3M CO
Form 10-Q
August 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission file number: 1-3285

3M COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	41-0417775 (I.R.S. Employer Identification No.)
3M Center, St. Paul, Minnesota (Address of principal executive offices)	55144 (Zip Code)

(651) 733-1110

(Registrant's telephone number, including area code)

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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a 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 No

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

Class	Outstanding at June 30, 2016
Common Stock, $0.01 par value per share	604,400,291 shares

This document (excluding exhibits) contains 85 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 81.

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Form 10-Q for the Quarterly Period Ended June 30, 2016

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3M COMPANY

FORM 10-Q

For the Quarterly Period Ended June 30, 2016

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net sales	$ 7,662	$ 7,686	$ 15,071	$ 15,264
Operating expenses				
Cost of sales	3,799	3,858	7,477	7,679
Selling, general and administrative expenses	1,560	1,550	3,053	3,114
Research, development and related expenses	437	438	887	901
Total operating expenses	5,796	5,846	11,417	11,694
Operating income	1,866	1,840	3,654	3,570
Interest expense and income				
Interest expense	38	35	85	66
Interest income	(7)	(7)	(12)	(11)
Total interest expense — net	31	28	73	55
Income before income taxes	1,835	1,812	3,581	3,515
Provision for income taxes	542	509	1,010	1,011
Net income including noncontrolling interest	$ 1,293	$ 1,303	$ 2,571	$ 2,504
Less: Net income attributable to noncontrolling interest	2	3	5	5
Net income attributable to 3M	$ 1,291	$ 1,300	$ 2,566	$ 2,499
Weighted average 3M common shares outstanding — basic	606.9	631.3	607.2	633.8
Earnings per share attributable to 3M common shareholders — basic	$ 2.13	$ 2.06	$ 4.23	$ 3.94

Weighted average 3M common shares outstanding — diluted	620.9	643.0	621.1	646.1
Earnings per share attributable to 3M common shareholders — diluted	$ 2.08	$ 2.02	$ 4.13	$ 3.87
Cash dividends paid per 3M common share	$ 1.11	$ 1.025	$ 2.22	$ 2.05

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(Millions)	2016	2015	2016	2015
Net income including noncontrolling interest	$ 1,293	$ 1,303	$ 2,571	$ 2,504
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	37	23	175	(170)
Defined benefit pension and postretirement plans adjustment	67	96	136	187
Debt and equity securities, unrealized gain (loss)	—	—	—	—
Cash flow hedging instruments, unrealized gain (loss)	(27)	(32)	(137)	38
Total other comprehensive income (loss), net of tax	77	87	174	55
Comprehensive income (loss) including noncontrolling interest	1,370	1,390	2,745	2,559
Comprehensive (income) loss attributable to noncontrolling interest	(2)	(2)	(4)	(4)
Comprehensive income (loss) attributable to 3M	$ 1,368	$ 1,388	$ 2,741	$ 2,555

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 1,688	$ 1,798
Marketable securities — current	177	118
Accounts receivable — net	4,667	4,154
Inventories		
Finished goods	1,676	1,655
Work in process	1,165	1,008
Raw materials and supplies	772	855
Total inventories	3,613	3,518
Other current assets	1,291	1,398
Total current assets	11,436	10,986
Marketable securities — non-current	14	9
Investments	121	117
Property, plant and equipment	23,793	23,098
Less: Accumulated depreciation	(15,189)	(14,583)
Property, plant and equipment — net	8,604	8,515
Goodwill	9,356	9,249
Intangible assets — net	2,477	2,601
Prepaid pension benefits	242	188
Other assets	985	1,053
Total assets	$ 33,235	$ 32,718
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 2,450	$ 2,044
Accounts payable	1,650	1,694
Accrued payroll	580	644
Accrued income taxes	169	332
Other current liabilities	2,405	2,404
Total current liabilities	7,254	7,118
Long-term debt	9,299	8,753
Pension and postretirement benefits	3,418	3,520
Other liabilities	1,327	1,580
Total liabilities	$ 21,298	$ 20,971
Commitments and contingencies (Note 12)		
Equity		
3M Company shareholders’ equity:		

Common stock par value, $.01 par value, 944,033,056 shares issued	$ 9	$ 9
Additional paid-in capital	4,963	4,791
Retained earnings	37,194	36,575
Treasury stock, at cost: 339,632,765 shares at June 30, 2016; 334,702,932 shares at December 31, 2015	(24,088)	(23,308)
Accumulated other comprehensive income (loss)	(6,184)	(6,359)
Total 3M Company shareholders’ equity	11,894	11,708
Noncontrolling interest	43	39
Total equity	$ 11,937	$ 11,747
Total liabilities and equity	$ 33,235	$ 32,718

