under the contract and reinvested income, less any withdrawals. The synthetic GICs are recorded at the wrapper contract value, which represents the value of the underlying assets owned by the Trust plus the amount designed to smooth the impact of normal market fluctuations on those assets. Both the traditional and synthetic GICs are fully benefit-responsive. Participants may under most circumstances direct the withdrawal or transfer of all or a portion of their investment at contract value. Currently no reserves are needed against contract values for credit risk of the contract issuers or otherwise.

The traditional GICs provide a fixed return on principal over a specified period of time through fully benefit-responsive contracts issued by an insurance company which are backed by the general account of that insurer. The contract value of the traditional GICs was \$690,625,785 and \$677,597,725 at December 31, 2006 and 2005, respectively. The fair value of the traditional GICs, as determined by using discounted cash flows, was \$685,036,934 and \$671,345,300 at December 31, 2006 and 2005, respectively.

The synthetic GIC provides a return over a period of time through a fully benefit-responsive contract, or wrapper contract, which is backed by the underlying assets owned by the Trust. The portfolio of assets, overall of AA+ credit quality, underlying the synthetic GIC includes mortgages, corporates, and United States Treasury Notes and

Bonds. The contract value of the

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Notes to Financial Statements

synthetic GIC was \$377,024,858 and \$359,530,330 at December 31, 2006 and 2005, respectively. The fair value of the synthetic GICs, as determined by using discounted cash flows, was \$378,480,691 and \$361,973,656 at December 31, 2006 and 2005, respectively.

The crediting interest rates for the synthetic GIC is calculated on a quarterly basis using the contract value, and the market value, yield and duration of the underlying securities, and cannot be less than zero. The crediting interest rates for the traditional GICs are agreed to in advance with the issuer. The crediting interest rate for the contracts at December 31, 2006 and 2005 was 4.53% and 4.37%, respectively. Effective April 2007, the crediting rate is calculated on a monthly basis, and no longer on a quarterly basis. In the event of extreme changes in interest rates, the crediting rate may be adjusted to reflect current market condition

Key factors that could influence future average interest crediting rates include, but are not limited to: participant directed cash flows; changes in interest rates; total return performance of the fair market value bond strategies underlying the synthetic GIC contract; default or credit failures of any of the securities, investment contracts, or other investments held in the Plan; the initiation of an extended termination (immunization) of the synthetic GIC contract.

The average market value yield of the contracts for 2006 and 2005 was 4.35% and 4.21%, respectively (calculated by taking the average of the monthly market value weighted yields of the investments). The average yield earned by the contracts that reflects the actual interest credited to participants for 2006 and 2005 was 4.40% and 4.20%, respectively (calculated by dividing annualized earnings credited to participants by the market value of the Interest Income Fund).

There are certain events not initiated by Plan participants that limit the ability of the Plan to transact with the issuer of a GIC at its contract value. Specific coverage provided by each traditional GIC and synthetic GIC may be different from each issuer, and can be found in the individual traditional GIC or synthetic GIC contracts held by the Plan. Examples of such events include: the Plan's failure to qualify under the Internal Revenue Code of 1986 as amended; full or partial termination of the Plan; involuntary termination of employment as a result of a corporate merger, divestiture, spin-off, or other significant business restructuring, which may include early retirement incentive programs or bankruptcy; changes to the administration of the Plan which decreases employee or employer contributions, the establishment of a competing Plan by the plan sponsor, the introduction of a competing investment option, or other Plan amendment that has not been approved by the contract issuers; dissemination of a participant communication that is designed to induce participants to transfer assets from this investment option; events resulting in a material and adverse financial impact on the contract issuer, including changes in the tax code, laws or regulations. The Plan Fiduciaries do not believe that the occurrence of any of the aforementioned events, which would limit the Plan's ability to transact with the issuer of a GIC at its contract value with participants, is probable.

6. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated December 31, 2002, that the Plan and the Trust are in compliance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and is currently being operated in compliance with the applicable requirements

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Notes to Financial Statements**
of the IRC.

