

3M CO  
Form 10-Q  
November 01, 2012  
[Table of Contents](#)

**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 September 30, 2012**

**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)

**3M Center, St. Paul, Minnesota**  
(Address of principal executive offices)

**41-0417775**  
(I.R.S. Employer  
Identification No.)

**55144**  
(Zip Code)

**(651) 733-1110**

(Registrant's telephone number, including area code)

Edgar Filing: 3M CO - Form 10-Q

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 September 30, 2012
Common Stock, \$0.01 par value per share	691,931,278 shares

This document (excluding exhibits) contains 77 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 74.

Table of Contents

## 3M COMPANY

Form 10-Q for the Quarterly Period Ended September 30, 2012

## TABLE OF CONTENTS

	BEGINNING PAGE
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>ITEM 1.</u>	<u>Financial Statements</u>
	<b>Index to Financial Statements:</b>
	<u>Consolidated Statement of Income</u> 3
	<u>Consolidated Statement of Comprehensive Income</u> 4
	<u>Consolidated Balance Sheet</u> 5
	<u>Consolidated Statement of Cash Flows</u> 6
	<u>Notes to Consolidated Financial Statements</u>
	<u>Note 1. Significant Accounting Policies</u> 7
	<u>Note 2. Acquisitions</u> 9
	<u>Note 3. Goodwill and Intangible Assets</u> 10
	<u>Note 4. Supplemental Equity and Comprehensive Income Information</u> 12
	<u>Note 5. Income Taxes</u> 16
	<u>Note 6. Marketable Securities</u> 18
	<u>Note 7. Long-Term Debt and Short-Term Borrowings</u> 20
	<u>Note 8. Pension and Postretirement Benefit Plans</u> 21
	<u>Note 9. Derivatives</u> 23
	<u>Note 10. Fair Value Measurements</u> 29
	<u>Note 11. Commitments and Contingencies</u> 33
	<u>Note 12. Stock-Based Compensation</u> 42
	<u>Note 13. Business Segments</u> 46
	<u>Report of Independent Registered Public Accounting Firm</u> 48
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<b>Index to Management's Discussion and Analysis:</b>
	<u>Overview</u> 49
	<u>Results of Operations</u> 52
	<u>Performance by Business Segment</u> 56
	<u>Financial Condition and Liquidity</u> 62
	<u>Cautionary Note Concerning Factors That May Affect Future Results</u> 66
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 67
<u>ITEM 4.</u>	<u>Controls and Procedures</u> 70
<u>PART II</u>	<u>OTHER INFORMATION</u>
<u>ITEM 1.</u>	<u>Legal Proceedings</u> 71
<u>ITEM 1A.</u>	<u>Risk Factors</u> 71
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 73
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u> 73

Edgar Filing: 3M CO - Form 10-Q

<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	73
<u>ITEM 5.</u>	<u>Other Information</u>	73
<u>ITEM 6.</u>	<u>Exhibits</u>	74

Table of Contents

## 3M COMPANY

## FORM 10-Q

For the Quarterly Period Ended September 30, 2012

## 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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 7,497	\$ 7,531	\$ 22,517	\$ 22,522
Operating expenses				
Cost of sales	3,935	4,027	11,694	11,869
Selling, general and administrative expenses	1,487	1,534	4,567	4,648
Research, development and related expenses	397	389	1,216	1,191
Total operating expenses	5,819	5,950	17,477	17,708
Operating income	1,678	1,581	5,040	4,814
Interest expense and income				
Interest expense	44	48	127	141
Interest income	(10)	(10)	(29)	(29)
Total interest expense net	34	38	98	112
Income before income taxes	1,644	1,543	4,942	4,702
Provision for income taxes	464	440	1,435	1,319
Net income including noncontrolling interest	\$ 1,180	\$ 1,103	\$ 3,507	\$ 3,383
Less: Net income attributable to noncontrolling interest	19	15	54	54
Net income attributable to 3M	\$ 1,161	\$ 1,088	\$ 3,453	\$ 3,329
Weighted average 3M common shares outstanding basic	693.0	707.7	694.7	710.9
Earnings per share attributable to 3M common shareholders basic	\$ 1.68	\$ 1.54	\$ 4.97	\$ 4.68
Weighted average 3M common shares outstanding diluted	703.1	715.5	703.9	722.8

Edgar Filing: 3M CO - Form 10-Q

Earnings per share attributable to 3M common shareholders diluted	\$	<b>1.65</b>	\$	1.52	\$	<b>4.91</b>	\$	4.61
Cash dividends paid per 3M common share	\$	<b>0.59</b>	\$	0.55	\$	<b>1.77</b>	\$	1.65

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

Table of Contents**3M Company and Subsidiaries****Consolidated Statement of Comprehensive Income****(Unaudited)**

(Millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income including noncontrolling interest	\$ 1,180	\$ 1,103	\$ 3,507	\$ 3,383
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	412	(490)	211	(14)
Defined benefit pension and postretirement plans adjustment	96	77	291	207
Debt and equity securities, unrealized gain (loss)	3	(2)	4	(5)
Cash flow hedging instruments, unrealized gain (loss)	(36)	54	(28)	37
Total other comprehensive income (loss), net of tax	475	(361)	478	225
Comprehensive income (loss) including noncontrolling interest	1,655	742	3,985	3,608
Comprehensive (income) loss attributable to noncontrolling interest	(30)	(32)	(55)	(75)
Comprehensive income (loss) attributable to 3M	\$ 1,625	\$ 710	\$ 3,930	\$ 3,533

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

Table of Contents**3M Company and Subsidiaries****Consolidated Balance Sheet****(Unaudited)**

<b>(Dollars in millions, except per share amount)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,029	\$ 2,219
Marketable securities - current	1,989	1,461
Accounts receivable - net	4,409	3,867
Inventories		
Finished goods	1,783	1,536
Work in process	1,163	1,061
Raw materials and supplies	896	819
Total inventories	3,842	3,416
Other current assets	1,225	1,277
Total current assets	14,494	12,240
Marketable securities - non-current	1,400	896
Investments	142	155
Property, plant and equipment	22,042	21,166
Less: Accumulated depreciation	(14,103)	(13,500)
Property, plant and equipment - net	7,939	7,666
Goodwill	7,216	7,047
Intangible assets - net	1,847	1,916
Prepaid pension benefits	47	40
Other assets	1,394	1,656
Total assets	\$ 34,479	\$ 31,616
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,506	\$ 682
Accounts payable	1,805	1,643
Accrued payroll	684	676
Accrued income taxes	301	355
Other current liabilities	2,299	2,085
Total current liabilities	6,595	5,441
Long-term debt	4,852	4,484
Pension and postretirement benefits	3,114	3,972
Other liabilities	1,777	1,857
Total liabilities	\$ 16,338	\$ 15,754
Commitments and contingencies (Note 11)		
<b>Equity</b>		
3M Company shareholders' equity:		
Common stock par value, \$.01 par value, 944,033,056 shares issued	\$ 9	\$ 9
Additional paid-in capital	3,998	3,767
Retained earnings	30,150	28,348
	(11,965)	(11,679)



Edgar Filing: 3M CO - Form 10-Q

Treasury stock, at cost: 252,101,778 shares at September 30, 2012; 249,063,015 shares at December 31, 2011

Accumulated other comprehensive income (loss)		<b>(4,548)</b>		(5,025)
Total 3M Company shareholders' equity		<b>17,644</b>		15,420
Noncontrolling interest		<b>497</b>		442
Total equity	\$	<b>18,141</b>	\$	15,862
Total liabilities and equity	\$	<b>34,479</b>	\$	31,616

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

Table of Contents**3M Company and Subsidiaries****Consolidated Statement of Cash Flows****(Unaudited)**

(Millions)	Nine months ended September 30,	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 3,507	\$ 3,383
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	956	919
Company pension and postretirement contributions	(918)	(373)
Company pension and postretirement expense	490	400
Stock-based compensation expense	181	210
Deferred income taxes	89	(37)
Excess tax benefits from stock-based compensation	(53)	(52)
Changes in assets and liabilities		
Accounts receivable	(493)	(557)
Inventories	(368)	(364)
Accounts payable	141	(30)
Accrued income taxes (current and long-term)	(48)	212
Product and other insurance receivables and claims	(11)	(45)
Other net	89	(120)
Net cash provided by operating activities	3,562	3,546
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(977)	(862)
Proceeds from sale of PP&E and other assets	15	12
Acquisitions, net of cash acquired	(248)	(531)
Purchases of marketable securities and investments	(4,313)	(2,592)
Proceeds from sale of marketable securities and investments	1,778	1,042
Proceeds from maturities of marketable securities	1,597	1,353
Other investing	14	(6)
Net cash used in investing activities	(2,134)	(1,584)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	(36)	(13)
Repayment of debt (maturities greater than 90 days)	(18)	(474)
Proceeds from debt (maturities greater than 90 days)	1,251	1,108
Purchases of treasury stock	(1,490)	(2,207)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	772	865
Dividends paid to shareholders	(1,228)	(1,171)
Excess tax benefits from stock-based compensation	53	52
Other net	(18)	(58)
Net cash used in financing activities	(714)	(1,898)
Effect of exchange rate changes on cash and cash equivalents	96	(65)
Net increase (decrease) in cash and cash equivalents	810	(1)
Cash and cash equivalents at beginning of year	2,219	3,377
Cash and cash equivalents at end of period	\$ 3,029	\$ 3,376

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

Table of Contents

**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. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its 2011 Annual Report on Form 10-K.

**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 (6.3 million average options for the three months ended September 30, 2012; 15.6 million average options for the nine months ended September 30, 2012; 29.7 million average options for the three months ended September 30, 2011; and 12.3 million average options for the nine months ended September 30, 2011). The computations for basic and diluted earnings per share follow:

Table of Contents**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income attributable to 3M	\$ 1,161	\$ 1,088	\$ 3,453	\$ 3,329
Denominator:				
Denominator for weighted average 3M common shares outstanding basic	693.0	707.7	694.7	710.9
Dilution associated with the Company's stock-based compensation plans	10.1	7.8	9.2	11.9
Denominator for weighted average 3M common shares outstanding diluted	703.1	715.5	703.9	722.8
Earnings per share attributable to 3M common shareholders basic	\$ 1.68	\$ 1.54	\$ 4.97	\$ 4.68
Earnings per share attributable to 3M common shareholders diluted	\$ 1.65	\$ 1.52	\$ 4.91	\$ 4.61

**New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This standard clarifies guidance on how to measure fair value and is largely consistent with existing fair value measurement principles. The ASU also expands existing disclosure requirements for fair value measurements and makes other amendments. For 3M, this ASU was effective prospectively beginning January 1, 2012. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*. Under this standard, entities testing goodwill for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU was effective beginning January 1, 2012, with early adoption permitted under certain conditions. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, which creates new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, the ASU is effective January 1, 2013 with retrospective application required. Since this standard impacts disclosure requirements only, its adoption will not have a material impact on 3M's consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. Under this standard, entities testing long-lived intangible assets for impairment now have an option of performing a qualitative assessment to determine whether further impairment testing is necessary. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU is effective beginning January 1, 2013, with early adoption permitted under certain conditions. The adoption of this standard is not expected to have a material impact on 3M's consolidated results of operations or financial condition.

Table of Contents

**NOTE 2. Acquisitions**

3M makes acquisitions of certain businesses from time to time that the Company feels align with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies. Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M's acquisition of these businesses. In addition to business combinations, 3M periodically acquires certain tangible and/or intangible assets and purchases interests in certain enterprises that do not otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

During the nine months ended September 30, 2012, the purchase price paid for business combinations (net of cash acquired) aggregated to \$248 million. The allocations of purchase price related to the acquisitions of CodeRyte, Inc. in April 2012 and the business purchased from Federal Signal Corp. in September 2012 are considered preliminary, largely with respect to tax-related items and certain other assets and liabilities. Adjustments in the first nine months of 2012 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2011 acquisitions of Winterthur Technologie AG and the business acquired from GPI Group. Refer to Note 2 in 3M's 2011 Annual Report on Form 10-K for more information on 3M's 2011 acquisitions.

In April 2012, 3M (Health Care Business) purchased all of the outstanding shares of CodeRyte, Inc., an industry leader in clinical natural processing technology and computer-assisted coding solutions for healthcare outpatient providers, which is headquartered in Bethesda, Maryland.

In September 2012, 3M (Display and Graphics Business) purchased the net assets of Federal Signal Technologies Group from Federal Signal Corp., for a total purchase price of approximately \$104 million. This business focuses on electronic toll collection and parking management hardware and software services, with primary facilities spread throughout the United States and in the U.K.

For acquisitions which closed in the first nine months of 2012, purchased identifiable finite-lived intangible assets totaled \$95 million. These assets will be amortized on a straight-line basis over a weighted-average life of 12 years (lives ranging from 2 to 15 years). Acquired in-process research and development and identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

In December 2011, 3M (Consumer and Office Business) entered into a definitive agreement to acquire the Office and Consumer Products business of Avery Dennison Corp. (Avery). 3M and Avery withdrew from the regulatory approval process for this acquisition in September 2012 and subsequently announced that they had terminated this agreement in October 2012.

In October 2012, 3M (Industrial and Transportation Business) announced that it had entered into a definitive agreement to acquire Ceradyne, Inc. (Ceradyne) and commenced its cash tender offer for all outstanding shares of Ceradyne at a price of \$35.00 per share. The tender offer is scheduled to expire on November 27, 2012, unless extended. The proposed transaction has an aggregate value of approximately \$860 million, or approximately \$670 million net of cash, cash equivalents, short-term investments and debt. Ceradyne, headquartered in Costa Mesa, California, is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and

## Edgar Filing: 3M CO - Form 10-Q

gas, solar, industrial, electronics and defense industries. The transaction is expected to be completed in the fourth quarter of 2012, subject to customary closing conditions including any necessary regulatory approvals.



Table of Contents**NOTE 3. Goodwill and Intangible Assets**

Purchased goodwill related to acquisitions that closed during the first nine months of 2012 totaled \$127 million, \$39 million of which is deductible for tax purposes. The acquisition activity in the following table includes the net impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which increased goodwill by \$12 million. 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, 2011 and September 30, 2012, follow:

**Goodwill**

(Millions)	December 31, 2011 Balance	Acquisition activity	Translation and other	September 30, 2012 Balance
Industrial and Transportation	\$ 1,961	\$ 6	\$ 23	\$ 1,990
Health Care	1,514	88	(5)	1,597
Consumer and Office	228	6	6	240
Safety, Security and Protection Services	1,675		19	1,694
Display and Graphics	993	39	(7)	1,025
Electro and Communications	676		(6)	670
Total Company	\$ 7,047	\$ 139	\$ 30	\$ 7,216

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.

Effective in the first quarter of 2012, 3M made certain product moves across divisions within its business segments, but none were across business segments. For any product moves 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. In addition, during the first quarter of 2012, 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**

For the nine months ended September 30, 2012, gross intangible assets (excluding goodwill) acquired through business combinations increased balances, with this impact largely offset by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of September 30, 2012, and December 31, 2011, follow:

(Millions)	September 30, 2012	December 31, 2011
------------	-----------------------	----------------------

Edgar Filing: 3M CO - Form 10-Q

Patents	\$	562	\$	561
Other amortizable intangible assets (primarily tradenames and customer related intangibles)		2,338		2,323
Total gross carrying amount	\$	2,900	\$	2,884
Accumulated amortization patents		(393)		(374)
Accumulated amortization other		(783)		(717)
Total accumulated amortization	\$	(1,176)	\$	(1,091)
Total finite-lived intangible assets net	\$	1,724	\$	1,793
Non-amortizable intangible assets (tradenames)		123		123
Total intangible assets net	\$	1,847	\$	1,916

Table of Contents

Amortization expense for acquired intangible assets for the three-month and nine-month periods ended September 30, 2012 and 2011 follows:

(Millions)	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Amortization expense	\$ 60	\$ 59	\$ 176	\$ 176	\$ 176	\$ 176	\$ 176	\$ 176

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of September 30, 2012:

(Millions)	Remainder of							After 2017
	2012	2013	2014	2015	2016	2017		
Amortization expense	\$ 58	\$ 225	\$ 201	\$ 188	\$ 175	\$ 160	\$ 717	

The expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to 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.