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Six months ended June 30, 2016	2015
Cash Flows from Operating Activities		
Net income including noncontrolling interest	$ 2,571	$ 2,504
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	722	683
Company pension and postretirement contributions	(97)	(185)
Company pension and postretirement expense	118	283
Stock-based compensation expense	193	187
Deferred income taxes	(134)	295
Excess tax benefits from stock-based compensation	—	(129)
Changes in assets and liabilities		
Accounts receivable	(419)	(446)
Inventories	(42)	(269)
Accounts payable	(57)	(34)
Accrued income taxes (current and long-term)	(102)	(421)
Other — net	(208)	(50)
Net cash provided by operating activities	2,545	2,418
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	(637)	(661)
Proceeds from sale of PP&E and other assets	18	14
Acquisitions, net of cash acquired	(4)	(153)
Purchases of marketable securities and investments	(510)	(341)
Proceeds from maturities and sale of marketable securities and investments	449	1,269
Proceeds from sale of businesses	56	19
Other investing	(2)	19
Net cash provided by (used in) investing activities	(630)	166
Cash Flows from Financing Activities		
Change in short-term debt — net	(337)	(39)
Repayment of debt (maturities greater than 90 days)	—	(10)
Proceeds from debt (maturities greater than 90 days)	1,112	1,925
Purchases of treasury stock	(2,055)	(2,581)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	612	450
Dividends paid to shareholders	(1,344)	(1,298)
Excess tax benefits from stock-based compensation	—	129
Other — net	(16)	(50)

Net cash used in financing activities	(2,028)	(1,474)
Effect of exchange rate changes on cash and cash equivalents	3	(24)
Net increase (decrease) in cash and cash equivalents	(110)	1,086
Cash and cash equivalents at beginning of year	1,798	1,897
Cash and cash equivalents at end of period	$ 1,688	$ 2,983

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the Company's consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q.

As described in 3M's Current Report on Form 8-K dated May 17, 2016 (which updated 3M's 2015 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2016, effective in the first quarter of 2016, the Company made a product line reporting change involving two of its business segments. Segment information presented herein reflects the impact of this change for all periods presented. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its Current Report on Form 8-K dated May 17, 2016.

Foreign Currency Translation

Local currencies generally are considered the functional currencies outside the United States. Assets and liabilities for operations in local-currency environments are translated at month-end exchange rates of the period reported. Income and expense items are translated at month-end exchange rates of each applicable month. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Although local currencies are typically considered as the functional currencies outside the United States, under Accounting Standards Codification (ASC) 830, Foreign Currency Matters, the reporting currency of a foreign entity's parent is assumed to be that entity's functional currency when the economic environment of a foreign entity is highly inflationary—generally when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. 3M has a subsidiary in Venezuela with operating income representing less than 1.0 percent of 3M's consolidated operating income for 2015. Since January 1, 2010, the financial statements of the Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent.

The Venezuelan government sets official rates of exchange and conditions precedent to purchase foreign currency at these rates with local currency. Such rates and conditions have been and continue to be subject to change. In January 2014, the Venezuelan government announced that the National Center for Foreign Commerce (CENCOEX), had assumed the role with respect to the continuation of the existing official exchange rate, significantly expanded the use of a second currency auction exchange mechanism called the Complementary System for Foreign Currency Acquirement (or SICAD1), and issued exchange regulations indicating the SICAD1 rate of exchange would be used for payments related to international investments. In late March 2014, the Venezuelan government launched a third foreign exchange mechanism, SICAD2, which it later replaced with another foreign currency exchange platform in February 2015 called the Marginal System of Foreign Currency (SIMADI). The SIMADI rate was described as being derived from daily private bidders and buyers exchanging offers through authorized agents. This rate was approved and published by the Venezuelan Central Bank. In March 2016, the Venezuelan government effected a replacement of its preferential CENCOEX rate with Tipo de Cambio Protegido (DIPRO), described as available largely for essential imports; eliminated its SICAD exchange mechanism; and replaced its SIMADI rate with Tipo de Cambio Complementario (DICOM), published by the Venezuelan Central Bank and described as fluctuating in rate based on supply and demand.

The financial statements of 3M's Venezuelan subsidiary were remeasured utilizing the official CENCOEX (or its predecessor) rate into March 2014, the SICAD1 rate beginning in late March 2014, the SICAD2 rate beginning in June 2014, and the DICOM rate (or its SIMADI predecessor) beginning in February 2015. 3M's uses of these rates were

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based upon evaluation of a number of factors including, but not limited to, the exchange rate the Company's Venezuelan subsidiary may legally use to convert currency, settle transactions or pay dividends; the probability of accessing and obtaining currency by use of a particular rate or mechanism; and the Company's intent and ability to use a particular exchange mechanism. Other factors notwithstanding, remeasurement impacts of the changes in use of these exchange rates did not have material impacts on 3M's consolidated results of operations or financial condition.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Changes in applicable exchange rates or exchange mechanisms may continue in the future. These changes could impact the rate of exchange applicable to remeasure the Company's net monetary assets (liabilities) denominated in Venezuelan Bolivars (VEF). As of June 30, 2016, the Company had a balance of net monetary assets denominated in VEF of less than 1.5 billion VEF and the DIPRO and DICOM exchange rates were approximately 10 VEF and 625 VEF per U.S. dollar, respectively.

A need to deconsolidate the Company's Venezuelan subsidiary's operations may result from a lack of exchangeability of VEF-denominated cash coupled with an acute degradation in the ability to make key operational decisions due to government regulations in Venezuela. 3M monitors factors such as its ability to access various exchange mechanisms; the impact of government regulations on the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, and labor relations; and the current political and economic situation within Venezuela. Based upon such factors as of June 30, 2016, the Company continues to consolidate its Venezuelan subsidiary. As of June 30, 2016, the balance of intercompany receivables due from this subsidiary and its equity balance were not significant.

