Shareholders Criticize J&J Management for Lapses

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Several Johnson & Johnson shareholders took the health care giant to task during its annual meeting Thursday, criticizing management for repeated product recalls, ethical lapses and excessive executive pay.

CEO Alex Gorsky responded that J&J is making progress in improving quality standards and efficiency and returning to stores "a reliable supply" of recalled consumer health products such as Tylenol and Motrin. Some have been out of stores for a few years, cutting into revenue.

"We're absolutely committed to returning our consumer business to health," as well as recommitting to the company credo of putting patients, families, medical workers and employees ahead of profits, Gorsky said.

He said J&J posted an adjusted profit of $4.1 billion in the first quarter and has produced 29 consecutive years of increased earnings. He also announced the company's 51st straight annual dividend increase, from 61 cents to 66 cents per share, for investors owning shares as of May 28.

Despite the criticism from a handful of the hundreds of mostly elderly shareholders at the meeting, many of those who addressed Gorsky were focused on plans for the dividend and other moves to increase profits and benefit stockholders.

Shareholder proposals to ensure corporate donations always align with J&J's values and to establish an independent chair of its board were easily defeated. Investors also rejected a third shareholder proposal, to require top executives to retain more of the shares they receive as part of their compensation. In a preliminary tally, each won just 28 percent of votes cast or less.

Gorsky, a J&J vice chairman who became chief executive a year ago, said the company is delivering on its near-term priorities. Those including integrating Synthes, the big orthopedics product maker it bought last year for $19.7 billion in its biggest acquisition ever, and making manufacturing improvements required under an agreement with the Food and Drug Administration.

"I think we're off to a good start in 2013," Gorsky told the shareholders gathered at a hotel next to the company's headquarters in New Brunswick, N.J. "No company is better positioned for leading the way in meeting the challenges and opportunities of health care."

He said J&J is making investments that will bring continued growth, and it leads the pharmaceutical industry in development of innovative medicines, with 10 approved from 2009 through 2012.

In December, the FDA approved Sirturo, the first tuberculosis medicine with a new mechanism of action in more than 40 years — a drug sorely needed because the deadly lung disease has become resistant to most existing medicines.

Last month, the company won approval for its first diabetes medicine, Invokana, which broadens its foothold in the market for treating the global epidemic. J&J also sells insulin pumps, blood glucose meters, test strips and the popular sugar substitute Splenda.

Gorsky said growth of the health care market has slowed, but J&J is increasing its market share, with more than 80 percent of its products ranked No. 1 or 2 in their markets. He noted the combination of Synthes and J&J's DePuy orthopedics business gives the company the most comprehensive line of devices and surgical tools for trauma victims and elderly folks needing bones and joints repaired or replaced.

Despite the mostly good news, Gorsky didn't seem to receive quite as much goodwill as the audience at J&J's annual meetings has accorded his predecessor, Bill Weldon. It was under Weldon's decade-long tenure that the company got into trouble with the government for promoting drugs for unapproved uses, while its manufacturing quality declined, resulting in about three dozen product recalls since 2009, mostly for nonprescription drugs.

Shareholders approved election of 12 board members and a shareholder advisory vote on executive pay by well over 90 percent.

In introducing the shareholder proposal for a board chair who's not a company executive, a spokesman for sponsor AFSCME, the government workers' union, said J&J's reputation has been hurt by numerous drug recalls, litigation and other liabilities. The spokesman said shareholders have expressed concern over executive pay levels, adding that with Weldon retired, there's an "opportunity to break what we consider a bad habit."

Gorsky responded that when the board chose him to take over, it expanded the duties of its lead independent director.

Another audience member, speaking during the question-and-answer period, said the company needs to change what he called a "culture of bribery and kickbacks" to win business, as well as downplaying product risks.

"They were calculated business decisions and they were repeated," said the man, who added he's been suffering from pain and unable to work for seven years because of side effects of J&J's powerful antibiotic Levaquin. "I feel the corporate credo has been largely absent for the past decade."

Gorsky said Levaquin, which has been linked to ruptured Achilles tendons, is an important drug when used appropriately and said, "You've got our commitment to honoring our credo."

Other speakers asked Gorsky to do more to make its drugs for HIV and other deadly diseases affordable in poor countries, and to end the use of animals to train surgeons on use of its medical devices and surgical tools. Gorsky said the company is working on both those issues.

In trading Thursday, J&J shares rose 83 cents to $85.22. Shares are up nearly 22 percent in the year to date.

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