Table of Contents**NOTE 4. Supplemental Equity and Comprehensive Income Information****Consolidated Statement of Changes in Equity****Three months ended September 30, 2012**

(Millions)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at June 30, 2012</b>	\$ 16,873	\$ 3,963	\$ 29,465	\$ (12,010)	\$ (5,012)	\$ 467
Net income	1,180		1,161			19
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	412				401	11
Defined benefit pension and post-retirement plans adjustment	96				96	
Debt and equity securities - unrealized gain (loss)	3				3	
Cash flow hedging instruments - unrealized gain/(loss)	(36)				(36)	
Total other comprehensive income (loss), net of tax	475					
Dividends paid	(408)		(408)			
Stock-based compensation, net of tax impacts	44	44				
Reacquired stock	(316)			(316)		
Issuances pursuant to stock option and benefit plans	293		(68)	361		
<b>Balance at September 30, 2012</b>	\$ 18,141	\$ 4,007	\$ 30,150	\$ (11,965)	\$ (4,548)	\$ 497

**Nine months ended September 30, 2012**

(Millions)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at December 31, 2011</b>	\$ 15,862	\$ 3,776	\$ 28,348	\$ (11,679)	\$ (5,025)	\$ 442
Net income	3,507		3,453			54
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	211				210	1
	291				291	

Edgar Filing: 3M CO - Form 10-Q

Defined benefit pension and post-retirement plans adjustment									
Debt and equity securities - unrealized gain (loss)	4						4		
Cash flow hedging instruments - unrealized gain/(loss)	(28)						(28)		
Total other comprehensive income (loss), net of tax	478								
Dividends paid	(1,228)				(1,228)				
Stock-based compensation, net of tax impacts	231	231							
Reacquired stock	(1,483)						(1,483)		
Issuances pursuant to stock option and benefit plans	774				(423)		1,197		
<b>Balance at September 30, 2012</b>	\$ 18,141	\$ 4,007	\$ 30,150	\$ (11,965)	\$ (4,548)	\$ 497			

Table of Contents**Three months ended September 30, 2011**

(Millions)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at June 30, 2011</b>	\$ 17,742	\$ 3,692	\$ 27,110	\$ (10,511)	\$ (2,961)	\$ 412
Net income	1,103		1,088			15
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(490)				(507)	17
Defined benefit pension and post-retirement plans adjustment	77				77	
Debt and equity securities - unrealized gain (loss)	(2)				(2)	
Cash flow hedging instruments - unrealized gain/(loss)	54				54	
Total other comprehensive income (loss), net of tax	(361)					
Dividends paid	(388)		(388)			
Stock-based compensation, net of tax impacts	42	42				
Reacquired stock	(837)			(837)		
Issuances pursuant to stock option and benefit plans	111		(26)	137		
<b>Balance at September 30, 2011</b>	\$ 17,412	\$ 3,734	\$ 27,784	\$ (11,211)	\$ (3,339)	\$ 444

**Nine months ended September 30, 2011**

(Millions)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at December 31, 2010</b>	\$ 16,017	\$ 3,477	\$ 25,995	\$ (10,266)	\$ (3,543)	\$ 354
Net income	3,383		3,329			54
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(14)				(34)	20
Defined benefit pension and post-retirement plans adjustment	207				206	1
Debt and equity securities - unrealized gain (loss)	(5)				(5)	
Cash flow hedging instruments - unrealized gain/(loss)	37				37	
Total other comprehensive income (loss), net of tax	225					

Edgar Filing: 3M CO - Form 10-Q

Dividends paid	(1,171)		(1,171)				
Business combination allocation to noncontrolling interest	56					56	
Purchase and sale of subsidiary shares - net	(42)	(1)				(41)	
Stock-based compensation, net of tax impacts	258	258					
Reacquired stock	(2,181)				(2,181)		
Issuances pursuant to stock option and benefit plans	867		(369)		1,236		
<b>Balance at September 30, 2011</b>	\$ 17,412	\$ 3,734	\$ 27,784	\$ (11,211)	\$ (3,339)	\$ 444	

Table of Contents**Accumulated Other Comprehensive Income (Loss) Attributable to 3M**

(Millions)	September 30, 2012		December 31, 2011	
Cumulative translation adjustment	\$	324	\$	114
Defined benefit pension and postretirement plans adjustment		(4,864)		(5,155)
Debt and equity securities, unrealized gain (loss)		(2)		(6)
Cash flow hedging instruments, unrealized gain (loss)		(6)		22
<b>Total accumulated other comprehensive income (loss)</b>	<b>\$</b>	<b>(4,548)</b>	<b>\$</b>	<b>(5,025)</b>

**Components of Comprehensive Income (Loss) Attributable to 3M**

(Millions)	Three months ended September 30,			
	2012		2011	
	2012	2011	Nine months ended September 30,	
	2012	2011	2012	2011
<b>Net income attributable to 3M</b>	<b>\$</b>	<b>1,161</b>	<b>\$</b>	<b>1,088</b>
			<b>\$</b>	<b>3,453</b>
				<b>\$</b>
				<b>3,329</b>
Cumulative translation	380	(489)	211	(63)
Tax effect	21	(18)	(1)	29
<b>Cumulative translation - net of tax</b>	<b>401</b>	<b>(507)</b>	<b>210</b>	<b>(34)</b>
Defined benefit pension and postretirement plans adjustment	153	120	460	358
Tax effect	(57)	(43)	(169)	(152)
<b>Defined benefit pension and postretirement plans adjustment - net of tax</b>	<b>96</b>	<b>77</b>	<b>291</b>	<b>206</b>
Debt and equity securities, unrealized gain (loss)	4	(3)	6	(8)
Tax effect	(1)	1	(2)	3
<b>Debt and equity securities, unrealized gain (loss) - net of tax</b>	<b>3</b>	<b>(2)</b>	<b>4</b>	<b>(5)</b>
Cash flow hedging instruments, unrealized gain (loss)	(57)	85	(44)	59
Tax effect	21	(31)	16	(22)
<b>Cash flow hedging instruments unrealized gain (loss) - net of tax</b>	<b>(36)</b>	<b>54</b>	<b>(28)</b>	<b>37</b>
<b>Total comprehensive income (loss) attributable to 3M</b>	<b>\$</b>	<b>1,625</b>	<b>\$</b>	<b>710</b>
			<b>\$</b>	<b>3,930</b>
				<b>\$</b>
				<b>3,533</b>

Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassifications to earnings from accumulated other comprehensive income including noncontrolling interest that related to pension and postretirement expense in the income statement were \$153 million pre-tax (\$96 million after-tax) for the three months ended September 30, 2012, \$460 million pre-tax (\$291 million after-tax) for the nine months ended September 30, 2012, \$117 million pre-tax (\$77 million after-tax) for the three months ended September 30, 2011, and \$355 million pre-tax (\$207 million after-tax) for the nine months ended September 30, 2011. These pension and postretirement expense pre-tax amounts are shown in the table in Note 8 as amortization of transition (asset) obligation, amortization of prior service cost (benefit) and amortization of net actuarial (gain) loss. Cash flow hedging instruments reclassifications are provided in Note 9. Reclassifications to earnings from accumulated other comprehensive income that related to realized losses due to sales or impairments (net of realized gains) for debt and equity securities were not material for the three months ended September 30, 2012, \$1 million pre-tax (\$1 million after-tax) for the nine months ended September 30, 2012, \$4 million pre-tax (\$2 million after-tax) for the three months ended September 30, 2011, and \$2 million pre-tax (\$1 million after-tax) for the nine months ended September 30, 2011. 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.

#### **Purchase and Sale of Subsidiary Shares**

As discussed in Note 2 in 3M's 2011 Annual Report on Form 10-K, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of this business acquisition date. As of this business acquisition date, noncontrolling interest related to Winterthur totaled \$56 million. Subsequent to this business acquisition date, 3M purchased additional outstanding shares of its Winterthur subsidiary increasing 3M's ownership interest from approximately 86 percent as of the business acquisition date to approximately 98 percent as of

Table of Contents

September 30, 2011, and subsequently to 100 percent as of December 31, 2011. The \$50 million of cash paid in the first nine months of 2011 as a result of these additional purchases of Winterthur shares was classified as other financing activity in the consolidated statement of cash flows. These additional purchases did not result in a material transfer from noncontrolling interest to 3M Company shareholders' equity. In addition, during the first nine months of 2011 and 2012, 3M sold a noncontrolling interest in a newly formed subsidiary and purchased the remaining noncontrolling interest of another subsidiary, both for immaterial amounts, which were also classified as other financing activities in the consolidated statement of cash flows.

Table of Contents

**NOTE 5. 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 2003.

The IRS completed its field examination of the Company's U.S. federal income tax returns for the years 2005 through 2007 in the fourth quarter of 2009. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS during the first quarter of 2010. During the first quarter of 2010, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2008 year. The Company protested certain IRS positions for 2008 and entered into the administrative appeals process with the IRS during the second quarter of 2010. During the first quarter of 2011, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2009 year. The Company protested certain IRS positions for 2009 and entered into the administrative appeals process with the IRS during the second quarter of 2011. During the first quarter of 2012, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2010 year. The Company protested certain IRS positions for 2010 and entered into the administrative appeals process with the IRS during the second quarter of 2012.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2011 and 2012. It is anticipated that the IRS will complete its examination of the Company for 2011 by the end of the first quarter of 2013, and for 2012 by the end of the first quarter of 2014. As of September 30, 2012, the IRS has not proposed any significant adjustments to the Company's tax positions for which the Company is not adequately reserved.

During the first quarter of 2010, the Company paid the agreed upon assessments for the 2005 tax year. During the second quarter of 2010, the Company paid the agreed upon assessments for the 2008 tax year. During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. Payments relating to other proposed assessments arising from the 2005 through 2012 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 limited audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company's uncertain tax positions due to the closing of various audit years mentioned above. Currently, the Company is not 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 are \$210 million and \$295 million as of September 30, 2012 and December 31, 2011, 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 \$3 million of benefit for both the three months ended September 30, 2012 and September 30, 2011, and approximately \$8 million of benefit and an immaterial impact for the nine months ended September 30, 2012 and September 30, 2011, respectively. At September 30, 2012 and December 31, 2011, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$48 million and \$56 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.

## Edgar Filing: 3M CO - Form 10-Q

The effective tax rate for the third quarter of 2012 was 28.2 percent, compared to 28.6 percent in the third quarter of 2011, a decrease of 0.4 percentage points. The effective tax rate for the first nine months of 2012 was 29.0 percent, compared to 28.1 percent in the first nine months of 2011, an increase of 0.9 percentage points. Various factors increased or decreased the effective tax rate when compared to the same periods last year. The primary factors which increased the Company's effective tax rate year-on-year included international taxes, specifically with respect to the corporate reorganization of a wholly owned international subsidiary (which benefited 2011), and the lapse of the U.S. research and development credit. These and other factors, when compared to the same periods last year, increased the effective tax rate in the third quarter and first nine months of 2012 by 2.5 and 1.6 percentage points, respectively. Factors which decreased the Company's effective tax rate year-on-year included international taxes as a result of changes to the geographic mix of

Table of Contents

income before taxes, benefits from certain realized credits, and adjustments to its income tax reserves. These factors, when compared to the same periods last year, decreased the effective tax rate in the third quarter and first nine months of 2012 by 2.9 and 0.7 percentage points, respectively.

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 exists. As of September 30, 2012 and December 31, 2011, the Company had valuation allowances of \$31 million and \$82 million on its deferred tax assets, respectively. The valuation allowance was reduced in the first quarter of 2012 due to the closure of audits with certain taxing authorities.

Table of Contents**NOTE 6. Marketable Securities**

The Company invests in agency securities, corporate securities, asset-backed securities, treasury securities and other securities. The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current).

(Millions)	September 30, 2012	December 31, 2011
U.S. government agency securities	\$ 316	\$ 119
Foreign government agency securities	3	8
Corporate debt securities	499	413
Commercial paper	396	30
Certificates of deposit/time deposits	76	49
U.S. treasury securities	34	
U.S. municipal securities	20	9
Asset-backed securities:		
Automobile loan related	454	530
Credit card related	143	244
Equipment lease related	32	54
Other	16	5
Asset-backed securities total	645	833
<b>Current marketable securities</b>	<b>\$ 1,989</b>	<b>\$ 1,461</b>
U.S. government agency securities	\$ 410	\$ 361
Foreign government agency securities	61	15
Corporate debt securities	492	255
U.S. treasury securities	18	34
U.S. municipal securities	14	5
Auction rate securities	6	4
Asset-backed securities:		
Automobile loan related	320	188
Credit card related	33	24
Equipment lease related	38	10
Other	8	
Asset-backed securities total	399	222
<b>Non-current marketable securities</b>	<b>\$ 1,400</b>	<b>\$ 896</b>
<b>Total marketable securities</b>	<b>\$ 3,389</b>	<b>\$ 2,357</b>

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At September 30, 2012, gross unrealized losses totaled approximately \$7 million (pre-tax), while gross unrealized gains totaled approximately \$4 million (pre-tax). At December 31, 2011, gross unrealized losses totaled approximately \$12 million (pre-tax), while gross unrealized gains totaled approximately \$3 million (pre-tax). Gross realized gains and losses on sales or maturities of marketable securities for the first nine months of 2012 and 2011 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.

Table of Contents

The balances at September 30, 2012 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)	September 30, 2012	
Due in one year or less	\$	1,244
Due after one year through three years		1,026
Due after three years through five years		1,118
Due after five years		1
Total marketable securities	\$	3,389

3M has a diversified marketable securities portfolio of \$3.389 billion as of September 30, 2012. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$1.044 billion) primarily include interests in automobile loans and credit cards. At September 30, 2012, all asset-backed securities were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's and/or AAA or F1+ by Fitch.

3M's marketable securities portfolio includes auction rate securities that represent interests in investment grade credit default swaps; however, currently these holdings comprise less than one percent of this portfolio. The estimated fair value of auction rate securities was \$6 million and \$4 million as of September 30, 2012 and December 31, 2011, respectively. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$7 million (pre-tax) and \$9 million (pre-tax) as of September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 10 for a table that reconciles the beginning and ending balances of auction rate securities.



Table of Contents

**NOTE 7. Long-Term Debt and Short-Term Borrowings**

The Company has a well-known seasoned issuer shelf registration statement, effective August 5, 2011, which registers an indeterminate amount of debt or equity securities for future sales. In September 2011, in connection with this August 5, 2011 shelf registration statement, 3M established a \$3 billion medium-term notes program (Series F), from which 3M issued \$1 billion aggregate principal amount of five-year fixed rate medium-term notes with a coupon rate of 1.375%. In June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 with a coupon rate of 1.000% and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022 with a coupon rate of 2.000%, which were both issued from this \$3 billion medium-term notes program (Series F). The designated use of these proceeds is for general corporate purposes.

In September 2012, 3M entered into a \$1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of up to \$500 million, bringing the total facility up to \$2 billion (at the lenders' discretion). This facility was undrawn at September 30, 2012. In August 2012, 3M entered into a \$150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year \$200 million committed credit facility that was entered into in August 2011. As of September 30, 2012, 3M letters of credit issued under this \$150 million committed facility totaled \$120 million. Apart from the committed facilities, an additional \$100 million in stand-alone letters of credit was also issued and outstanding at September 30, 2012. These letters of credit are utilized in connection with normal business activities. Under both the \$1.5 billion and \$150 million credit agreements, 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 total interest expense on all funded debt for the same period. At September 30, 2012, this ratio was approximately 4.4 to 1.