Earnings Per Share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company's stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (2.9 million average options for the three months ended June 30, 2016; 5.9 million average options for the six months ended June 30, 2016; 5.5 million average options for the three months ended June 30, 2015; and 4.5 million average options for the six months ended June 30, 2015). The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

	Three months ended	Six months ended

(Amounts in millions, except per share amounts)	June 30, 2016	2015	June 30, 2016	2015
Numerator:				
Net income attributable to 3M	$ 1,291	$ 1,300	$ 2,566	$ 2,499
Denominator:				
Denominator for weighted average 3M common shares outstanding — basic	606.9	631.3	607.2	633.8
Dilution associated with the Company’s stock-based compensation plans	14.0	11.7	13.9	12.3
Denominator for weighted average 3M common shares outstanding — diluted	620.9	643.0	621.1	646.1
Earnings per share attributable to 3M common shareholders — basic	$ 2.13	$ 2.06	$ 4.23	$ 3.94
Earnings per share attributable to 3M common shareholders — diluted	$ 2.08	$ 2.02	$ 4.13	$ 3.87

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers, and in August 2015 issued ASU No. 2015-14, which amended ASU No. 2014-09 as to effective date. The ASU, as amended, provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard's stated core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle the ASU includes provisions within a five step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) an entity satisfies a performance obligation. The standard also specifies the accounting for some costs to obtain or fulfill a contract with a customer and requires expanded disclosures about revenue recognition. The standard provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. For 3M, the ASU, as amended, is effective January 1, 2018. The Company is currently assessing this standard's impact on 3M's consolidated results of operations and financial condition.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, which changes guidance related to both the variable interest entity (VIE) and voting interest entity (VOE) consolidation models. With respect to the VIE model, the standard changes, among other things, the identification of variable interests associated with fees paid to a decision maker or service provider, the VIE characteristics for a limited partner or similar entity, and the primary beneficiary determination. With respect to the VOE model, the ASU eliminates the presumption that a general partner controls a limited partnership or similar entity unless the presumption can otherwise be overcome. Under the new guidance, a general partner would largely not consolidate a partnership or similar entity under the VOE model. The Company adopted this ASU effective January 1, 2016. Because 3M did not have significant involvement with entities subject to consolidation considerations impacted by the VIE model changes or with limited partnerships potentially impacted by the VOE model changes, the adoption did not have a material impact on the Company's consolidated results of operations and financial condition.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Arrangement, which requires a customer to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the customer would account for fees related to the software license element in a manner consistent with accounting for the acquisition of other acquired software licenses. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. An arrangement would contain a software license element if both (1) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. 3M adopted this ASU prospectively to arrangements entered into, or materially modified beginning January 1, 2016. The adoption did not have a material impact on 3M's consolidated results of operations and financial condition.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which modifies existing requirements regarding measuring inventory at the lower of cost or market. Under existing standards, the market amount requires consideration of replacement cost, net realizable value (NRV), and NRV less an approximately normal profit margin. The new ASU replaces market with NRV, defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This eliminates the need to determine and consider replacement cost or NRV less an approximately normal profit margin when measuring inventory. For 3M, this standard is effective prospectively beginning January 1, 2017, with early adoption permitted. The Company is currently assessing this ASU's impact on 3M's consolidated results of operations and financial condition.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which revises the accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance requires the fair value measurement of investments in equity securities and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures and limited liability companies (collectively, equity securities) that do not result in consolidation and are not accounted for under the equity method. Entities will need to measure these investments and recognize changes in fair value in net income. Entities will no longer be able to recognize unrealized holding gains and losses on equity securities they classify under current guidance as available for sale in other comprehensive income (OCI). They also will no longer be able to use the cost method of accounting for equity securities that do not have readily determinable fair values. Instead, for these types of equity investments that do not otherwise qualify for the net asset value practical expedient, entities will be permitted to elect a practicability exception and measure the investment at cost less impairment plus or minus observable price changes (in orderly transactions). The ASU also establishes an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option (FVO) has been elected. Under this guidance, an entity would be required to separately present in OCI the portion of the total fair value change attributable to instrument-specific credit risk as opposed to reflecting the entire amount in earnings. For derivative liabilities for which the FVO has been elected, however, any changes in fair value attributable to instrument-specific credit risk would continue to be presented in net income, which is consistent with current guidance. For 3M, this standard is effective beginning January 1, 2018 via a cumulative-effect adjustment to beginning retained earnings, except for guidance relative to equity securities without readily determinable fair values which is applied prospectively. The Company is currently assessing this ASU's impact on 3M's consolidated results of operations and financial condition.

In February 2016, the FASB issued ASU No. 2016-02, Leases, replacing existing lease accounting guidance. The new standard introduces a lessee model that would require entities to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner similar to current accounting. The ASU does not make fundamental changes to existing lessor accounting. However, it modifies what qualifies as a sales-type and direct financing lease and related accounting and aligns a number of the underlying principles with those of the new revenue standard, ASU No. 2014-09, such as evaluating how collectability should be considered and determining when profit can be recognized. The guidance eliminates existing real estate-specific provisions and requires expanded qualitative and quantitative disclosures. The standard requires modified retrospective transition by which it is applied at the beginning of the earliest comparative period presented in the year of adoption. For 3M, the ASU is effective January 1, 2019. The Company is currently assessing this standard's impact on 3M's consolidated results of operations and financial condition.