7. Indebtedness and Related Party Transactions

Certain Plan investments are shares of institutional commingled funds managed by State Street Global Advisors, a division of State Street. State Street is the Trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. As of December 31, 2006 the total market value of investments in the institutional commingled funds for the Plan managed by State Street was \$802,561,172.

The Plan also invests in shares of the Company, which is managed by State Street Global Advisors. The Company is the plan sponsor and, therefore, these transactions qualify as party-in-interest transactions. As of December 31, 2006 the market value of investments in the Johnson & Johnson Common Stock Fund managed by State Street was \$1,809,362,464.

In connection with the formation of the Plan's ESOP feature, the Plan borrowed \$100 million from J&J for the purpose of purchasing Johnson & Johnson common stock. The note bears interest at 9% and was payable through February 15, 2005. The Company was obligated to make contributions in cash to the ESOP which, when aggregated with the ESOP's dividends and interest earnings, equal the amount necessary to enable the ESOP to make its regularly scheduled payments of principal and interest due on the term loan.

The Company has no rights on the allocated ESOP shares.

As of December 31, 2004, the final shares were allocated to the ESOP Plan. The remainder of the shares were allocated to the Johnson & Johnson Common Stock Fund to fund the Company Match according to Plan rules. Any remaining dividends were used to buy shares of stock on the open market to fund the Company Match in the Johnson & Johnson Common Stock Fund.

8. Assets Transfer

As a result of business acquisitions by the Plan Administrator the following transfers into the Plan were completed. In April 2006, the net assets of the TransForm Pharmaceuticals 401(k) Plan in the amount of \$2,140,338 were transferred into the Plan. In July 2006, the net assets of the Egea Biosciences Retirement and Savings Plan in the amount of \$334,539 were transferred into the Plan. In September 2006, the net assets of the Closure Medical 401(k) Plan in the amount of \$4,126,108 were transferred into the Plan. In October 2006, the net assets of the LuMend, Inc. 401(k) Retirement Plan in the amount of \$732,908 were transferred into the Plan. In December 2006, the net assets of the Ensure Medical 401(k) in the amount of \$136,563 were transferred into the Plan. After the initial ALZA Corporation Tax Deferral Investment Plan merger was completed in November 2005, there were residual assets transferred into the Plan in 2006 totaling \$21,891. These transfers into the Plan are reflected in the Statement of Changes in Net Assets Available for Benefits.

Johnson & Johnson
Savings Plan
Notes to Financial Statements

9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

| | December 31, | |
|--|---------------------|---------------------|
| | 2006 | 2005 |
| Net assets available for benefits per the financial statements | \$ 7,143,944,444 | \$ 6,252,524,367 |
| Amounts allocated to withdrawing participants | (1,410,402) | (1,507,717) |
| Adjustment of synthetic GIC value from contract value to fair value | 1,440,744 | 2,417,592 |
| | | |
| Net assets available for benefits per the Form 5500 | \$ 7,143,974,786 | \$ 6,253,434,242 |
| | | Year Ended |
| | | December 31, |
| | | 2006 |
| Benefits paid to participants per the financial statements | | \$ 449,729,362 |
| Add: Amounts allocated to withdrawing participants at December 31, 2006 | | 1,410,402 |
| Less: Amounts allocated to withdrawing participants at December 31, 2005 | | (1,507,717) |
| | | |
| Benefits paid to participants per the Form 5500 | | \$ 449,632,047 |

Amounts allocated to the withdrawing participants are recorded on the Form 5500 for benefit payments that have been processed and approved for payment prior to December 31, 2006 but not yet paid as of that date.

**Johnson & Johnson
Savings Plan
Schedule H, line 4i Schedule of Assets (Held at End of Year)
December 31, 2006**

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value | Cost | Current Value |
|--|---|------|------------------|
| Plan's interest in the Trust | Plan's interest in the Johnson & Johnson Pension and Savings Plans Master Trust | | \$7,047,873,909 |
| *Participant loans | Interest rates ranging from 3.8% to 10.5% Maturities ranging from 2007-2011 | | 72,825,166 |

* Represents party-in-interest transactions.