Table of Contents**NOTE 8. Pension and Postretirement Benefit Plans**

Components of net periodic benefit cost and other supplemental information for the three and nine months ended September 30, 2012 and 2011 follow:

**Benefit Plan Information**

(Millions)	Three months ended September 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2012		2011	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 64	\$ 51	\$ 31	\$ 27	\$ 19	\$ 16		
Interest cost	147	157	61	62	22	23		
Expected return on plan assets	(248)	(231)	(73)	(70)	(21)	(20)		
Amortization of transition (asset) obligation								
Amortization of prior service cost (benefit)	1	2	(4)	(3)	(18)	(18)		
Amortization of net actuarial (gain) loss	117	83	30	28	27	25		
Net periodic benefit cost (benefit)	\$ 81	\$ 62	\$ 45	\$ 44	\$ 29	\$ 26		
Settlements, curtailments, special termination benefits and other								
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 81	\$ 62	\$ 45	\$ 44	\$ 29	\$ 26		

(Millions)	Nine months ended September 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2012		2011	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 191	\$ 154	\$ 93	\$ 83	\$ 58	\$ 46		
Interest cost	440	470	184	186	65	69		
Expected return on plan assets	(744)	(695)	(219)	(209)	(64)	(59)		
Amortization of transition (asset) obligation			(1)					
Amortization of prior service cost (benefit)	4	8	(13)	(10)	(54)	(54)		
Amortization of net actuarial (gain) loss	352	250	90	84	82	77		
Net periodic benefit cost (benefit)	\$ 243	\$ 187	\$ 134	\$ 134	\$ 87	\$ 79		
Settlements, curtailments, special termination benefits and other	26							
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 269	\$ 187	\$ 134	\$ 134	\$ 87	\$ 79		

For the nine months ended September 30, 2012, contributions totaling \$853 million were made to the Company's U.S. and international pension plans and \$65 million to its postretirement plans. For total year 2012, the Company expects to contribute approximately \$1 billion of cash to its U.S. and international pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2012. Therefore, the amount of future discretionary pension contributions could vary significantly depending on the U.S. plans' funded status and the anticipated tax deductibility of the contributions. Future contributions will also depend on market conditions, interest rates and other factors. 3M's annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

Effective July 1, 2012, 3M Canada closed its pension plans for salaried employees to new participants. The change did not trigger a plan remeasurement and therefore there is no immediate impact to the liability and expense.

In December 2011, the Company began offering a voluntary early retirement incentive program to certain eligible participants of its U.S. pension plans who met age and years of pension service requirements. The eligible participants who accepted the offer and retired on February 1, 2012 received an enhanced pension benefit. Pension benefits are enhanced by adding one additional year of pension service and one additional year of age for certain benefit calculations. 616 participants accepted the offer and retired on February 1, 2012. As a result, the Company incurred a \$26 million charge related to these special termination benefits in the first quarter of 2012.

Table of Contents

3M was informed during the first quarter of 2009 that the general partners of WG Trading Company, in which 3M's benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver's proposed distribution plan. In April 2011, the 3M benefit plans received their share under the court-ordered distribution plan. 3M and six other limited partners of WG Trading Company have appealed the court's order to the United States Court of Appeals for the Second Circuit. The benefit plan trustee holdings of WG Trading Company interests were adjusted to reflect the decreased estimated fair market value, inclusive of estimated insurance proceeds, as of the annual measurement dates. The Company has insurance that it believes, based on what is currently known, will result in the recovery of a portion of the decrease in original asset value. As of the 2011 measurement date these holdings represented less than one percent of 3M's fair value of total plan assets. 3M currently believes that the resolution of these events will not have a material adverse effect on the consolidated financial position of the Company.

Table of Contents

**NOTE 9. Derivatives**

The Company uses interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity price fluctuations. The information that follows explains the various types of derivatives and financial instruments used by 3M, how and why 3M uses such instruments, how such instruments are accounted for, and how such instruments impact 3M's financial position and performance.

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 10. References to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt are also made in Note 10 to the Consolidated Financial Statements in 3M's 2011 Annual Report on Form 10-K.

*Types of Derivatives/Hedging Instruments and Inclusion in Income/Other Comprehensive Income*

Cash Flow Hedges:

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

*Cash Flow Hedging - Foreign Currency Forward and Option Contracts:* The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three and nine months ended September 30, 2012 and 2011. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at September 30, 2012, the majority of the Company's open foreign exchange forward and option contracts had maturities of one year or less. The dollar equivalent gross notional amount of the Company's foreign exchange forward and option contracts designated as cash flow hedges at September 30, 2012 was approximately \$6.5 billion.

*Cash Flow Hedging - Commodity Price Management:* The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects

## Edgar Filing: 3M CO - Form 10-Q

earnings. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. No significant commodity cash flow hedges were discontinued and hedge ineffectiveness was not material for the three and nine months ended September 30, 2012 and 2011. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at September 30, 2012 was \$19 million.

*Cash Flow Hedging - Forecasted Debt Issuance:* In August 2011, in anticipation of the September 2011 issuance of \$1 billion in five-year fixed rate notes, 3M executed a pre-issuance cash flow hedge on a notional amount of \$400 million by entering into a forward-starting five-year floating-to-fixed interest rate swap. Upon debt issuance in September 2011, 3M terminated the floating-to-fixed interest rate swap. The termination of the swap resulted in a \$7 million pre-tax loss (\$4 million after-tax) that is amortized over the five-year life of the note and, when material, is included in the tables below as part of the loss recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income.

As of September 30, 2012, the Company had a balance of \$6 million associated with the after-tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a \$3

Table of Contents

million balance (loss) related to a floating-to-fixed interest rate swap (discussed in the preceding paragraph), which is being amortized over the five-year life of the note. 3M expects to reclassify a majority of the remaining balance to earnings over the next 12 months (with the impact offset by cash flows from underlying hedged items).

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative instruments designated as cash flow hedges are provided in the following table. Reclassifications of amounts from accumulated other comprehensive income into income include accumulated gains (losses) on dedesignated hedges at the time earnings are impacted by the forecasted transaction.

**Three months ended September 30, 2012**

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount		Location	Amount	Location	Amount
Foreign currency forward/option contracts	\$	(38)	Cost of sales	\$ 22	Cost of sales	\$
Foreign currency forward contracts		57	Interest expense	58	Interest expense	
Commodity price swap contracts		2	Cost of sales	(1)	Cost of sales	
Interest rate swap contracts			Interest expense	(1)	Interest expense	
Total	\$	21		\$ 78		\$

**Nine months ended September 30, 2012**

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount		Location	Amount	Location	Amount
Foreign currency forward/option contracts	\$	(20)	Cost of sales	\$ 31	Cost of sales	\$
Foreign currency forward contracts		45	Interest expense	45	Interest expense	
Commodity price swap contracts		(3)	Cost of sales	(9)	Cost of sales	
Interest rate swap contracts			Interest expense	(1)	Interest expense	
Total	\$	22		\$ 66		\$

**Three months ended September 30, 2011**

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing
------------	--	---	---

Edgar Filing: 3M CO - Form 10-Q

Derivatives in Cash Flow Hedging Relationships	Portion of Derivative		Accumulated Other Comprehensive Income		Recognized in Income	
	Amount		Location	Amount	Location	Amount
Foreign currency forward/option contracts	\$	49	Cost of sales	\$ (41)	Cost of sales	\$
Foreign currency forward contracts		(56)	Interest expense	(56)	Interest expense	
Commodity price swap contracts		2	Cost of sales		Cost of sales	
Interest rate swap contracts		(7)	Interest expense		Interest expense	
Total	\$	(12)		\$ (97)		\$

Nine months ended September 30, 2011

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount		Location	Amount	Location	Amount
Foreign currency forward/option contracts	\$	(12)	Cost of sales	\$ (75)	Cost of sales	\$
Foreign currency forward contracts		(55)	Interest expense	(54)	Interest expense	
Commodity price swap contracts			Cost of sales	(4)	Cost of sales	
Interest rate swap contracts		(7)	Interest expense		Interest expense	
Total	\$	(74)		\$ (133)		\$



Table of ContentsFair Value Hedges:

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

*Fair Value Hedging - Interest Rate Swaps:* The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at September 30, 2012 was \$342 million.

At September 30, 2012, the Company had interest rate swaps designated as fair value hedges of underlying fixed rate obligations. In July 2007, in connection with the issuance of a seven-year Eurobond for an amount of 750 million Euros, the Company completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. In August 2010, the Company terminated 150 million Euros of the notional amount of this swap. As a result, a gain of 18 million Euros, recorded as part of the balance of the underlying debt, will be amortized over this debt's remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance is not part of gain on hedged items recognized in income in the tables below.

The Company also had two fixed-to-floating interest rate swaps with an aggregate notional amount of \$800 million designated as fair value hedges of the fixed interest rate obligation under its \$800 million, three-year, 4.50% notes issued in October 2008. These swaps and underlying note matured in the fourth quarter of 2011.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments designated as fair value hedges and similar information relative to the hedged items are as follows:

**Three months ended September 30, 2012**

(Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Derivatives in Fair Value Hedging Relationships				
Interest rate swap contracts	Interest expense	\$	Interest expense	\$
Total		\$		\$

**Nine months ended September 30, 2012**

Edgar Filing: 3M CO - Form 10-Q

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ (3)	Interest expense	\$ 3
Total		\$ (3)		\$ 3

Three months ended September 30, 2011

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ 1	Interest expense	\$ (1)
Total		\$ 1		\$ (1)

Nine months ended September 30, 2011

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ (7)	Interest expense	\$ 7
Total		\$ (7)		\$ 7

Net Investment Hedges:

As circumstances warrant, the Company uses cross currency swaps, forwards and foreign currency denominated debt to hedge portions of the Company's net investments in foreign operations. For hedges that meet the effectiveness

Table of Contents

requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At September 30, 2012, there were no cross currency swaps and foreign currency forward contracts designated as net investment hedges.

In addition to the derivative instruments used as hedging instruments in net investment hedges, 3M also uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. In July and December 2007, the Company issued seven-year fixed rate Eurobond securities for amounts of 750 million Euros and 275 million Euros, respectively. 3M designated each of these Eurobond issuances as hedging instruments of the Company's net investment in its European subsidiaries.

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative and nonderivative instruments designated as net investment hedges are as follows. There were no reclassifications of the effective portion of net investment hedges out of accumulated other comprehensive income into income for the periods presented in the table below.

**Three months ended September 30, 2012**

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location
Foreign currency denominated debt	\$ (45)	N/A	\$	
Total	\$ (45)		\$	

**Nine months ended September 30, 2012**

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location
Foreign currency denominated debt	\$ 5	N/A	\$	
Total	\$ 5		\$	

**Three months ended September 30, 2011**

Edgar Filing: 3M CO - Form 10-Q

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount		Location	Amount
Foreign currency denominated debt	\$	85	N/A	\$
Total	\$	85		\$

Nine months ended September 30, 2011

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount		Location	Amount
Foreign currency denominated debt	\$	(35)	N/A	\$
Total	\$	(35)		\$

Table of ContentsDerivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and fluctuations in costs associated with the use of certain precious metals, respectively. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled \$1.2 billion as of September 30, 2012. The Company does not hold or issue derivative financial instruments for trading purposes.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments not designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended September 30, 2012 Gain (Loss) on Derivative Recognized in Income		Nine months ended September 30, 2012 Gain (Loss) on Derivative Recognized in Income	
	Location	Amount	Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ (31)	Cost of sales	\$ (26)
Foreign currency forward contracts	Interest expense	14	Interest expense	26
Total		\$ (17)		\$

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended September 30, 2011 Gain (Loss) on Derivative Recognized in Income		Nine months ended September 30, 2011 Gain (Loss) on Derivative Recognized in Income	
	Location	Amount	Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ 32	Cost of sales	\$ 4
Foreign currency forward contracts	Interest expense	6	Interest expense	18
Total		\$ 38		\$ 22

*Location and Fair Value Amount of Derivative Instruments*

The following tables summarize the fair value of 3M's derivative instruments, excluding nonderivative instruments used as hedging instruments, and their location in the consolidated balance sheet. Additional information with respect to the fair value of derivative instruments is included in Note 10.

Table of Contents**September 30, 2012**

(Millions)		Assets		Liabilities	
Fair Value of Derivative Instruments	Location		Amount	Location	Amount
<b>Derivatives designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	40	Other current liabilities	\$ 54
Commodity price swap contracts	Other current assets		1	Other current liabilities	1
Interest rate swap contracts	Other assets		25	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		\$	66		\$ 55
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	14	Other current liabilities	\$ 17
<b>Total derivatives not designated as hedging instruments</b>		\$	14		\$ 17
<b>Total derivative instruments</b>		\$	80		\$ 72

**December 31, 2011**

(Millions)		Assets		Liabilities	
Fair Value of Derivative Instruments	Location		Amount	Location	Amount
<b>Derivatives designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	82	Other current liabilities	\$ 34
Commodity price swap contracts	Other current assets			Other current liabilities	7
Interest rate swap contracts	Other assets		28	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		\$	110		\$ 41
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	25	Other current liabilities	\$ 8
<b>Total derivatives not designated as hedging instruments</b>		\$	25		\$ 8
<b>Total derivative instruments</b>		\$	135		\$ 49

*Currency Effects and Credit Risk*

*Currency Effects:* 3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$42 million for the three months ended September 30, 2012 and decreased net income attributable to 3M by approximately \$104 million for the nine months ended September 30, 2012. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars, which 3M estimates increased net income attributable to 3M by approximately \$3 million for the three months ended September 30, 2012 and increased net income attributable to 3M by approximately \$38 million for the nine months ended September 30, 2012.

## Edgar Filing: 3M CO - Form 10-Q

*Credit Risk:* The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting agreements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The Company does not anticipate nonperformance by any of these counterparties. In addition to the one master agreement supported by a primary counterparty's parent guarantee, 3M has credit support agreements in place with six of its primary derivative counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by these agreements exceeds specified thresholds, thus limiting credit exposure for both parties. For presentation purposes on 3M's consolidated balance sheet, the fair value of derivative assets or liabilities are presented on a gross basis even when derivative transactions are subject to master netting arrangements and may qualify for net presentation.

Table of Contents

**NOTE 10. Fair Value Measurements**

3M follows ASC 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

*Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:*

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis for the three and nine month periods ended September 30, 2012 and 2011.

3M uses various valuation techniques, which are primarily based upon the market and income approaches, with respect to financial assets and liabilities. Following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value.

Available-for-sale marketable securities – except auction rate securities:

Marketable securities, except auction rate securities, are valued utilizing multiple sources. A weighted average price is used for these securities. Market prices are obtained for these securities from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily fair value to be used. 3M classifies U.S. treasury securities as level 1, while all other marketable securities (excluding auction rate securities) are classified as level 2. Marketable securities are discussed further in Note 6.

Available-for-sale marketable securities – auction rate securities only:



## Edgar Filing: 3M CO - Form 10-Q

As discussed in Note 6, auction rate securities held by 3M failed to auction since the second half of 2007. As a result, investments in auction rate securities are valued utilizing third-party indicative bid levels in markets that are not active and broker-dealer valuation models that utilize inputs such as current/forward interest rates, current market conditions and credit default swap spreads. 3M classifies these securities as level 3.

Available-for-sale investments:

Investments include equity securities that are traded in an active market. Closing stock prices are readily available from active markets and are used as being representative of fair value. 3M classifies these securities as level 1.

Derivative instruments:

The Company's derivative assets and liabilities within the scope of ASC 815, *Derivatives and Hedging*, are required to be recorded at fair value. The Company's derivatives that are recorded at fair value include foreign currency forward and option contracts, commodity price swaps, interest rate swaps, and net investment hedges where the hedging instrument is recorded at fair value. Net investment hedges that use foreign currency denominated debt to hedge 3M's net investment are not impacted by the fair value measurement standard under ASC 820, as the debt used as the hedging instrument is

Table of Contents

marked to a value with respect to changes in spot foreign currency exchange rates and not with respect to other factors that may impact fair value.

3M has determined that foreign currency forwards and commodity price swaps will be considered level 1 measurements as these are traded in active markets which have identical asset or liabilities, while currency swaps, foreign currency options, interest rate swaps and cross-currency swaps will be considered level 2. For level 2 derivatives, 3M uses inputs other than quoted prices that are observable for the asset. These inputs include foreign currency exchange rates, volatilities, and interest rates. The level 2 derivative positions are primarily valued using standard calculations/models that use as their basis readily observable market parameters. Industry standard data providers are 3M's primary source for forward and spot rate information for both interest rates and currency rates, with resulting valuations periodically validated through third-party or counterparty quotes and a net present value stream of cash flows model.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis.