In March 2016, the FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments. This ASU clarifies guidance used to determine if debt instruments that contain contingent put or call options would require separation of the embedded put or call feature from the debt instrument and trigger accounting for the feature as a derivative with changes in fair value recorded through income. Under the new guidance, fewer put or call options embedded in debt instruments would require derivative accounting. For 3M, this ASU is effective January 1, 2017. The Company's outstanding debt with embedded put provisions does not require separate derivative accounting under existing guidance. As a result, 3M does not expect this ASU to have a material impact on the Company's consolidated results of operations and financial condition.

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the existing requirement to apply the equity method of accounting retrospectively (revising prior periods as if the equity method had always been applied) when an entity obtains significant influence over a previously held investment. The new guidance would require the investor to apply the equity method prospectively from the date the investment qualifies for the equity method. The investor would add the carrying value of the existing investment to the cost of any additional investment to determine the initial cost basis of the equity method investment. For 3M, this ASU is effective January 1, 2017 on a prospective basis, with early adoption permitted. 3M would apply this guidance to investments that transition to the equity method after the adoption date.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends ASU No. 2014-09, Revenue from Contracts with Customers, to clarify principal versus agent guidance in situations in which a revenue transaction involves a third party in providing goods or services to a customer. In such circumstances, an entity must determine whether the nature of its promise to the customer is to provide the underlying goods or services (i.e., the entity is the principal in the transaction) or to arrange for the third party to provide the underlying goods or services (i.e., the entity is the agent in the transaction). To determine the nature of its promise to the customer, the entity must first identify each specified good or service to be provided to the customer and then (before transferring it) assess whether it controls each specified good or service. The new ASU clarifies how an entity should identify the unit of accounting (the specified good or service) for the principal versus agent evaluation, and how it should apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the specified good or service is transferred to the customer. This ASU has the same effective date and

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transition requirements as ASU No. 2014-09, as amended by ASU No. 2015-14, which for 3M is effective January 1, 2018. The Company is currently assessing this standard's impact on 3M's consolidated results of operations and financial condition.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. With respect to income taxes, under current guidance, when a share-based payment award such as a stock option or restricted stock unit (RSU) is granted to an employee, the fair value of the award is generally recognized over the vesting period. However, the related deduction from taxes payable is based on the award's intrinsic value at the time of exercise (for an option) or on the fair value upon vesting of the award (for RSUs), which can be either greater (creating an excess tax benefit) or less (creating a tax deficiency) than the compensation cost recognized in the financial statements. Excess tax benefits are recognized in additional paid-in capital (APIC) within equity, and tax deficiencies are similarly recognized in APIC to the extent there is a sufficient APIC amount (APIC pool) related to previously recognized excess tax benefits. Under the new guidance, all excess tax benefits/deficiencies would be recognized as income tax benefit/expense in the statement of income. The new ASU's income tax aspects also impact the calculation of diluted earnings per share by excluding excess tax benefits/deficiencies from the calculation of assumed proceeds available to repurchase shares under the treasury stock method. Relative to forfeitures, the new standard allows an entity-wide accounting policy election either to continue to estimate the number of awards that will be forfeited or to account for forfeitures as they occur. The new guidance also impacts classifications within the statement of cash flows by no longer requiring inclusion of excess tax benefits as both a hypothetical cash outflow within cash flows from operating activities and hypothetical cash inflow within cash flows from financing activities. Instead, excess tax benefits would be classified in operating activities in the same manner as other cash flows related to income taxes. Additionally, the new ASU requires cash payments to tax authorities when an employer uses a net-settlement feature to withhold shares to meet statutory tax withholding provisions to be presented as financing activity (eliminating previous diversity in practice). For 3M, this standard is required effective January 1, 2017, with early adoption permitted. The Company early adopted ASU No. 2016-09 as of January 1, 2016. Prospectively beginning January 1, 2016, excess tax benefits/deficiencies have been reflected as income tax benefit/expense in the statement of income resulting in a $59 million and $140 million tax benefit in the three and six months ended June 30, 2016, respectively. 3M typically experiences the largest volume of stock option exercises and RSU vestings in the first quarter of its fiscal year. The extent of excess tax benefits/deficiencies is subject to variation in 3M stock price and timing/extent of RSU vestings and employee stock option exercises. 3M's adoption of this ASU also resulted in associated excess tax benefits being classified as operating activity in the same manner as other cash flows related to income taxes in the statement of cash flows prospectively beginning January 1, 2016. Based on the adoption methodology applied, the statement of cash flows classification of prior periods has not been adjusted. In addition, 3M did not change its accounting principles relative to elements of this standard and continued its existing practice of estimating the number of awards that will be forfeited.

In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, which amends ASU No. 2014-09, Revenue from Contracts with Customers. In terms of identifying performance obligations in a revenue arrangement, the amendments clarify how entities would determine whether promised goods or services are separately identifiable from other promises in a contract and, therefore, would be accounted for separately. The guidance would also allow entities to disregard goods or services that are immaterial in the context of a contract and provides an accounting policy election to account for shipping and handling activities as fulfillment costs rather than as additional promised services. With regard to the licensing, the amendments clarify how an entity would evaluate the nature of its promise in granting a license of intellectual property, which determines whether the entity recognizes revenue over time or at a point in time. The standard also clarifies certain other aspects relative to licensing. This ASU has the same effective date and transition requirements as ASU No. 2014-09, as amended by ASU No. 2015-14, which for 3M is effective January 1, 2018. The Company is currently assessing this standard's impact on 3M's consolidated results of operations and financial condition.