(Millions) Description	Fair Value at September 30, 2012	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 726		\$ 726	
Foreign government agency securities	64		64	
Corporate debt securities	991		991	
Certificates of deposit/time deposits	76		76	
Commercial paper	396		396	
Asset-backed securities:				
Automobile loan related	774		774	
Credit card related	176		176	
Equipment lease related	70		70	
Other	24		24	
U.S. treasury securities	52	52		
U.S. municipal securities	34		34	
Auction rate securities	6			6
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	54	54		
Commodity price swap contracts	1	1		
Interest rate swap contracts	25		25	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	71	70	1	
Commodity price swap contracts	1	1		

Table of Contents

(Millions) Description	Fair Value at December 31, 2011		Fair Value Measurements Using Inputs Considered as		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Available-for-sale:					
Marketable securities:					
U.S. government agency securities	\$	480	\$	\$	480
Foreign government agency securities		23			23
Corporate debt securities		668			668
Certificates of deposit/time deposits		49			49
Commercial paper		30			30
Asset-backed securities:					
Automobile loan related		718			718
Credit card related		268			268
Equipment lease related		64			64
Other		5			5
U.S. treasury securities		34	34		
U.S. municipal securities		14		14	
Auction rate securities		4			4
Investments		4	4		
Derivative instruments assets:					
Foreign currency forward/option contracts		107	98		9
Interest rate swap contracts		28			28
<b>Liabilities:</b>					
Derivative instruments liabilities:					
Foreign currency forward/option contracts		42	42		
Commodity price swap contracts		7	7		

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

(Millions) Marketable securities auction rate securities only	Three months ended September 30,			Nine months ended September 30,		
	2012	2011		2012	2011	
Beginning balance	\$	4	\$	8	\$	7
Total gains or losses:						
Included in earnings						
Included in other comprehensive income		2		(3)		(2)
Purchases, issuances, and settlements						
Transfers in and/or out of Level 3						
Ending balance (September 30)		6		5		5
Additional losses included in earnings due to reclassifications from other comprehensive income for:						
Securities sold during the period ended September 30						
Securities still held at September 30						

In addition, the plan assets of 3M's pension and postretirement benefit plans are measured at fair value on a recurring basis (at least annually). Refer to Note 11 in 3M's 2011 Annual Report on Form 10-K.

*Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis:*

Disclosures are required for certain assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis in periods subsequent to initial recognition. For 3M, such measurements of fair value relate primarily to long-lived asset impairments. There were no material long-lived asset impairments for the three and nine months ended September 30, 2012 and 2011.

Table of Contents*Fair Value of Financial Instruments:*

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt approximated carrying values because of the short-term nature of these instruments. Available-for-sale marketable securities and investments, in addition to certain derivative instruments, are recorded at fair values as indicated in the preceding disclosures. For its long-term debt the Company utilized third-party quotes to estimate fair values (classified as level 2). Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

(Millions)	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding current portion	\$ 4,852	\$ 5,347	\$ 4,484	\$ 5,002

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. 3M's fixed-rate bonds were trading at a premium at September 30, 2012 and December 31, 2011 due to the low interest rates and tightening of 3M's credit spreads.

Table of Contents**NOTE 11. Commitments and Contingencies***Legal Proceedings:*

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information can be found in Note 14 "Commitments and Contingencies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, including information about the Company's process for disclosure and recording of liabilities and insurance receivables related to legal proceedings.

The following table shows the major categories of significant legal matters—respirator mask/asbestos litigation (including Aearo—described below), environmental remediation and other environmental liabilities—for which the Company has been able to estimate its probable liability and for which the Company has taken reserves and the related insurance receivables:

<b>Liability and Receivable Balances (Millions)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Respirator mask/asbestos liabilities	\$ 163	\$ 130
Respirator mask/asbestos insurance receivables	89	121
Environmental remediation liabilities	\$ 29	\$ 28
Environmental remediation insurance receivables	11	15
Other environmental liabilities	\$ 62	\$ 75
Other environmental insurance receivables	15	

The following sections first describe the significant legal proceedings in which the Company is involved, and then describe the liabilities and associated insurance receivables the Company has accrued relating to its significant legal proceedings.

Respirator Mask/Asbestos Litigation

As of September 30, 2012, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,115 individual claimants compared to approximately 2,260 individual claimants with actions pending at December 31, 2011.

The vast majority of the lawsuits and claims resolved by and currently pending against the Company allege use of some of the Company's mask and respirator products and seek damages from the Company and other defendants for alleged personal injury from workplace exposures to

asbestos, silica, coal mine dust or other occupational dusts found in products manufactured by other defendants or generally in the workplace. A minority of the lawsuits and claims resolved by and currently pending against the Company generally allege personal injury from occupational exposure to asbestos from products previously manufactured by the Company, which are often unspecified, as well as products manufactured by other defendants, or occasionally at Company premises.

The Company's current volume of new and pending matters is substantially lower than its historical experience. The Company expects that filing of claims by unimpaired claimants in the future will continue to be at much lower levels than in the past. Accordingly, the number of claims alleging more serious injuries, including mesothelioma and other malignancies, will represent a greater percentage of total claims than in the past. The Company has prevailed in all nine cases taken to trial, including seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2001, 2003, 2004, and 2007), and an appellate reversal in 2005 of the 2001 jury verdict adverse to the Company. The ninth case, tried in 2009, was dismissed by the Court at the close of plaintiff's evidence, based on the Court's legal finding that the plaintiff had not presented sufficient evidence to support a jury verdict. The plaintiffs appealed but in February 2012 the California Court of Appeals granted the plaintiff's voluntary dismissal of the appeal.

The Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical conditions, even if significant, are attributable to the Company's respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with malignant conditions are costlier to resolve than the claims of unimpaired persons, and it therefore believes the average

Table of Contents

cost of resolving pending and future claims on a per-claim basis will continue to be higher than it experienced in prior periods when the vast majority of claims were asserted by the unimpaired.

As previously reported, the State of West Virginia, through its Attorney General, filed a complaint in 2003 against the Company and two other manufacturers of respiratory protection products in the Circuit Court of Lincoln County, West Virginia and amended its complaint in 2005. The amended complaint seeks substantial, but unspecified, compensatory damages primarily for reimbursement of the costs allegedly incurred by the State for worker's compensation and healthcare benefits provided to all workers with occupational pneumoconiosis and unspecified punitive damages. While the case has been inactive since the fourth quarter of 2007, the Court held a case management conference in March 2011, but no further activity has occurred in the case since that conference. No liability has been recorded for this matter because the Company believes that liability is not probable and estimable at this time. In addition, the Company is not able to estimate a possible loss or range of loss given the minimal activity in this case and the fact that the complaint asserts claims against two other manufacturers where a defendant's share of liability may turn on the law of joint and several liability and by the amount of fault a jury allocates to each defendant if a case is ultimately tried.

*Respirator Mask/Asbestos Liabilities and Insurance Receivables:* The Company estimates its respirator mask/asbestos liabilities, including the cost to resolve the claims and defense costs, by examining: (i) the Company's experience in resolving claims, (ii) apparent trends, (iii) the apparent quality of claims (e.g., whether the claim has been asserted on behalf of asymptomatic claimants), (iv) changes in the nature and mix of claims (e.g., the proportion of claims asserting usage of the Company's mask or respirator products and alleging exposure to each of asbestos, silica, coal or other occupational dusts, and claims pleading use of asbestos-containing products allegedly manufactured by the Company), (v) the number of current claims and a projection of the number of future asbestos and other claims that may be filed against the Company, (vi) the cost to resolve recently settled claims, and (vii) an estimate of the cost to resolve and defend against current and future claims.

Developments may occur that could affect the Company's estimate of its liabilities. These developments include, but are not limited to, significant changes in (i) the number of future claims, (ii) the average cost of resolving claims, (iii) the legal costs of defending these claims and in maintaining trial readiness, (iv) changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) changes in the law and procedure applicable to these claims, and (vii) the financial viability of other co-defendants and insurers.

As a result of the greater cost of resolving claims of persons with more serious injuries, including mesothelioma and other malignancies, the Company increased its reserves during the first nine months of 2012 for respirator mask/asbestos liabilities by \$66 million, \$16 million of which occurred in the third quarter of 2012. As of September 30, 2012, the Company had reserves for respirator mask/asbestos liabilities of \$135 million (excluding Aearo reserves). The Company cannot estimate the amount or range of amounts by which the liability may exceed the reserve the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted, particularly with respect to the Company's respiratory products that themselves did not contain any harmful materials, (ii) the complaints nearly always assert claims against multiple defendants where the damages alleged are typically not attributed to individual defendants so that a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, (iii) the multiple factors described above that the Company considers in estimating its liabilities, and (iv) the several possible developments described above that may occur that could affect the Company's estimate of liabilities.

As of September 30, 2012, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$89 million. During the first nine months of 2012, the Company increased its receivables for expected insurance recoveries by \$39 million related to this litigation, \$15 million of which occurred in the third quarter of 2012.



## Edgar Filing: 3M CO - Form 10-Q

Various factors could affect the timing and amount of recovery of this receivable, including (i) delays in or avoidance of payment by insurers; (ii) the extent to which insurers may become insolvent in the future, and (iii) the outcome of negotiations with insurers and legal proceedings with respect to respirator mask/asbestos liability insurance coverage. The difference between the accrued liability and insurance receivable represents in part the time delay between payment of claims on the one hand and receipt of insurance reimbursements on the other hand. Because of the lag time between settlement and payment of a claim, no meaningful conclusions may be drawn from quarterly or annual changes in the amount of receivables for expected insurance recoveries or changes in the number of claimants.

As previously reported, on January 5, 2007 the Company was served with a declaratory judgment action filed on behalf of two of its insurers (Continental Casualty and Continental Insurance Co. both part of the Continental Casualty Group) disclaiming coverage for respirator mask/asbestos claims. The action, pending in the District Court in Ramsey County, Minnesota, seeks declaratory judgment regarding coverage provided by the policies and the allocation of covered costs among the policies issued by the various insurers. The action named, in addition to the Company, over 60 of the Company's insurers. This action is similar in nature to an action filed in 1994 with respect to breast implant coverage, which ultimately resulted in the Minnesota Supreme Court's ruling of 2003 that was largely in the Company's favor. The

Table of Contents

plaintiff insurers have served an amended complaint that names some additional insurers and deletes others. A significant number of the insurer defendants named in the amended complaint have been dismissed because of settlements they have reached with 3M regarding the matters at issue in the lawsuit. The case is currently in the discovery phase. Trial is scheduled to begin in the summer of 2013. During the first nine months of 2012, the Company reached settlements with several insurers, including Continental Casualty and Continental Insurance Co. mentioned above, that will result in payments totaling approximately \$81 million (\$69 million of which has been received as of September 30, 2012) to the Company over the next two years.

Respirator Mask/Asbestos Litigation - Aearo Technologies

On April 1, 2008, a subsidiary of the Company purchased the stock of Aearo Holding Corp., the parent of Aearo Technologies ( Aearo ). Aearo manufactured and sold various products, including personal protection equipment, such as eye, ear, head, face, fall and certain respiratory protection products.

As of September 30, 2012, Aearo and/or other companies that previously owned and operated Aearo's respirator business (American Optical Corporation, Warner-Lambert LLC, AO Corp. and Cabot Corporation ( Cabot )) are named defendants, with multiple co-defendants, including the Company, in numerous lawsuits in various courts in which plaintiffs allege use of mask and respirator products and seek damages from Aearo and other defendants for alleged personal injury from workplace exposures to asbestos, silica-related, or other occupational dusts found in products manufactured by other defendants or generally in the workplace.

As of September 30, 2012, the Company, through its Aearo subsidiary, has recorded \$28 million as the best estimate of the probable liabilities for product liabilities and defense costs related to current and future Aearo-related asbestos and silica-related claims. Responsibility for legal costs, as well as for settlements and judgments, is currently shared in an informal arrangement among Aearo, Cabot, American Optical Corporation and a subsidiary of Warner Lambert and their insurers (the Payor Group ). Liability is allocated among the parties based on the number of years each company sold respiratory products under the AO Safety brand and/or owned the AO Safety Division of American Optical Corporation and the alleged years of exposure of the individual plaintiff. Aearo's share of the contingent liability is further limited by an agreement entered into between Aearo and Cabot on July 11, 1995. This agreement provides that, so long as Aearo pays to Cabot an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, asbestos and silica-related product liability claims for respirators manufactured prior to July 11, 1995. Because the date of manufacture for a particular respirator allegedly used in the past is often difficult to determine, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators while exposed to asbestos or silica or products containing asbestos or silica prior to January 1, 1997. With these arrangements in place, Aearo's potential liability is limited to exposures alleged to have arisen from the use of respirators involving exposure to asbestos, silica, or silica products on or after January 1, 1997. To date, Aearo has elected to pay the annual fee. Aearo could potentially be exposed to additional claims for some part of the pre-July 11, 1995 period covered by its agreement with Cabot if Aearo elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters.

In March 2012, Cabot CSC Corporation and Cabot Corporation filed a lawsuit against Aearo in the Superior Court of Suffolk County, Massachusetts seeking declaratory relief as to the scope of Cabot's indemnity obligations under the July 11, 1995 agreement, including whether Cabot has retained liability for coal workers' pneumoconiosis claims, and seeking damages for breach of contract.

Developments may occur that could affect the estimate of Aearo's liabilities. These developments include, but are not limited to: (i) significant changes in the number of future claims, (ii) significant changes in the average cost of resolving claims, (iii) significant changes in the legal costs of defending these claims, (iv) significant changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) significant

## Edgar Filing: 3M CO - Form 10-Q

changes in the law and procedure applicable to these claims, (vii) significant changes in the liability allocation among the co-defendants, (viii) the financial viability of members of the Payor Group including exhaustion of available coverage limits, (ix) the outcome of pending insurance coverage litigation among certain other members of the Payor Group and their respective insurers, and/or (x) a determination that the interpretation of the contractual obligations on which Aearo has estimated its share of liability is inaccurate. The Company cannot determine the impact of these potential developments on its current estimate of Aearo's share of liability for these existing and future claims. If any of the developments described above were to occur, the actual amount of these liabilities for existing and future claims could be significantly larger than the reserved amount.

Because of the inherent difficulty in projecting the number of claims that have not yet been asserted, the complexity of allocating responsibility for future claims among the Payor Group, and the several possible developments that may occur that could affect the estimate of Aearo's liabilities, the Company cannot estimate the amount or range of amounts by which Aearo's liability may exceed the reserve the Company has established.

Table of Contents

Environmental Matters and Litigation

The Company's operations are subject to environmental laws and regulations including those pertaining to air emissions, wastewater discharges, toxic substances, and the handling and disposal of solid and hazardous wastes enforceable by national, state, and local authorities around the world, and private parties in the United States and abroad. These laws and regulations provide, under certain circumstances, a basis for the remediation of contamination, for restoration of or compensation for damages to natural resources, and for personal injury and property damage claims. The Company has incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations, defending personal injury and property damage claims, and modifying its business operations in light of its environmental responsibilities. In its effort to satisfy its environmental responsibilities and comply with environmental laws and regulations, the Company has established, and periodically updates, policies relating to environmental standards of performance for its operations worldwide.

Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the Company may be jointly and severally liable, typically with other companies, for the costs of remediation of environmental contamination at current or former facilities and at off-site locations. The Company has identified numerous locations, most of which are in the United States, at which it may have some liability. Please refer to the paragraph entitled *Environmental Liabilities and Insurance Receivables* that follows for information on the amount of the reserve.

*Environmental Matters*

As previously reported, the Company has been voluntarily cooperating with ongoing reviews by local, state, national (primarily the U.S. Environmental Protection Agency (EPA)), and international agencies of possible environmental and health effects of various perfluorinated compounds ( PFCs ), including perfluorooctanyl compounds such as perfluorooctanoate ( PFOA ) and perfluorooctane sulfonate ( PFOS ). As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds. The company ceased manufacturing and using the vast majority of these compounds within approximately two years of the phase-out announcement, and ceased all manufacturing and the last significant use of this chemistry by 2008. Through its ongoing life cycle management and its raw material composition identification processes associated with the Company's policies covering the use of all persistent and bio-accumulative materials, the Company has on occasion identified the presence of precursor chemicals in materials purchased from suppliers that may ultimately degrade to PFOA, PFOS or similar compounds. Upon such identification, the Company works to find alternatives for such chemicals.

Regulatory activities concerning PFOA and/or PFOS continue in the United States, Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. The EPA continues to develop Drinking Water Health Advisories for PFOS and PFOA, which are expected to be released in 2013. Those advisory levels will supersede the current provisional advisory levels. In an effort to move toward developing standards under the Safe Drinking Water Act, the EPA published on May 2, 2012 a list of unregulated substances, including six PFCs, required to be monitored during the period 2013-2015 by public water system suppliers to determine the extent of their occurrence.

The Agency for Toxic Substances and Disease Registry (ATSDR) has completed a bio-monitoring study evaluating PFC blood levels in volunteers living near fields where wastewater treatment sludge was applied from the municipal wastewater treatment plant in Decatur, Alabama that received wastewater from numerous sources, including sanitary wastewater from 3M. The Company expects ATSDR to release its report in 2012.