In May 2016, the FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, which amends ASU No. 2014-09, Revenue from Contracts with Customers, to address implementation issues relative to transition (adding a practical expedient for contract modifications and clarifying what constitutes a completed contract when employing ASU No. 2014-09's full or modified retrospective transition methods), collectability, noncash consideration, and the presentation of sales and other similar-type taxes (allowing entities to exclude sales-type taxes collected from transaction price). This ASU has the same effective date and transition requirements as ASU No. 2014-09, as amended by ASU No. 2015-14, which for 3M is effective January 1, 2018. The Company is currently assessing this standard's impact on 3M's consolidated results of operations and financial condition.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. With respect to available-for-sale (AFS) debt securities, the ASU amends the current other-than-temporary impairment model. For such securities with unrealized losses, entities will still consider if a portion of any impairment is related only to credit losses and therefore recognized as a reduction in income. However, rather than also reflecting that credit loss amount as a permanent reduction in cost (amortized cost) basis of that AFS debt security, the ASU requires that credit losses be reflected as an allowance. As a result, under certain circumstances, a recovery in value could result in previous allowances, or portions thereof, reversing back into income. For 3M, this ASU is effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently assessing this ASU's impact on 3M's consolidated result of operations and financial condition.

NOTE 2. Acquisitions and Divestitures

Acquisitions:

3M makes acquisitions of certain businesses from time to time that are aligned with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies.

There were no material business combinations that closed during the six months ended June 30, 2016. Adjustments in the first six months of 2016 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material. The allocation of purchase price related to the acquisition of Capital Safety Group S.A.R.L. in August 2015 is considered preliminary, primarily with respect to contingent liabilities and certain tax-related assets and liabilities. 3M expects to finalize the allocation of purchase price within the one year measurement-period following this acquisition.

Divestitures:

3M may divest certain businesses from time to time based upon review of the Company's portfolio considering, among other items, factors relative to the extent of strategic and technological alignment and optimization of capital deployment, in addition to considering if selling the businesses results in the greatest value creation for the Company and for shareholders.

In the first quarter of 2016, 3M (Safety and Graphics Business) completed the sale of the remainder of the assets of 3M's library systems business to One Equity Partners Capital Advisors L.P. (OEP). 3M had previously sold the North American business and the majority of the business outside of North America to OEP in the fourth quarter of 2015. The library systems business delivers circulation management solutions to library customers with on-premise hardware and software, maintenance and service, and an emerging cloud-based digital lending platform.

In the first quarter of 2016, 3M (Industrial Business) sold to Innovative Chemical Products Group, a portfolio company of Audax Private Equity, the assets of 3M's pressurized polyurethane foam adhesives business (formerly known as Polyfoam). This business is a provider of pressurized polyurethane foam adhesive formulations and systems into the residential roofing, commercial roofing and insulation and industrial foam segments in the United States with annual sales of approximately $20 million.

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The Company recorded a pre-tax gain of $40 million in the first quarter of 2016 as a result of the sales of these businesses (recorded in selling, general and administrative expenses). The aggregate operating income of these businesses included in the Company's operating results for the periods presented and the amounts of major assets and liabilities of any associated disposal groups classified as held-for-sale as of the respective balance sheet dates presented were not material.

Refer to Note 2 in 3M's Current Report on Form 8-K dated May 17, 2016 (which updated 3M's 2015 Annual Report on Form 10-K) for more information on 3M's acquisitions and divestitures.

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NOTE 3. Goodwill and Intangible Assets

There were no material acquisitions that closed during the first six months of 2016. The amounts in the "Translation and other" column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2015 and June 30, 2016, follow:

Goodwill

(Millions)	December 31, 2015 Balance	Acquisition activity	Translation and other	June 30, 2016 Balance
Industrial	$ 2,573	$ 1	$ 49	$ 2,623
Safety and Graphics	3,342	2	19	3,363
Health Care	1,624	—	14	1,638
Electronics and Energy	1,510	—	13	1,523
Consumer	200	—	9	209
Total Company	$ 9,249	$ 3	$ 104	$ 9,356

Accounting standards require that goodwill be tested for impairment annually and between annual tests in certain circumstances such as a change in reporting units or the testing of recoverability of a significant asset group within a reporting unit. At 3M, reporting units generally correspond to a division.

As described in Note 14, effective in the first quarter of 2016, the Company changed its business segment reporting in its continuing effort to improve the alignment of its businesses around markets and customers. For any product changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. During the first quarter of 2016, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Acquired Intangible Assets

The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of June 30, 2016, and December 31, 2015, follow:

(Millions)	June 30, 2016	December 31, 2015
Customer related intangible assets	$ 1,974	$ 1,973
Patents	607	616
Other technology-based intangible assets	525	525
Definite-lived tradenames	424	421
Other amortizable intangible assets	214	216
Total gross carrying amount	$ 3,744	$ 3,751
Accumulated amortization — customer related	(737)	(668)
Accumulated amortization — patents	(489)	(481)
Accumulated amortization — other technology based	(279)	(252)
Accumulated amortization — definite-lived tradenames	(228)	(215)
Accumulated amortization — other	(171)	(169)
Total accumulated amortization	$ (1,904)	$ (1,785)
Total finite-lived intangible assets — net	$ 1,840	$ 1,966
Non-amortizable intangible assets (primarily tradenames)	637	635
Total intangible assets — net	$ 2,477	$ 2,601

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Certain tradenames acquired by 3M are not amortized because they have been in existence for over 55 years, have a history of leading-market share positions, have been and are intended to be continuously renewed, and the associated products of which are expected to generate cash flows for 3M for an indefinite period of time.

Amortization expense for acquired intangible assets for the three and six months ended June 30, 2016 and 2015 follows:

(Millions)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Amortization expense	$ 66	$ 50	$ 132	$ 103

Expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2016:

(Millions)	Remainder of 2016	2017	2018	2019	2020	2021	After 2021
Amortization expense	$ 125	$ 226	$ 204	$ 192	$ 182	$ 166	$ 745

The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets and other events. 3M expenses the costs incurred to renew or extend the term of intangible assets.

NOTE 4. Restructuring Actions

During the fourth quarter of 2015, management approved and committed to undertake certain restructuring actions primarily focused on structural overhead, largely in the U.S. and slower-growing markets, with particular emphasis on Europe, Middle East, and Africa (EMEA) and Latin America. This impacted approximately 1,700 positions worldwide and resulted in a fourth quarter 2015 pre-tax charge of $114 million.

Components of these restructuring actions, including cash and non-cash impacts, follow:

(Millions)	Employee-Related	Asset-Related	Total
Expense incurred	$ 98	$ 16	$ 114
Non-cash changes	(8)	(16)	(24)
Cash payments	(27)	—	(27)
Accrued restructuring action balances as of December 31, 2015	$ 63	$ —	$ 63
Cash payments	(35)	—	(35)
Accrued restructuring action balances as of June 30, 2016	$ 28	$ —	$ 28

Non-cash changes include certain pension settlements and special termination benefits recorded in accrued pension and postretirement benefits and accelerated depreciation resulting from the cessation of use of certain long-lived assets. Remaining activities related to the restructuring are expected to be completed in 2016.

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NOTE 5. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

Three months ended June 30, 2016

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at March 31, 2016	$ 11,774	$ 4,925	$ 36,785	$ (23,716)	$ (6,261)	$ 41
Net income	1,293		1,291			2
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	37				37	—
Defined benefit pension and post-retirement plans adjustment	67				67	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	(27)				(27)	—
Total other comprehensive income (loss), net of tax	77					
Dividends declared	(672)		(672)			
Stock-based compensation	47	47				
Reacquired stock	(837)			(837)		
Issuances pursuant to stock option and benefit plans	255		(210)	465		
Balance at June 30, 2016	$ 11,937	$ 4,972	$ 37,194	$ (24,088)	$ (6,184)	$ 43

Six months ended June 30, 2016

		3M Company Shareholders				
		Common Stock and Additional			Accumulated Other Comprehensive	Non-

(Millions)	Total	Paid-in Capital	Retained Earnings	Treasury Stock	Income (Loss)	controlling Interest
Balance at December 31, 2015	$ 11,747	$ 4,800	$ 36,575	$ (23,308)	$ (6,359)	$ 39
Net income	2,571		2,566			5
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	175				176	(1)
Defined benefit pension and post-retirement plans adjustment	136				136	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	(137)				(137)	—
Total other comprehensive income (loss), net of tax	174					
Dividends declared	(1,344)		(1,344)			
Stock-based compensation	172	172				
Reacquired stock	(2,000)			(2,000)		
Issuances pursuant to stock option and benefit plans	617		(603)	1,220		
Balance at June 30, 2016	$ 11,937	$ 4,972	$ 37,194	$ (24,088)	$ (6,184)	$ 43

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Three months ended June 30, 2015

(Millions)	Total	3M Company Shareholders Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at March 31, 2015	$ 13,952	$ 4,616	$ 35,080	$ (19,458)	$ (6,321)	$ 35
Net income	1,303		1,300			3
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	23				24	(1)
Defined benefit pension and post-retirement plans adjustment	96				96	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	(32)				(32)	—
Total other comprehensive income (loss), net of tax	87					
Dividends declared	(646)		(646)			
Stock-based compensation, net of tax impacts	78	78				
Reacquired stock	(1,787)			(1,787)		
Issuances pursuant to stock option and benefit plans	143		(119)	262		
Balance at June 30, 2015	$ 13,130	$ 4,694	$ 35,615	$ (20,983)	$ (6,233)	$ 37

Six months ended June 30, 2015

(Millions)	Total	3M Company Shareholders Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2014	$ 13,142	$ 4,388	$ 34,317	$ (19,307)	$ (6,289)	$ 33

Net income	2,504		2,499			5
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(170)				(169)	(1)
Defined benefit pension and post-retirement plans adjustment	187				187	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	38				38	—
Total other comprehensive income (loss), net of tax	55					
Dividends declared	(649)		(649)			
Stock-based compensation, net of tax impacts	306	306				
Reacquired stock	(2,683)			(2,683)		
Issuances pursuant to stock option and benefit plans	455		(552)	1,007		
Balance at June 30, 2015	$ 13,130	$ 4,694	$ 35,615	$ (20,983)	$ (6,233)	$ 37

In December 2014, 3M's Board of Directors declared a first quarter 2015 dividend of $1.025 per share (paid in March 2015). This reduced 3M's stockholder equity and increased other current liabilities as of December 31, 2014, by approximately $0.6 billion.