## Edgar Filing: 3M CO - Form 10-Q

3M continues its third and final phase of work pursuant to a Memorandum of Understanding with the EPA regarding an environmental assessment program at the Company's Decatur manufacturing site. That work includes groundwater sampling off-site from the 3M Decatur facility (unrelated to the work described above involving the Decatur utility's wastewater treatment sludge) as well as at three local landfills used by the facility. The Company shared results from this final phase of sampling work with the EPA in September, 2012. The Company is continuing to make progress in its work, under the supervision of state regulators, to address its historic disposal of PFC-containing waste associated with manufacturing operations at the Cottage Grove, Minnesota and Decatur, Alabama plants.

As previously reported, the Company entered into a voluntary remedial action agreement with the Alabama Department of Environmental Management (ADEM) to address the presence of PFCs in the soil at the Company's manufacturing facility in Decatur, Alabama. For approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility pursuant to a permit issued by ADEM. After a review of the available options to address the presence of PFCs in the soil, ADEM agreed that the preferred remediation option is to use a multilayer cap over the former sludge incorporation areas on the manufacturing site with subsequent groundwater migration controls and treatment. Implementation of that option will continue throughout the balance of 2012 and is expected to be completed in 2016.

Table of Contents

The Company continues to work with the Minnesota Pollution Control Agency (MPCA) pursuant to the terms of the previously disclosed May 2007 Settlement Agreement and Consent Order to address the presence of certain PFCs in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of certain PFCs from these sites and proposing response actions; (ii) providing treatment or alternative drinking water upon identifying any level exceeding a Health Based Value ( HBV ) or Health Risk Limit ( HRL ) (i.e., the amount of a chemical in drinking water determined by the Minnesota Department of Health (MDH) to be safe for human consumption over a lifetime) for certain PFCs for which a HBV and/or HRL exists as a result of contamination from these sites; (iii) remediating identified sources of other PFCs at these sites that are not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about certain perfluorinated compounds. During 2008, the MPCA issued formal decisions adopting remedial options for the former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). In August 2009, the MPCA issued a formal decision adopting remedial options for the Company's Cottage Grove manufacturing facility. During the spring and summer of 2010, 3M began implementing the agreed upon remedial options at the Cottage Grove and Woodbury sites. 3M commenced the remedial option at the Oakdale site in late 2010. At each location the remedial options were recommended by the Company and approved by the MPCA. Remediation work has been completed at the Oakdale site, and it is in an operational maintenance mode. Remediation will continue at the other two sites throughout the balance of 2012.

The Company cannot predict what additional regulatory actions arising from the foregoing proceedings and activities, if any, may be taken regarding such compounds or the consequences of any such actions.

*Environmental Litigation*

As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama seeking unstated damages and alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to certain perfluorochemicals at or near the Company's Decatur, Alabama, manufacturing facility. The Circuit Court in 2005 granted the Company's motion to dismiss the named plaintiff's personal injury-related claims on the basis that such claims are barred by the exclusivity provisions of the state's Workers Compensation Act. The plaintiffs' counsel filed an amended complaint in November 2006, limiting the case to property damage claims on behalf of a purported class of residents and property owners in the vicinity of the Decatur plant. Also, in 2005, the judge in a second purported class action lawsuit (filed by three residents of Morgan County, Alabama, seeking unstated compensatory and punitive damages involving alleged damage to their property from emissions of certain perfluorochemical compounds from the Company's Decatur, Alabama, manufacturing facility that formerly manufactured those compounds) granted the Company's motion to abate the case, effectively putting the case on hold pending the resolution of class certification issues in the first action described above filed in the same court in 2002. Despite the stay, plaintiffs filed an amended complaint seeking damages for alleged personal injuries and property damage on behalf of the named plaintiffs and the members of a purported class. No further action in the case is expected unless and until the stay is lifted.

In February 2009, a resident of Franklin County, Alabama, filed a purported class action lawsuit in the Circuit Court of Franklin County seeking compensatory damages and injunctive relief based on the application by the Decatur utility's wastewater treatment plant of wastewater treatment sludge to farmland and grasslands in the state that allegedly contain PFOA, PFOS and other perfluorochemicals. The named defendants in the case include 3M, its subsidiary Dyneon LLC, Daikin America, Inc., Synagro-WWT, Inc., Synagro South, LLC and Biological Processors of America. The named plaintiff seeks to represent a class of all persons within the State of Alabama who have had PFOA, PFOS and other perfluorochemicals released or deposited on their property. In March 2010, the Alabama Supreme Court ordered the case transferred from Franklin County to Morgan County. In May, 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the first case filed there.

On December 30, 2010, the State of Minnesota, by its Attorney General Lori Swanson, acting in its capacity as trustee of the natural resources of the State of Minnesota, filed a lawsuit in Hennepin County District Court against 3M to recover damages (including unspecified assessment

## Edgar Filing: 3M CO - Form 10-Q

costs and reasonable attorney's fees) for alleged injury to, destruction of, and loss of use of certain of the State's natural resources under the Minnesota Environmental Response and Liability Act (MERLA) and the Minnesota Water Pollution Control Act (MWPCA), as well as statutory nuisance and common law claims of trespass, nuisance, and negligence with respect to the presence of PFCs in the groundwater, surface water, fish or other aquatic life and sediments. The State also seeks declarations under MERLA that 3M is responsible for all damages the State may suffer in the future for injuries to natural resources from releases of PFCs into the environment, and under MWPCA that 3M is responsible for compensation for future loss or destruction of fish, aquatic life and other damages.

On January 14, 2011, the City of Lake Elmo filed a motion to intervene in the State of Minnesota lawsuit and seeks damages in excess of \$50,000 and other legal and equitable relief, including reasonable attorneys' fees, for alleged contamination of city property, wells, groundwater and water contained in the wells with PFCs under several theories,

Table of Contents

including common law and statutory nuisance, strict liability, trespass, negligence, and conversion. The court granted the City of Lake Elmo's motion to intervene in this lawsuit.

On November 7, 2011, the Metropolitan Council filed a motion to intervene and a complaint in the State of Minnesota lawsuit seeking damages in excess of \$50,000 and other legal, declaratory and equitable relief, including reasonable attorneys' fees, for costs and fees that the Metropolitan Council alleges it will be required to assess at some time in the future if the MPCA imposes restrictions on Metropolitan Council's PFOS discharges to the Mississippi River. Metropolitan Council's intervention motion was based on several theories, including common law negligence, and statutory claims under MERLA for response costs and under the Minnesota Environmental Rights Act (MERA) for declaratory and equitable relief against 3M for PFOS and other PFC pollution of the waters and sediments of the Mississippi River. 3M did not object to the motion to intervene. On January 9, 2012, 3M answered the Metropolitan Council's complaint and filed a counterclaim alleging that the Metropolitan Council discharges PFCs to the Mississippi River and discharges PFC-containing sludge and biosolids from one or more of its wastewater treatment plants onto agricultural lands and local area landfills. Accordingly, 3M requested that if the Court finds that the State is entitled to any of the damages the State seeks, 3M seeks contribution and apportionment from the Metropolitan Council, including attorneys' fees, under MERLA, and contribution from and liability for the Metropolitan Council's proportional share of damages awarded to the State under the MWPCA, as well as under statutory nuisance and common law theories of trespass, nuisance and negligence. 3M also seeks declaratory relief under MERA.

On May 14, 2012, 3M filed a motion to disqualify the State of Minnesota's counsel, Covington & Burling, LLP (Covington). On October 11, 2012, the court granted 3M's motion to disqualify Covington as counsel to the State and stayed discovery in the natural resources damages case for up to 180 days to give the State time to secure new counsel. On October 16, 2012, the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals.

In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint seeking contribution towards the cost of cleaning up a 17-mile stretch of the Passaic River in New Jersey. After commencing an enforcement action in 1990, the State of New Jersey filed suit against Maxus Energy, Tierra Solutions, Occidental Chemical and two other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of the Passaic. The third-party complaint seeks to spread those costs among the third-party defendants, including the Company. Based on the cleanup remedy currently proposed by the EPA, the total costs at issue could easily exceed \$1 billion. The Company's involvement in the case relates to allegations regarding its use of two commercial drum conditioning facilities in New Jersey. Whether, and to what extent, the Company may be required to contribute to the costs at issue in the case remains to be determined. While the Company does not yet have a basis for estimating its potential exposure in this case, the Company currently believes its allocable share of the possible loss, if any, is likely to be a fraction of one percent of the total costs because of the Company's limited potential involvement at this site.

For environmental litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established reserve is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time, with the exception of the Passaic River litigation, where the Company's potential exposure, if any, is likely to be a fraction of one percent of the total costs.

*Environmental Liabilities and Insurance Receivables*



## Edgar Filing: 3M CO - Form 10-Q

As of September 30, 2012, the Company had recorded liabilities of \$29 million for estimated environmental remediation costs based upon an evaluation of currently available facts with respect to each individual site and also recorded related insurance receivables of \$11 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of September 30, 2012, the Company had recorded liabilities of \$62 million for other environmental liabilities based upon an evaluation of currently available facts to implement the Settlement Agreement and Consent Order with the MPCA, the remedial action agreement with ADEM, and to address trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur

Table of Contents

over the next five years. During the first nine months of 2012, the Company recorded expected insurance recoveries of \$15 million related to other environmental liabilities, all of which occurred in the third quarter of 2012.

It is difficult to estimate the cost of environmental compliance and remediation given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternative cleanup methods. Developments may occur that could affect the Company's current assessment, including, but not limited to: (i) changes in the information available regarding the environmental impact of the Company's operations and products; (ii) changes in environmental regulations, changes in permissible levels of specific compounds in drinking water sources, or changes in enforcement theories and policies, including efforts to recover natural resource damages; (iii) new and evolving analytical and remediation techniques; (iv) success in allocating liability to other potentially responsible parties; and (v) the financial viability of other potentially responsible parties and third-party indemnitors. For sites included in both environmental remediation liabilities and other environmental liabilities, at which remediation activity is largely complete and remaining activity relates primarily to operation and maintenance of the remedy, including required post-remediation monitoring, the Company believes the exposure to loss in excess of the amount accrued would not be material to the Company's consolidated results of operations or financial condition. However, for locations at which remediation activity is largely ongoing, the Company cannot estimate a possible loss or range of loss in excess of the associated established reserves for the reasons described above.

Compliance Matters

On November 12, 2009, the Company contacted the Department of Justice (DOJ) and Securities and Exchange Commission (SEC) to voluntarily disclose that the Company was conducting an internal investigation as a result of reports it received about its subsidiary in Turkey, alleging bid rigging and bribery and other inappropriate conduct in connection with the supply of certain reflective and other materials and related services to Turkish government entities. The Company also contacted certain affected government agencies in Turkey. The Company retained outside counsel to conduct an assessment of its policies, practices, and controls and to evaluate its overall compliance with the Foreign Corrupt Practices Act, including an ongoing review of our practices in certain other countries and acquired entities. As part of its ongoing review, the Company has also reported to the DOJ and SEC issues arising from transactions in other countries. The Company continues to cooperate with the DOJ and SEC and government agencies in Turkey in the Company's ongoing investigation of this matter. The Company cannot predict at this time the outcome of its investigation or what regulatory actions may be taken or what other consequences may result.

Other Matters

*Commercial Litigation*

In September 2010, various parties, on behalf of a purported class of shareholders of Cogent, Inc. (Cogent), commenced three lawsuits against the Company, Cogent, and its directors in the Delaware Court of Chancery. Plaintiffs allege that 3M, in connection with its tender offer for Cogent shares, aided and abetted the breach of fiduciary duties by Cogent directors and seek an unspecified amount of damages. The three cases were consolidated, expedited discovery was conducted, and Plaintiffs' motion for a preliminary injunction to enjoin the acquisition was denied on October 1, 2010. On November 15, 2010, plaintiffs filed an amended complaint that added Cogent directors appointed by 3M, as named defendants, and asserted additional claims of breach of fiduciary duties in connection with the acquisition and a subsequent offering period. 3M completed its acquisition of Cogent in December 2010. In March 2012, all parties to the litigation agreed to settle this litigation for an amount that is not material to the Company. On August 30, 2012, the Court of Chancery approved the settlement and dismissed plaintiffs' claims.

## Edgar Filing: 3M CO - Form 10-Q

Separately, several purported holders of Cogent shares, representing a total of approximately 5.8 million shares, have asserted appraisal rights under Delaware law. The Company has answered the appraisal petition and is defending this matter vigorously. The case is scheduled for trial in Delaware in November 2012.

In October 2012, four plaintiffs filed purported class actions against Ceradyne, its directors, 3M and Cyborg Acquisition Corporation (a direct wholly owned subsidiary of 3M) in connection with 3M's proposed acquisition of Ceradyne. Two suits were filed in California Superior Court for Orange County and two were filed in the Delaware Chancery Court. The suits seek principally to enjoin the proposed acquisition of Ceradyne, and allege that the defendants breached and/or aided and abetted the breach of their fiduciary duties to Ceradyne by seeking to sell Ceradyne through an allegedly unfair process and for an unfair price and on unfair terms, and/or by allegedly failing to make adequate disclosures to Ceradyne stockholders regarding the proposed acquisition of Ceradyne. A stipulation and proposed order has been filed in the two California cases consolidating those two actions, setting an expedited schedule, and setting a preliminary injunction hearing for November 26, 2012. In the Delaware cases, the plaintiffs' motions to expedite proceedings, which the defendants have opposed, will be heard by the Delaware Chancery Court in the coming weeks. In addition, the defendants have filed motions in both courts requesting that the California and Delaware courts confer and

Table of Contents

decide upon the forum in which the litigation should proceed, and that the other forum dismiss or stay its action(s). 3M believes the allegations in all of these cases are without merit, and is defending the actions vigorously.

3M filed suit against Avery Dennison Corporation in the United States District Court for the District of Minnesota in June 2010, alleging that Avery's OmniCube full cube retroreflective sheeting products, which are used for highway signage, infringe a number of 3M patents. 3M's motion to preliminarily enjoin the sales of Avery's OmniCube retroreflective sheeting was denied in December 2010. 3M also sought a declaratory judgment from the District Court in Minnesota that 3M's Diamond Grade DG3 full cube retroreflective sheeting does not infringe two Avery patents. The District Court granted Avery's motion to dismiss 3M's declaratory judgment suit in March 2011. 3M appealed the dismissal of the declaratory judgment lawsuit, and in January 2012, the Federal Circuit Court of Appeals issued a decision reversing the district court and reinstating the declaratory judgment action. Avery has decided not to appeal, and that action, including Avery's counterclaims against 3M for infringement of the Avery patents, is proceeding in the District Court in Minnesota. In October 2010, Avery Dennison filed a lawsuit against the Company in the United States District Court for the Central District of California, alleging that 3M monopolized or attempted to monopolize the markets for Type XI retroreflective sheeting and for broad high performance sheeting in violation of the Sherman Act, as well as other claims. Avery alleges that 3M manipulated the standards-setting process of the American Society for Testing and Materials (ASTM), a private organization responsible for creating standards for, among other things, retroreflective sheeting used for highway signage; entered into illegal and anticompetitive contracts; and engaged in other anticompetitive acts including false advertising and disparagement. 3M's motion to transfer the antitrust case to the United States District Court for the District of Minnesota was granted in February 2011. 3M's patent infringement lawsuit against Avery, the declaratory judgment action against Avery (with Avery's patent infringement counterclaims), and Avery's antitrust suit against 3M are moving forward in the Minnesota Court. In March 2012, the district court issued its claim construction ruling in the 3M patent case, finding in 3M's favor on 16 of the 19 disputed terms. Fact discovery in that case has concluded and expert discovery is nearly complete. Fact discovery is also complete in the antitrust case and expert discovery is ongoing. Fact discovery is ongoing in the declaratory judgment case involving Avery's patents and the parties are beginning the claim construction process. Avery has filed a motion to join all three cases for trial, a motion that 3M will oppose.