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Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component

Three months ended June 30, 2016

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2016, net of tax:	$ (1,540)	$ (4,735)	$ —	$ 14	$ (6,261)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	59	—	—	(15)	44
Amounts reclassified out	—	101	—	(28)	73
Total other comprehensive income (loss), before tax	59	101	—	(43)	117
Tax effect	(22)	(34)	—	16	(40)
Total other comprehensive income (loss), net of tax	37	67	—	(27)	77
Balance at June 30, 2016, net of tax:	$ (1,503)	$ (4,668)	$ —	$ (13)	$ (6,184)

Six months ended June 30, 2016

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015, net of tax:	$ (1,679)	$ (4,804)	$ —	$ 124	$ (6,359)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	119	—	—	(136)	(17)
Amounts reclassified out	—	204	—	(80)	124
Total other comprehensive income (loss), before tax	119	204	—	(216)	107
Tax effect	57	(68)	—	79	68
	176	136	—	(137)	175

Total other comprehensive income (loss), net of tax					
Balance at June 30, 2016, net of tax:	$ (1,503)	$ (4,668)	$ —	$ (13)	$ (6,184)

Three months ended June 30, 2015

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2015, net of tax:	$ (1,288)	$ (5,202)	$ —	$ 169	$ (6,321)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(12)	—	—	(16)	(28)
Amounts reclassified out	—	141	—	(34)	107
Total other comprehensive income (loss), before tax	(12)	141	—	(50)	79
Tax effect	36	(45)	—	18	9
Total other comprehensive income (loss), net of tax	24	96	—	(32)	88
Balance at June 30, 2015, net of tax:	$ (1,264)	$ (5,106)	$ —	$ 137	$ (6,233)

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Six months ended June 30, 2015

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2014, net of tax:	$ (1,095)	$ (5,293)	$ —	$ 99	$ (6,289)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(56)	24	—	120	88
Amounts reclassified out	—	265	—	(61)	204
Total other comprehensive income (loss), before tax	(56)	289	—	59	292
Tax effect	(113)	(102)	—	(21)	(236)
Total other comprehensive income (loss), net of tax	(169)	187	—	38	56
Balance at June 30, 2015, net of tax	$ (1,264)	$ (5,106)	$ —	$ 137	$ (6,233)

Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation does include impacts from items such as net investment hedge transactions. Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income.

Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				
	Three months ended June 30,		Six months ended June 30,		Location on Income
(Millions)	2016	2015	2016	2015	Statement
Gains (losses) associated with, defined benefit pension and postretirement plans amortization					
Transition asset	$ 1	$ 1	$ 1	$ 1	See Note 9
Prior service benefit	24	17	47	35	See Note 9
Net actuarial loss	(126)	(159)	(252)	(318)	See Note 9
Curtailments/Settlements	—	—	—	17	See Note 9

Total before tax	(101)	(141)	(204)	(265)	
Tax effect	34	45	68	91	Provision for income taxes
Net of tax	$ (67)	$ (96)	$ (136)	$ (174)	
Debt and equity security gains (losses)					
Sales or impairments of securities	$ —	$ —	$ —	$ —	Selling, general and administrative expenses
Total before tax	—	—	—	—	
Tax effect	—	—	—	—	Provision for income taxes
Net of tax	$ —	$ —	$ —	$ —	
Cash flow hedging instruments gains (losses)					
Foreign currency forward/option contracts	$ 28	$ 35	$ 81	$ 65	Cost of sales
Commodity price swap contracts	—	—	—	(2)	Cost of sales
Interest rate swap contracts	—	(1)	(1)	(2)	Interest expense
Total before tax	28	34	80	61	
Tax effect	(11)	(12)	(29)	(22)	Provision for income taxes
Net of tax	$ 17	$ 22	$ 51	$ 39	
Total reclassifications for the period, net of tax	$ (50)	$ (74)	$ (85)	$ (135)	

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NOTE 6. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005.

The IRS has completed its field examination of the Company's U.S. federal income tax returns for the years 2005 through 2014. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS. In December 2012, the Company received a statutory notice of deficiency for the 2006 year. The Company filed a petition in Tax Court in the first quarter of 2013 relating to the 2006 tax year.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2015 and 2016. It is anticipated that the IRS will complete its examination of the Company for 2015 by the end of the first quarter of 2017 and for 2016 by the end of the first quarter of 2018. As of June 30, 2016, the IRS has not proposed any significant adjustments to the Company's tax positions for which the Company is not adequately reserved.

Payments relating to other proposed assessments arising from the 2005 through 2016 examinations may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company's uncertain tax positions due to the closing and resolution of audit issues for various audit years mentioned above and closure of statutes. The Company is not currently able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of June 30, 2016 and December 31, 2015 are $383 million and $369 million, respectively.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately $1 million of expense and $4 million of benefit for the three months ended June 30, 2016 and June 30, 2015, respectively, and approximately $3 million of benefit and $2 million of benefit for the six months ended June 30, 2016 and June 30, 2015, respectively. At June 30, 2016 and December 31, 2015, accrued interest and penalties in the consolidated balance sheet on a gross basis were $39 million and $45 million, respectively. Included in these interest and penalty amounts are interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The effective tax rate for the second quarter of 2016 was 29.6 percent, compared to 28.1 percent in the second quarter of 2015, an increase of 1.5 percentage points. Primary factors that increased the Company's effective tax rate on a combined basis by 5.3 percentage points year-on-year included international taxes that were impacted by changes to both the geographic mix of income before taxes and additional tax expense related to global cash optimization actions, plus remeasurements of 3M's uncertain tax positions. This increase was partially offset by a 3.8 percentage points year-on-year decrease to the Company's effective tax rate. Primary factors that decreased the effective tax rate included the recognition of excess tax benefits beginning in 2016 related to employee share-based payments (resulting from the adoption of ASU No. 2016-09, as discussed in Note 1), the reinstatement of the R&D tax credit, and other items.

The effective tax rate for the first six months of 2016 was 28.2 percent, compared to 28.8 percent in the first six months of 2015, a decrease of 0.6 percentage points. Primary factors that decreased the Company's effective tax rate on a combined basis by 4.5 percentage points for the first six months of 2016 when compared to the same period for 2015 included the recognition of excess tax benefits beginning in 2016 related to employee share-based payments (resulting from the adoption of ASU No. 2016-09, as discussed in Note 1), the reinstatement of the R&D tax credit, and other items. This decrease was partially offset by a 3.9 percentage point year-on-year increase, which included international

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taxes that were impacted by changes to both the geographic mix of income before taxes and additional tax expense related to global cash optimization actions, plus remeasurements of 3M's uncertain tax positions.

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exits. As of June 30, 2016 and December 31, 2015, the Company had valuation allowances of $39 million and $31 million on its deferred tax assets, respectively.

NOTE 7. Marketable Securities

The Company invests in asset-backed securities, certificates of deposit/time deposits, commercial paper, and other securities. The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current).

(Millions)	June 30, 2016	December 31, 2015
Foreign government agency securities	$ 10	$ 10
Corporate debt securities	10	10
Commercial paper	36	12
Certificates of deposit/time deposits	55	26
U.S. municipal securities	4	3
Asset-backed securities:		
Automobile loan related	36	26
Credit card related	19	10
Other	7	21
Asset-backed securities total	62	57
Current marketable securities	$ 177	$ 118
U.S. municipal securities	$ 14	$ 9
Non-current marketable securities	$ 14	$ 9
Total marketable securities	$ 191	$ 127

Classification of marketable securities as current or non-current is based on the nature of the securities and availability for use in current operations. At June 30, 2016 and December 31, 2015, gross unrealized gains and/or losses (pre-tax) were not material. Refer to Note 5 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or "other-than-temporary" impairment.

3M reviews impairments associated with its marketable securities in accordance with the measurement guidance provided by ASC 320, Investments-Debt and Equity Securities, when determining the classification of the impairment as "temporary" or "other-than-temporary". A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders' equity. Such an unrealized loss does not reduce net income attributable to 3M for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as other factors.

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The balances at June 30, 2016 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	June 30, 2016
Due in one year or less	$ 104
Due after one year through five years	87
Total marketable securities	$ 191

3M has a diversified marketable securities portfolio. Within this portfolio, asset-backed securities primarily include interests in automobile loans, credit cards and other asset-backed securities. 3M's investment policy allows investments in asset-backed securities with minimum credit ratings of Aa2 by Moody's Investors Service or AA by Standard & Poor's or Fitch Ratings or DBRS. Asset-backed securities must be rated by at least two of the aforementioned rating agencies, one of which must be Moody's Investors Service or Standard & Poor's. At June 30, 2016, all asset-backed security investments were in compliance with this policy. Approximately 78.4 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's Investors Service and/or AAA or F1+ by Fitch Ratings. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. 3M does not currently expect risk related to its holding in asset-backed securities to materially impact its financial condition or liquidity.

NOTE 8. Long-Term Debt and Short-Term Borrowings

In May 2016, 3M issued 500 million Euro aggregate principal amount of 5.75-year fixed rate medium-term notes due February 2022 with a coupon rate of 0.375% and 500 million Euro aggregate principal amount of 15-year fixed rate medium-term notes due 2031 with a coupon rate of 1.50%.

In March 2016, 3M amended and restated its existing $2.25 billion five-year revolving credit facility expiring in August 2019 to a $3.75 billion five-year revolving credit facility expiring in March 2021. This credit agreement includes a provision under which 3M may request an increase of up to $1.25 billion (at lender's discretion), bringing the total facility up to $5.0 billion. This revolving credit facility is undrawn at June 30, 2016. Under the $3.75 billion credit agreement, the Company is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to a total interest expense on all funded debt for the same period. At June 30, 2016, this ratio was approximately 51 to 1. Debt covenants do not restrict the payment of dividends.

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NOTE 9. Pension and Postretirement Benefit Plans

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the three and six months ended June 30, 2016 and 2015 follow:

Benefit Plan Information

	Three months ended June 30, Qualified and Non-qualified Pension Benefits					
	United States		International		Postretirement Benefits	
(Millions)	2016	2015	2016	2015	2016	2015
Net periodic benefit cost (benefit)						
Service cost	$ 65	$ 73	$ 34	$ 40	$ 14	$ 22
Interest cost	144	164	43	55	19	25
Expected return on plan assets	(261)					