3M sued Transweb Corporation in Minnesota in 2010 for infringement of several 3M patents covering fluorination and hydrocharging of filter media used in 3M's respirators and furnace filters. Transweb does not make finished goods, but sells media to competitors of 3M's respirator and furnace filter businesses. Transweb filed a declaratory judgment action in and successfully moved the litigation to the United States District Court for the District of New Jersey, seeking a declaration of invalidity and non-infringement of 3M's patents, and further alleging that 3M waited too long to enforce its rights. Transweb later amended its complaint to allege that 3M obtained the patents through inequitable conduct and that 3M's attempt to enforce the patents constitutes a violation of the antitrust laws. On October 15, 2012, the court denied 3M's motions for summary judgment on its infringement claims and on Transweb's inequitable conduct and antitrust claims. Transweb is primarily seeking to recover, as treble antitrust damages, its attorneys' fees in connection with the defense of the patent case. 3M contends that Transweb cannot recover these attorneys' fees as trebled antitrust damages even if Transweb is successful in its antitrust claims. The trial of the case is scheduled to begin on November 5, 2012.

In December 2010, Meda AB, the Swedish-based acquirer of 3M's European pharmaceutical business, filed a lawsuit against 3M, 3M Innovative Properties Company, and Riker Laboratories, Inc. (collectively, "3M"). Meda initially asserted claims against 3M for breach of contract and breach of the implied covenant of good faith and fair dealing. On October 31, 2011, Meda amended its pleading to assert a claim for fraud. All three claims are based on allegations that 3M did not inform Meda about certain information relating to the pricing of a particular drug in France prior to the acquisition. Meda seeks to recover compensatory damages in excess of \$300 million (including prejudgment interest), punitive damages, and attorneys' fees. On September 17, 2012, 3M filed a motion for summary judgment on the grounds that Meda cannot establish a breach of any duty owed by 3M. Both parties have filed motions to exclude certain expert testimony. A non-jury trial is scheduled to commence in the United States District Court for the Southern District of New York on January 14, 2013. The trial is expected to last approximately two weeks.

For commercial litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established reserve is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes that such liability is not

probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

*Product Liability Litigation*

Électricité de France (EDF) filed a lawsuit against 3M France in the French courts in 2006 claiming commercial loss and property damage after experiencing electrical network failures which EDF alleges were caused by so-called defective 3M transition splices. The French Court of Appeals at Versailles affirmed the commercial trial court's decision that the transition splices conformed to contract specifications which were thoroughly analyzed and tested by EDF before purchase and installation. The Court of Appeals, however, ordered a court-appointed expert to study the problem and

Table of Contents

issue a technical opinion on the cause of the network failures. In spite of considerable testing of 3M's splices over several years, the court-appointed expert has been unable to identify a defect in the 3M splices and to determine the definitive cause of the network failures. The court-appointed expert is expected to issue his final report by June 30, 2013. Thereafter, the commercial court may take from six months to one year to render its decision.

One customer obtained an order in the French courts against SAS 3M Purification (a French subsidiary) in October 2011 appointing an expert to determine the amount of commercial loss and property damage allegedly caused by so-called defective 3M filters used in the customer's manufacturing process. A second customer filed a lawsuit against 3M Deutschland GmbH (a German subsidiary) in the German courts in March 2012 seeking commercial loss and property damage allegedly caused by so-called defective 3M filters used in that customer's manufacturing process. The Company has resolved on an amicable basis claims of two other customers arising out of the same issue.

For product liability litigation matters described in this section for which a liability has been recorded, the Company believes the amount recorded is not material to the Company's consolidated results of operations or financial condition. In addition, the Company is not able to estimate a possible loss or range of loss in excess of the established reserves at this time.

Table of Contents**NOTE 12. Stock-Based Compensation**

The 3M 2008 Long-Term Incentive Plan, as discussed in the 2011 Annual Report on Form 10-K, provides for the issuance or delivery of up to 64 million shares of 3M common stock pursuant to awards granted under the plan. In May 2012, shareholders approved an additional 36 million shares, increasing the number of approved shares to 100 million shares. Awards under this plan may be issued in the form of Incentive Stock Options, Nonqualified Stock Options, Progressive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock Awards, and Performance Units and Performance Shares. Awards denominated in shares of common stock other than options and Stock Appreciation Rights, per the 2008 Plan, count against the 100 million share limit as 3.38 shares for every one share covered by such award (for full value awards with grant dates prior to May 11, 2010), as 2.87 shares for every one share covered by such award (for full value awards with grant dates on or after May 11, 2010 and prior to May 8, 2012), or as 3.50 shares for every one share covered by such award (for full value awards with grant dates of May 8, 2012 or later). The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 48,820,463 as of September 30, 2012.

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed five years of service. This retiree-eligible population represents 30 percent of the 2012 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter.

In addition to the annual grants, the Company makes other minor grants of stock options, restricted stock units and other stock-based grants. The Company issues cash settled Restricted Stock Units and Stock Appreciation Rights in certain countries. These grants do not result in the issuance of Common Stock and are considered immaterial by the Company.

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units, performance shares and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material at September 30, 2012. The income tax benefits shown in the table can fluctuate by period due to the amount of employee disqualifying dispositions related to Incentive Stock Options (ISOs). The Company last granted ISOs in 2002.

**Stock-Based Compensation Expense**

(Millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cost of sales	\$ 6	\$ 5	\$ 23	\$ 25
Selling, general and administrative expenses	25	28	134	159
Research, development and related expenses	5	5	24	26
Stock-based compensation expenses	\$ 36	\$ 38	\$ 181	\$ 210

Edgar Filing: 3M CO - Form 10-Q

Income tax benefits	\$	(12)	\$	(12)	\$	(56)	\$	(68)
Stock-based compensation expenses, net of tax	\$	24	\$	26	\$	125	\$	142



Table of Contents

The following table summarizes stock option activity during the nine months ended September 30, 2012:

**Stock Option Program**

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	64,148,415	\$ 77.28		
Granted:				
Annual	5,770,190	87.91		
Progressive (Reload)	106,807	89.52		
Other	1,238	89.45		
Exercised	(10,205,938)	67.33		
Canceled	(363,183)	83.42		
September 30	59,457,529	\$ 80.01	57	\$ 739
Options exercisable				
September 30	48,076,370	\$ 78.47	46	\$ 671

As of September 30, 2012, there was \$67 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 22 months. The total intrinsic values of stock options exercised were \$225 million and \$283 million during the nine months ended September 30, 2012 and 2011, respectively. Cash received from options exercised was \$687 million and \$782 million for the nine months ended September 30, 2012 and 2011, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$84 million and \$86 million for the nine months ended September 30, 2012 and 2011, respectively.

For the primary 2012 annual stock option grant, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

Stock Option Assumptions	Annual 2012
Exercise price	\$ 87.89
Risk-free interest rate	1.1%
Dividend yield	2.6%
Expected volatility	24.5%
Expected life (months)	74
Black-Scholes fair value	\$ 14.94

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2012 annual grant date, the Company estimated the expected volatility based upon the average of the most recent one year volatility, the median of the term of the expected life rolling volatility, the median of the most recent term of the expected life volatility of 3M stock, and the implied volatility on the grant date. The expected term assumption is based on the weighted average of historical grants.



Table of Contents

The following table summarizes restricted stock and restricted stock unit activity during the nine months ended September 30, 2012:

**Restricted Stock and Restricted Stock Units**

<b>Restricted Stock and Restricted Stock Units</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested balance		
As of January 1	4,858,972	\$ 73.02
Granted:		
Annual	968,522	87.92
Other	86,773	84.44
Vested	(2,560,923)	63.61
Forfeited	(61,966)	82.47
As of September 30	3,291,378	\$ 84.85

As of September 30, 2012, there was \$95 million of compensation expense that has yet to be recognized related to non-vested restricted stock and restricted stock units. This expense is expected to be recognized over the remaining weighted-average vesting period of 26 months. The total fair value of restricted stock and restricted stock units that vested during the nine months ended September 30, 2012 and 2011 was \$225 million and \$99 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock and restricted stock units was \$84 million and \$37 million for the nine months ended September 30, 2012 and 2011, respectively.

Restricted stock units granted under the 3M 2008 Long-Term Incentive Plan generally vest three years following the grant date assuming continued employment. The one-time buyout restricted stock unit grant in 2007 vested at the end of five years. Restricted stock unit grants issued in 2008 and prior did not accrue dividends during the vesting period. Beginning in 2009, dividend equivalents equal to the dividends payable on the same number of shares of 3M common stock accrue on these restricted stock units during the vesting period, although no dividend equivalents are paid on any of these restricted stock units that are forfeited prior to the vesting date. Dividends are paid out in cash at the vest date on restricted stock units, except for performance shares which do not earn dividends. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average restricted stock unit shares outstanding are included in the computation of diluted earnings per share.

**Performance Shares**

Beginning in 2008, the Company grants certain members of executive management performance shares on an annual basis. The performance criteria, which were modified in 2010, are designed to focus management attention on three key factors that create long-term stockholder value: Organic Sales Growth, Return on Invested Capital and sales from new products. The number of shares of 3M common stock that could actually be delivered at the end of the three-year performance period may be anywhere from 0% to 200% of each performance share granted, depending on the performance of the Company during such performance period. Non-substantive vesting requires that expense for the performance shares be recognized over one or three years depending on when each individual became a 3M executive. The first performance shares, which were granted in 2008, were distributed in 2011. Performance shares do not accrue dividends during the performance period. Therefore, the grant date fair value is determined by reducing the closing stock price on the date of grant by the net present value of dividends during the performance period. As a result of the significant uncertainty due to the economic crisis of 2008-2009, the Company granted restricted stock units instead of performance shares in 2009. Therefore, since there were no performance shares in 2009, there were also no related distributions in the first nine

months of 2012. Performance share grants resumed in 2010 and continued thereafter.

Table of Contents

The following table summarizes performance share activity during the nine months ended September 30, 2012:

Performance Shares	Number of Awards		Weighted Average Grant Date Fair Value
Undistributed balance			
As of January 1	878,872	\$	78.55
Granted	451,257		81.33
Performance change	(183,460)		81.02
Forfeited	(78,048)		80.20
As of September 30	1,068,621	\$	79.18

As of September 30, 2012, there was \$16 million of compensation expense that has yet to be recognized related to performance shares. This expense is expected to be recognized over the remaining weighted-average earnings period of 9 months. There were no performance shares distributed or related tax benefits realized during the nine months ended September 30, 2012. For the nine months ended September 30, 2011, the total fair value of performance shares that were distributed was \$18 million and actual tax benefits realized for the tax deductions related to the distribution of performance shares was \$5 million.

Table of Contents**NOTE 13. Business Segments**

3M's businesses are organized, managed and internally grouped into segments based on differences in markets, products, technologies and services. 3M continues to manage its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. 3M's six business segments bring together common or related 3M technologies, enhancing the development of innovative products and services and providing for efficient sharing of business resources. These segments have worldwide responsibility for virtually all 3M product lines. 3M is not dependent on any single product/service or market. Transactions among reportable segments are recorded at cost. 3M is an integrated enterprise characterized by substantial intersegment cooperation, cost allocations and inventory transfers. Therefore, management does not represent that these segments, if operated independently, would report the operating income information shown. The difference between operating income and pre-tax income relates to interest income and interest expense, which are not allocated to business segments.

Consistent with 3M's strategy of building relevance and presence in the marketplace, the Company announced in October 2012 that it was beginning immediately to align resources and management toward a new structure comprised of five business groups: Consumer; Industrial; Health Care; Safety and Graphics; and Electronics and Energy. The company intends that its operating results will be managed on the basis of its existing segment structure through 2012 with results managed under the new alignment once it is fully effective in the first quarter of 2013.

**Business Segment Information**

(Millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Net Sales</b>				
Industrial and Transportation	\$ 2,566	\$ 2,580	\$ 7,853	\$ 7,671
Health Care	1,263	1,246	3,826	3,770
Consumer and Office	1,114	1,096	3,219	3,134
Safety, Security and Protection Services	926	954	2,898	2,894
Display and Graphics	936	935	2,650	2,851
Electro and Communications	820	838	2,452	2,538
Corporate and Unallocated	1	1	4	9
Elimination of Dual Credit	(129)	(119)	(385)	(345)
Total Company	\$ 7,497	\$ 7,531	\$ 22,517	\$ 22,522
<b>Operating Income</b>				
Industrial and Transportation	\$ 575	\$ 525	\$ 1,789	\$ 1,585
Health Care	400	367	1,216	1,100
Consumer and Office	244	244	700	661
Safety, Security and Protection Services	196	202	685	643
Display and Graphics	199	179	541	631
Electro and Communications	186	181	549	559
Corporate and Unallocated	(93)	(91)	(355)	(289)
Elimination of Dual Credit	(29)	(26)	(85)	(76)
Total Company	\$ 1,678	\$ 1,581	\$ 5,040	\$ 4,814

Corporate and unallocated operating income includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring

## Edgar Filing: 3M CO - Form 10-Q

charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

3M business segment reporting measures include dual credit to business segments for certain U.S. sales and related operating income. Management evaluates each of its six operating business segments based on net sales and operating income performance, including dual credit U.S. reporting to further incentivize U.S. sales growth. As a result, 3M provides additional ( dual ) credit to those business segments selling products in the U.S. to an external customer when that segment is not the primary seller of the product. For example, certain respirators are primarily sold by the Occupational Health and Environmental Safety Division within the Safety, Security and Protection Services business segment; however, the Industrial and Transportation business segment also sells this product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial and Transportation) would also receive credit for the associated net

Table of Contents

sales it initiated and the related approximate operating income. The assigned operating income related to dual credit activity may differ from operating income that would result from actual costs associated with such sales. The offset to the dual credit business segment reporting is reflected as a reconciling item entitled Elimination of Dual Credit, such that sales and operating income for the U.S. in total are unchanged.



Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM\***

To the Stockholders and Board of Directors of 3M Company:

We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of September 30, 2012, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein), and in our report dated February 16, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Minneapolis, Minnesota  
November 1, 2012

---

\* Pursuant to Rule 436(c) of the Securities Act of 1933 ( "Act" ) this should not be considered a "report" within the meaning of Sections 7 and 11 of the Act and the independent registered public accounting firm liability under Section 11 does not extend to it.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of 3M's financial statements with a narrative from the perspective of management. 3M's MD&A is presented in the following sections:

- Overview
- Results of Operations
- Performance by Business Segment
- Financial Condition and Liquidity
- Cautionary Note Concerning Factors That May Affect Future Results

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products and services. 3M manages its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. From a geographic perspective, any references to EMEA refer to Europe, Middle East and Africa on a combined basis.

Consistent with 3M's strategy of building relevance and presence in the marketplace, the Company announced in October 2012 that it was beginning immediately to align resources and management toward a new structure comprised of five business groups: Consumer; Industrial; Health Care; Safety and Graphics; and Electronics and Energy. The company intends that its operating results will be managed on the basis of its existing segment structure through 2012 with results managed under the new alignment once it is fully effective in the first quarter of 2013.

Third-quarter 2012 sales totaled \$7.5 billion, a decrease of 0.4 percent from the third quarter of 2011. In the face of the current slow-growth economy, 3M continued to achieve organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in all six business segments. Organic local-currency sales increased 4.3 percent in Health Care, 3.3 percent in Industrial and Transportation, 1.4 percent in Consumer and Office, 1.3 percent in Display and Graphics, 0.7 percent in Safety, Security and Protection Services, and 0.1 percent in Electro and Communications. For the company in total, organic local-currency sales grew 2.2 percent, with equal contributions from higher organic volumes and selling price increases. Acquisitions added 0.5 percent to sales, driven by the October 2011 acquisition of the do-it-yourself and professional business of GPI Group (Consumer and Office), the April 2012 acquisition of CodeRyte, Inc. (Health Care), and the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group (Display and Graphics). Currency impacts reduced sales by 3.1 percent year-on-year, as the U.S. dollar remained strong against the Euro, Brazil real, and other currencies.

## Edgar Filing: 3M CO - Form 10-Q

On a geographic basis, third-quarter 2012 sales increased 3.1 percent in Latin America/Canada and 2.8 percent in the United States, and were down 6.0 percent in EMEA (Europe, Middle East and Africa) and 1.4 percent in Asia Pacific. These results were impacted by foreign currency translation, which reduced sales in EMEA by 8.4 percent, Latin America/Canada by 7.4 percent, and Asia Pacific by 1.3 percent. Organic local-currency sales growth was led by Latin America/Canada at 10.5 percent, with all business segments contributing, led by Safety, Security and Protection Services, Electro and Communications, Display and Graphics, and Health Care. On a country basis, organic local-currency sales growth in Mexico was 19 percent. Organic sales growth in the United States was 2.3 percent, marking the twelfth consecutive quarter of positive growth. Organic local-currency sales in EMEA increased 0.8 percent, with positive organic growth in Middle East and Africa, along with Central/East Europe. Organic local-currency sales in West Europe were down 1 percent in the quarter, an improvement versus the first half of the year, and reflecting the economic growth challenges in that region. Organic local-currency sales declined 0.1 percent in the Asia Pacific area, with sales growth in Health Care and Consumer and Office offset by declines in Electro and Communication and Safety, Security and Protection Services. In Asia Pacific, the consumer electronics industry continues to improve and is showing signs of recovery. In China/Hong Kong organic local-currency sales were flat in the third quarter, with positive growth in the Health Care, Industrial and Transportation, and Consumer and Office business segments offset by declines in the other business segments. From a market perspective, sales in renewable energy and personal safety declined in China/Hong Kong.

Operating income increased 6.1 percent in the third quarter and operating margins were 22.4 percent, an increase of 1.4 percentage points year-on-year. These results benefited from selling price increases, raw material cost decreases, factory efficiency, and cost discipline throughout the organization. In the third quarter of 2012, restructuring actions decreased earnings by approximately 1 cent per diluted share. Net insurance gains, related to the 2011 earthquake and tsunami in

## Edgar Filing: 3M CO - Form 10-Q

### Table of Contents

Japan and the Thailand floods, in addition to the evaluation of certain environmental matters, increased earnings by approximately 2 cents per diluted share.

Net income attributable to 3M was \$1.161 billion, or \$1.65 per diluted share in the third quarter of 2012, compared to \$1.088 billion, or \$1.52 per diluted share, in the third quarter of 2011. Average diluted shares outstanding declined 1.7 percent year-on-year to 703.1 million, which increased earnings per diluted share by approximately 3 cents. The income tax rate was 28.2 percent in the third quarter, down 0.4 percentage points versus last year's third quarter, which increased earnings by approximately 1 cent per diluted share.

Sales in the first nine months of 2012 of \$22.5 billion were flat when compared to the first nine months of 2011, impacted by challenging economic conditions. Organic local-currency sales increased 2.0 percent and acquisitions added 0.8 percent, with these increases offset by foreign currency translation, which reduced sales by 2.8 percent. Organic local-currency sales growth was led by Industrial and Transportation, Health Care, Safety, Security and Protection Services, and Consumer and Office. Organic local-currency sales declined in Display and Graphics and Electro and Communications, both impacted by weakness in the consumer electronics industry. Geographically, organic local-currency sales growth was led by Latin America/Canada and the United States, while sales declined in Asia Pacific and EMEA.

Net income attributable to 3M was \$3.453 billion, or \$4.91 per diluted share in the first nine months of 2012, compared to \$3.329 billion, or \$4.61 per diluted share, in the first nine months of 2011. In addition to the third-quarter 2012 restructuring actions and net insurance gains discussed above, 3M incurred early retirement/restructuring costs of approximately 4 cents per diluted share in the first quarter of 2012. Of this amount, approximately 3 cents per diluted share related to special termination benefits for a voluntary early retirement incentive program in the United States (discussed in Note 8). The remainder related to selective restructuring in a few developed countries. These actions, in aggregate, are expected to be neutral to full-year 2012 earnings, with the costs incurred in the first quarter of 2012, and the associated benefits realized over the remainder of 2012. In the second quarter of 2012, 3M incurred expenses related to consolidating certain manufacturing and supply chain support activities within Western Europe, along with relocating a portion of its manufacturing operations from Western to Eastern Europe, which on a combined basis decreased earnings by approximately 3 cents per diluted share. In the second quarter of 2012, 3M recognized insurance recoveries related to the 2011 earthquake and tsunami in Japan, which increased earnings by approximately 2 cents per diluted share.

3M estimates that combined direct and indirect business disruption resulting from the first-quarter 2011 earthquake and tsunami in Japan, net of the benefit from sales of 3M products used in the reconstruction efforts, reduced first nine months 2011 sales growth by 0.9 percentage points, operating margins by 0.3 percentage points, and earnings by approximately 9 cents per diluted share, with nearly all of the impact in the first half of 2011. Japan represented approximately 9 percent of total 3M sales for total year 2011. Refer to 3M's 2011 Annual Report on Form 10-K (Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Overview section) for more information concerning this item.

The following table contains sales and operating income results by business segment for the three months ended September 30, 2012 and 2011. In addition to the discussion below, refer to the section entitled Performance by Business Segment later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 13 for additional information on business segments, including Elimination of Dual Credit.

(Dollars in millions)	Three months ended September 30,				% change	
	2012	2011	2012	2011	Net Sales	Operating Income
	Net Sales	Operating Income	Net Sales	Operating Income		

Edgar Filing: 3M CO - Form 10-Q

<b>Business Segments</b>										
Industrial and Transportation	\$	2,566	\$	575	\$	2,580	\$	525	(0.5)%	9.4%
Health Care		1,263		400		1,246		367	1.4	9.0
Consumer and Office		1,114		244		1,096		244	1.6	(0.2)
Safety, Security and Protection Services		926		196		954		202	(2.9)	(2.8)
Display and Graphics		936		199		935		179		11.2
Electro and Communications		820		186		838		181	(2.1)	2.5
Corporate and Unallocated		1		(93)		1		(91)		
Elimination of Dual Credit		(129)		(29)		(119)		(26)		
Total Company	\$	7,497	\$	1,678	\$	7,531	\$	1,581	(0.4)%	6.1%

Table of Contents

Sales in the third quarter of 2012 decreased 0.4 percent. Organic local-currency sales increased 2.2 percent, acquisitions added 0.5 percent and foreign currency translation impacts reduced sales by 3.1 percent. Sales increased 1.6 percent in Consumer and Office, 1.4 percent in Health Care, and were flat in Display and Graphics. Sales declined 0.5 percent in Industrial and Transportation, 2.1 percent in Electro and Communications, and 2.9 percent in Safety, Security and Protection Services. 3M's six business segments all achieved operating income margins in excess of 21 percent. Worldwide operating income margins for the third quarter of 2012 were 22.4 percent, compared to 21.0 percent for the third quarter of 2011.

3M generated \$3.562 billion of operating cash flows in the first nine months of 2012, an increase of \$16 million when compared to the first nine months of 2011. Refer to the section entitled "Financial Condition and Liquidity" later in MD&A for a discussion of items impacting cash flows. In the first nine months of 2012, the Company purchased \$1.490 billion of treasury stock compared to \$2.207 billion of treasury stock repurchases in the first nine months of 2011. As of September 30, 2012, approximately \$3.2 billion of 3M common stock remained available for repurchase under the February 2011 repurchase authorization of \$7.0 billion, which has no pre-established end date. In February 2012, 3M's Board of Directors authorized a dividend increase of 7.3 percent for 2012, marking the 54th consecutive year of dividend increases for 3M. 3M's debt to total capital ratio (total capital defined as debt plus equity) was 26 percent at September 30, 2012 and 25 percent at December 31, 2011. As discussed in Note 7, in June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate notes due 2017 and \$600 million aggregate principal amount of ten-year fixed rate notes due 2022. 3M has an AA- credit rating with a stable outlook from Standard & Poor's and an Aa2 credit rating with a stable outlook from Moody's Investors Service. The Company has significant cash on hand and sufficient additional access to capital markets to meet its funding needs.

On a worldwide basis, 3M's pension and postretirement plans were 82 percent funded at year-end 2011. The U.S. qualified plans, which were approximately 71 percent of the worldwide pension obligation, were 86 percent funded, the international pension plans were 87 percent funded, and the U.S. non-qualified pension plan is not funded. Asset returns in 2011 for the U.S. qualified plan were 8.7%. The year-end 2011 discount rate was 4.15%, down 1.08 percentage points from the 2010 discount rate of 5.23%. The decrease in discount rates, both U.S. and internationally, resulted in a significantly higher valuation of the projected benefit obligation, which reduced the plans' funded status. The changes in 3M's defined-benefit pension and postretirement plans' funded status significantly impacted several balance sheet lines at year-end 2011. These changes increased long-term liabilities by approximately \$2.4 billion and decreased stockholders' equity by approximately \$1.6 billion, with the other major impact primarily related to increased deferred taxes within other assets. Other pension and postretirement changes during the year, such as contributions and amortization, also impacted these balance sheet captions.

3M expects to contribute approximately \$1 billion of cash to its global pension and postretirement plans in 2012, with \$918 million contributed in the first nine months of 2012. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2012. 3M expects pension and postretirement benefit expense in 2012 to increase by approximately 9 cents per diluted share when compared to 2011. This 9 cents per diluted share increase includes the costs associated with the first-quarter 2012 voluntary early retirement incentive program in the United States (discussed earlier).

There are a few major items that will negatively impact earnings for total year 2012. As discussed further above, 3M expects that pension and postretirement expense will decrease 2012 earnings, when compared to 2011, by approximately 9 cents per diluted share. The company currently expects that its effective tax rate for total year 2012 will be approximately 29.0 to 29.5 percent. This compares to a tax rate of 27.8 percent for 2011. In addition, currency effects are expected to have a negative impact on earnings. 3M currently expects that organic sales growth and related incremental income, in addition to expected productivity improvements, the combination of selling price increases and raw material cost reductions, and other benefits, should more than offset the items that will negatively impact earnings.

Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled "Cautionary Note Concerning Factors That May Affect Future Results" in Part I, Item 2 and the risk factors provided

in Part II, Item 1A for discussion of these risks and uncertainties).

Table of Contents**RESULTS OF OPERATIONS**

Percent change information compares the third quarter or first nine months of 2012 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended September 30, 2012					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 2,694	\$ 2,303	\$ 1,594	\$ 907	\$ (1)	\$ 7,497
% of worldwide sales	35.9%	30.7%	21.3%	12.1%		100.0%
Components of net sales change:						
Volume organic	0.6%	1.5%	(1.1)%	6.2%		1.1%
Price	1.7	(1.6)	1.9	4.3		1.1
Organic local-currency sales	2.3	(0.1)	0.8	10.5		2.2
Acquisitions	0.5		1.6			0.5
Translation		(1.3)	(8.4)	(7.4)		(3.1)
Total sales change	2.8%	(1.4)%	(6.0)%	3.1%		(0.4)%

Sales in the third quarter of 2012 decreased 0.4 percent. Organic local-currency sales grew 2.2 percent, led by Latin America/Canada at 10.5 percent and the United States at 2.3 percent. Organic local-currency sales increased 0.8 percent in Europe, Middle East and Africa, impacted by weakness in Western Europe. Organic local-currency sales declined 0.1 percent in Asia Pacific, impacted by softness in China. Acquisitions added 0.5 percent to worldwide growth and currency impacts reduced third quarter 2012 worldwide sales growth by 3.1 percent. Worldwide selling prices rose 1.1 percent in the third quarter, despite selling price declines in 3M's optical systems business, where prices typically decline each year, which is common for the electronics industry.

	Nine months ended September 30, 2012					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 7,934	\$ 6,869	\$ 5,054	\$ 2,665	\$ (5)	\$ 22,517
% of worldwide sales	35.2%	30.5%	22.4%	11.9%		100.0%
Components of net sales change:						
Volume organic	1.5%	(0.5)%	(2.9)%	6.9%		0.4%
Price	2.4	(1.0)	2.4	4.3		1.6
Organic local-currency sales	3.9	(1.5)	(0.5)	11.2		2.0
Acquisitions	0.4	0.3	2.3	0.1		0.8
Translation		(0.6)	(7.6)	(7.4)		(2.8)
Total sales change	4.3%	(1.8)%	(5.8)%	3.9%		%



## Edgar Filing: 3M CO - Form 10-Q

Sales in the first nine months of 2012 were flat when compared to the first nine months of 2011. Organic local-currency sales grew 2.0 percent, led by Latin America/Canada at 11.2 percent and the United States at 3.9 percent. Organic local-currency sales declined 0.5 percent in Europe, Middle East and Africa, impacted by weakness in Western Europe. Organic local-currency sales declined 1.5 percent in Asia Pacific, impacted by softness in China and electronics. Acquisitions added 0.8 percent to worldwide growth and currency impacts reduced first nine months 2012 worldwide sales growth by 2.8 percent. Worldwide selling prices rose 1.6 percent in the first nine months, despite selling price declines in 3M's optical systems business, where prices typically decline each year, which is common for the electronics industry.

Table of Contents**Operating Expenses:**

(Percent of net sales)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Cost of sales	<b>52.5%</b>	53.4%	(0.9)%	<b>51.9%</b>	52.7%	(0.8)%
Selling, general and administrative expenses	<b>19.8</b>	20.4	(0.6)	<b>20.3</b>	20.6	(0.3)
Research, development and related expenses	<b>5.3</b>	5.2	0.1	<b>5.4</b>	5.3	0.1
Operating income	<b>22.4%</b>	21.0%	1.4%	<b>22.4%</b>	21.4%	1.0%

Pension and postretirement expense increased in 2012, which impacted cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D). The year-on-year increase in pension and postretirement expense for the first nine months was \$90 million, with \$23 million of this year-on-year increase in the third quarter. Pension and postretirement expense for the first nine months of 2012 includes a \$26 million charge related to the first-quarter 2012 voluntary early retirement incentive program (discussed in Note 8).

**Cost of Sales:**

Cost of sales includes manufacturing, engineering and freight costs. Cost of sales as a percent of net sales was 52.5 percent in the third quarter of 2012, a decrease of 0.9 percentage points from the same quarter last year. Third-quarter selling price increases and raw material cost decreases both benefited third-quarter 2012 cost of sales as a percent of sales, with this benefit partially offset by higher pension and postretirement costs (of which a portion impacts cost of sales) and foreign currency impacts.

Cost of sales in the first nine months of 2012 was 51.9 percent, a decrease of 0.8 percentage points from the same period last year. First nine months 2012 selling price increases and raw material cost decreases both benefited first nine months 2012 cost of sales as a percent of sales, with this benefit partially offset by higher pension and postretirement costs.

**Selling, General and Administrative Expenses:**

SG&A in dollars decreased \$47 million, or 3.0 percent, in the third quarter of 2012 when compared to the third quarter of 2011. In addition to cost-control efforts, 3M experienced some savings from its first-quarter 2012 voluntary early retirement incentive program and restructuring actions. These benefits were partially offset by higher year-on-year pension and postretirement expense. SG&A, measured as a percent of sales, was 19.8 percent in third quarter of 2012, a decrease of 0.6 percentage points when compared to the same period last year.

SG&A in dollars decreased \$81 million, or 1.7 percent, in the first nine months of 2012 when compared to the first nine months of 2011. In addition to cost-control efforts, 3M experienced some savings from its first-quarter 2012 voluntary early retirement incentive program and restructuring actions. First nine months 2012 SG&A included increases from acquired businesses which were largely not in 3M's first-quarter

## Edgar Filing: 3M CO - Form 10-Q

2011 base spending, primarily related to SG&A spending for Winterthur Technologie AG and the do-it-yourself and professional business of GPI Group. In addition, higher year-on-year pension and postretirement expense, including the impact of the voluntary early retirement incentive program, plus expense related to restructuring actions, increased SG&A. SG&A, measured as a percent of sales, was 20.3 percent in the first nine months of 2012, a decrease of 0.3 percentage points when compared to the same period last year.

### ***Research, Development and Related Expenses:***

R&D expense in dollars increased \$8 million, or 1.9 percent, in the third quarter of 2012 when compared to the third quarter of 2011, and increased \$25 million, or 2.1 percent, in the first nine months of 2012 when compared to the first nine months of 2011. 3M continued to invest in its key growth initiatives. In both the third-quarter and first nine months of 2012, in addition to cost-control efforts, 3M experienced some savings from its first-quarter 2012 voluntary early retirement incentive program and restructuring actions. R&D expense was also impacted in the third-quarter and first nine months of 2012 by higher pension and postretirement expense. R&D, measured as a percent of sales, increased to 5.4 percent of sales in the first nine months of 2012, compared to 5.3 percent of sales in the first nine months of 2011.

Table of Contents**Operating Income:**

Operating income margins were 22.4 percent in the third quarter of 2012 compared to 21.0 in the third quarter of 2011, an increase of 1.4 percentage points. This included a 1.6 percentage point benefit from the combination of selling price increases and raw material cost decreases, plus other net benefits of 0.2 percentage points. These benefits were partially offset by increased pension and postretirement benefit costs, which decreased margins by 0.3 percentage points, and foreign currency impacts, which decreased margins by 0.1 percentage points.

Operating income margins were 22.4 percent in the first nine months of 2012 compared to 21.4 in the first nine months of 2011, an increase of 1.0 percentage points. This was primarily comprised of a 1.7 percentage point benefit from the combination of selling price increases and raw material cost decreases. This was partially offset by increased pension and postretirement benefit costs, which reduced margins by 0.4 percentage points, and other net impacts, which decreased margins by 0.3 percentage points.

**Interest Expense and Income:**

(Millions)	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Interest expense	\$ 44	\$ 48	\$ 127	\$ 141				
Interest income	(10)	(10)	(29)	(29)				
Total	\$ 34	\$ 38	\$ 98	\$ 112				

Interest expense was lower in both the third quarter and first nine months of 2012 compared to the same periods last year, primarily due to lower average international debt balances and lower interest rates on U.S. debt, partially offset by higher average U.S. debt balances and higher interest rates on international debt. Interest income was flat year-on-year when comparing the third quarter and first nine months of 2012 to the same periods last year.

**Provision for Income Taxes:**

(Percent of pre-tax income)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Effective tax rate	28.2%	28.6%	29.0%	28.1%

The effective tax rate for the third quarter of 2012 was 28.2 percent, compared to 28.6 percent in the third quarter of 2011, a decrease of 0.4 percentage points. The effective tax rate for the first nine months of 2012 was 29.0 percent, compared to 28.1 percent in the first nine months of 2011, an increase of 0.9 percentage points. Various factors increased or decreased the effective tax rate when compared to the same periods last year. The primary factors which increased the Company's effective tax rate year-on-year included international taxes, specifically with respect to the corporate reorganization of a wholly owned international subsidiary (which benefited 2011), and the lapse of the U.S. research and development credit. These and other factors, when compared to the same periods last year, increased the effective tax rate in the third quarter and first nine months of 2012 by 2.5 and 1.6 percentage points, respectively. Factors which decreased the Company's effective tax rate

## Edgar Filing: 3M CO - Form 10-Q

year-on-year included international taxes as a result of changes to the geographic mix of income before taxes, benefits from certain realized credits, and adjustments to its income tax reserves. These factors, when compared to the same periods last year, decreased the effective tax rate in the third quarter and first nine months of 2012 by 2.9 and 0.7 percentage points, respectively. Refer to Note 5 for further discussion of income taxes.

The company currently expects that its effective tax rate for total year 2012 will be approximately 29.0 to 29.5 percent. The rate will change from quarter to quarter due to discrete items, such as the settlement of income tax audits and changes in tax laws, as well as recurring factors, such as the geographic mix of income before taxes.

Table of Contents*Net Income Attributable to Noncontrolling Interest:*

(Millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income attributable to noncontrolling interest	\$ 19	\$ 15	\$ 54	\$ 54

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M's most significant consolidated entity with non-3M ownership interests. As of September 30, 2012, 3M's effective ownership in Sumitomo 3M Limited is 75 percent.

*Currency Effects:*

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$42 million for the three months ended September 30, 2012 and decreased net income attributable to 3M by approximately \$104 million for the nine months ended September 30, 2012. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars, which 3M estimates increased net income attributable to 3M by approximately \$3 million for three months ended September 30, 2012 and increased net income attributable to 3M by approximately \$38 million for the nine months ended September 30, 2012.

*Significant Accounting Policies:*

Information regarding new accounting standards is included in Note 1 to the Consolidated Financial Statements.

As discussed in 3M's 2011 Annual Report on Form 10-K, goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter of each year and are tested between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. 3M indicated that factors which could result in future impairment charges, among others, include changes in worldwide economic conditions, changes in competitive conditions and customer preferences, and fluctuations in foreign currency exchange rates. Given the current overall economic and other conditions in markets served by certain reporting units (particularly Security Systems), 3M will continue to monitor impacted reporting units to assess whether long term expectations have been significantly impacted such that an impairment test would be required. The Company concluded that no such test was required for the period ended September 30, 2012. 3M will continue such interim monitoring in addition to its detailed fourth quarter annual impairment test. In addition, long-lived assets with a definite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. If future non-cash impairment charges are taken, 3M would expect that only a portion of such assets or goodwill would be impaired.



Table of Contents**PERFORMANCE BY BUSINESS SEGMENT**

Disclosures related to 3M's business segments are provided in Note 13. The reportable segments are Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications.

In addition to these six operating business segments, 3M assigns certain costs to Corporate and Unallocated, which is presented separately in the preceding business segments table and in Note 13. Corporate and Unallocated includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis. The primary items driving higher expenses in Corporate and Unallocated in the third quarter and first nine months of 2012 when compared to the same period last year were pension and postretirement expense, as a portion of the 2012 increase in these expenses were not allocated directly to the six operating business segments (\$16 million and \$47 million, respectively, in the third quarter and first nine months of 2012), and an increase in respirator mask/asbestos liabilities and receivables, which nets to a \$1 million and \$27 million charge, respectively, in the third quarter and first nine months of 2012 (as discussed in Note 11). In addition, an increase in other environmental insurance receivables benefited third quarter and first nine months 2012 by \$15 million (as discussed in Note 11).

Information related to 3M's business segments for the third quarter and first nine months of both 2012 and 2011 is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts are measured separately for the first twelve months of the acquisition. The acquisition and divestiture impacts, if any, foreign currency translation impact and total sales change are also provided for each business segment. Any references to EMEA relate to Europe, Middle East and Africa on a combined basis.

***Industrial and Transportation Business:***

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Sales (millions)	\$ 2,566	\$ 2,580	\$ 7,853	\$ 7,671
Sales change analysis:				
Organic local currency	3.3%	8.3%	4.7%	10.6%
Acquisitions		6.8	1.1	5.9
Translation	(3.8)	3.7	(3.4)	4.7
Total sales change	(0.5)%	18.8%	2.4%	21.2%
Operating income (millions)	\$ 575	\$ 525	\$ 1,789	\$ 1,585
Percent change	9.4%	21.1%	12.8%	18.3%
Percent of sales	22.4%	20.4%	22.8%	20.7%

The Industrial and Transportation segment serves a broad range of markets, such as automotive original equipment manufacturers (OEM) and automotive aftermarket (auto body shops and retail), renewable energy, electronics, paper and packaging, food and beverage, and appliance. Industrial and Transportation products include tapes, a wide variety of coated and non-woven abrasives, adhesives, specialty materials, filtration products, energy control products, closure systems for personal hygiene products, acoustic systems products, and components and products that



## Edgar Filing: 3M CO - Form 10-Q

are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

Third quarter of 2012:

Sales in Industrial and Transportation totaled \$2.6 billion, down 0.5 percent in U.S. dollars. Organic local-currency sales increased 3.3 percent and foreign currency translation reduced sales by 3.8 percent. On an organic local-currency basis, sales growth was led by automotive OEM at 11 percent. 3M also achieved organic local-currency sales growth in aerospace, automotive aftermarket, 3M Purification Inc. (filtration products), and industrial adhesives and tapes. On an organic local-currency basis, sales declined in renewable energy.

Geographically, organic local-currency sales increased 8 percent in the United States, 5 percent in Latin America/Canada, 1 percent in EMEA, and were up slightly in Asia Pacific.

## Edgar Filing: 3M CO - Form 10-Q

### Table of Contents

Operating income was \$575 million in the third quarter, 9.4 percent higher than the third quarter of last year. Cost control efforts helped drive operating income growth. Operating income margins increased by 2.0 percentage points to 22.4 percent.

First nine months of 2012:

Sales in Industrial and Transportation totaled \$7.9 billion, up 2.4 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, acquisitions added 1.1 percent, and foreign currency translation reduced sales by 3.4 percent. Acquisitions growth was primarily driven by Winterthur Technologie AG (Winterthur) in the abrasives market and Alpha Beta Enterprise Co. Ltd. (Alpha Beta) in industrial tapes, both of which are discussed further below. On an organic local-currency basis, sales growth was strongest in automotive OEM, aerospace, energy/advanced materials, and abrasives. On an organic local-currency basis, sales declined in renewable energy.

Geographically, organic local-currency sales increased 8 percent in the United States, 7 percent in Latin America/Canada, 3 percent in Asia Pacific, and 1 percent in EMEA.

Operating income was \$1.8 billion in the first nine months, 12.8 percent higher than the first nine months of last year. Revenue growth and cost control helped drive operating income growth. Operating income margins increased by 2.1 percentage points to 22.8 percent.

Industrial and Transportation continues to invest aggressively to accelerate its growth capability. In March 2011, 3M acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft, and cutting tools. In addition, in February 2011, 3M completed its acquisition of the tape-related assets of Alpha Beta, a leading manufacturer of box sealing tape and masking tape headquartered in Taipei, Taiwan.

In addition, as disclosed in Note 2, in October 2012, 3M announced that it had entered into a definitive agreement to acquire Ceradyne, Inc. (Ceradyne), which is headquartered in Costa Mesa, California. Ceradyne is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries. The transaction is expected to be completed in the fourth quarter of 2012, subject to customary closing conditions including any necessary regulatory approvals.

### **Health Care Business:**

	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Sales (millions)	\$	1,263	\$	1,246	\$	3,826	\$	3,770
Sales change analysis:								
Organic local currency		4.3%		5.6%		4.3%		4.3%
Acquisitions		0.4		5.3		0.3		5.2

Edgar Filing: 3M CO - Form 10-Q

Translation		<b>(3.3)</b>		3.1		<b>(3.1)</b>		4.2
Total sales change		<b>1.4%</b>		14.0%		<b>1.5%</b>		13.7%
Operating income (millions)	\$	<b>400</b>	\$	367	\$	<b>1,216</b>	\$	1,100
Percent change		<b>9.0%</b>		12.8%		<b>10.5%</b>		8.4%
Percent of sales		<b>31.7%</b>		29.5%		<b>31.8%</b>		29.2%

The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, health information systems, and food manufacturing and testing. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, inhalation and transdermal drug delivery systems, dental and orthodontic products (oral care), health information systems, and food safety products.

Third quarter of 2012:

Health Care sales totaled \$1.3 billion, an increase of 1.4 percent in U.S. dollars. Organic local-currency sales increased 4.3 percent, acquisitions added 0.4 percent, and foreign currency translation reduced sales by 3.3 percent. Organic local-currency sales growth was led by food safety, health information systems, and skin/wound care. In April 2012, 3M further strengthened its health information systems business by acquiring CodeRyte, Inc., which provides clinical natural

## Edgar Filing: 3M CO - Form 10-Q

### Table of Contents

language processing technology and computer-assisted coding solutions for outpatient providers. Sales declined in the drug delivery systems business.

On a geographic basis, organic local-currency sales increased 12 percent in Latin America/Canada, 8 percent in Asia Pacific, 3 percent in the United States, and 1 percent in EMEA.

Operating income increased 9.0 percent to \$400 million. Operating income margins were 31.7 percent in the third quarter of 2012 compared to 29.5 percent in the third quarter of 2011, as factories continued to run efficiently, discretionary spending was under firm control, and the portfolio mix was favorable.

First nine months of 2012:

Health Care sales totaled \$3.8 billion, an increase of 1.5 percent in U.S. dollars. Organic local-currency sales increased 4.3 percent, acquisitions added 0.3 percent, and foreign currency translation reduced sales by 3.1 percent. Organic local-currency sales growth was led by health information systems, food safety, and skin/wound care. Sales declined year-on-year in drug delivery systems for the first nine months.

On a geographic basis, organic local-currency sales increased 12 percent in Latin America/Canada, 10 percent in Asia Pacific, 3 percent in the United States, and 1 percent in EMEA.

Operating income increased 10.5 percent to \$1.2 billion. Operating income margins were 31.8 percent in the first nine months of 2012 compared to 29.2 percent in the first nine months of 2011, driven by manufacturing cost control, utilization and production efficiencies.

### *Consumer and Office Business:*

	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	2011	2012	2011	2011
Sales (millions)	\$ 1,114	\$ 1,096	\$ 1,096	\$ 3,219	\$ 3,134	\$ 3,134
Sales change analysis:						
Organic local currency	1.4%	4.5%	4.5%	2.2%	4.4%	4.4%
Acquisitions	2.5	0.1	0.1	2.7	0.8	0.8
Translation	(2.3)	2.2	2.2	(2.2)	3.2	3.2
Total sales change	1.6%	6.8%	6.8%	2.7%	8.4%	8.4%
Operating income (millions)	\$ 244	\$ 244	\$ 244	\$ 700	\$ 661	\$ 661
Percent change	(0.2)%	3.8%	3.8%	5.9%	(0.6)%	(0.6)%
Percent of sales	21.9%	22.3%	22.3%	21.7%	21.1%	21.1%

The Consumer and Office segment serves markets that include consumer retail, office retail, home improvement, building maintenance and other markets. Products in this segment include office supply products, stationery products, construction and home improvement products (do-it-yourself), home care products, protective material products, certain consumer retail personal safety products, and consumer health care products.

Third quarter of 2012:

Sales in Consumer and Office totaled \$1.1 billion, up 1.6 percent in U.S. dollars. Organic local-currency sales increased 1.4 percent, acquisitions added 2.5 percent, and foreign currency translation reduced sales by 2.3 percent. On an organic local-currency basis, sales growth was led by the construction and home improvement and consumer health care businesses. Organic local-currency sales declined in stationery and office supplies, impacted by continued weakness in the office wholesale and retail markets. Acquisition growth was due to the October 2011 acquisition of the do-it-yourself and professional business of GPI Group. GPI is a manufacturer and marketer of home improvement products such as tapes, hooks, insulation and floor protection products and accessories. The addition of GPI's products expands 3M's product portfolio in core and complementary categories in the construction and home improvement markets. Since 3M purchased GPI in October 2011, it will become part of the organic growth sales base in the fourth quarter.

On a geographic basis, organic local-currency sales increased 7 percent in Latin America/Canada and 6 percent in Asia Pacific. Organic local-currency sales were flat in the United States and declined by 3 percent in EMEA.

Consumer and Office operating income was flat. Operating income margins were 21.9 percent, compared to 22.3 percent in the same period last year.

Table of Contents

First nine months of 2012:

Sales in Consumer and Office totaled \$3.2 billion, up 2.7 percent in U.S. dollars. Organic local-currency sales increased 2.2 percent, acquisitions added 2.7 percent, and foreign currency translation reduced sales by 2.2 percent. Organic local-currency sales growth was led by the construction and home improvement and consumer health care businesses. Organic local-currency sales declined in stationery and office supplies, impacted by continued weakness in the office wholesale and retail markets. Acquisition growth was largely due to the October 2011 acquisition of the do-it-yourself and professional business of GPI Group (discussed above).

On a geographic basis, organic local-currency sales increased 9 percent in Latin America/Canada, 6 percent in Asia Pacific, and 1 percent in the United States. EMEA organic local-currency sales decreased 3 percent in the first nine months.

Consumer and Office operating income increased 5.9 percent to \$700 million. Operating income margins were 21.7 percent, compared to 21.1 percent in the same period last year, as all businesses posted operating income increases.

*Safety, Security and Protection Services Business:*

	Three months ended September 30,				Nine months ended September 30,			
	2012		2011		2012		2011	
Sales (millions)	\$	926	\$	954	\$	2,898	\$	2,894
Sales change analysis:								
Organic local currency		0.7%		8.4%		3.4%		6.3%
Acquisitions				5.7				6.3
Divestitures		(0.1)						
Translation		(3.5)		3.5		(3.3)		4.7
Total sales change		(2.9)%		17.6%		0.1%		17.3%
Operating income (millions)	\$	196	\$	202	\$	685	\$	643
Percent change		(2.8)%		22.9%		6.5%		18.2%
Percent of sales		21.1%		21.1%		23.6%		22.2%

The Safety, Security and Protection Services segment serves a broad range of markets that increase the safety, security and productivity of workers, facilities and systems. Major product offerings include personal protection products, cleaning and protection products for commercial establishments, safety and security products (including border and civil security solutions), roofing granules for asphalt shingles, infrastructure protection products used in the oil and gas pipeline markets, and track and trace solutions.

Third quarter of 2012:

## Edgar Filing: 3M CO - Form 10-Q

Safety, Security and Protection Services sales totaled \$926 million, down 2.9 percent in U.S. dollars. Organic local-currency sales grew 0.7 percent, divestitures reduced sales by 0.1 percent, and foreign currency translation reduced sales by 3.5 percent. On an organic local-currency basis, sales growth was strongest in infrastructure protection and personal safety. Sales declined year-on-year in roofing granules and security systems.

Geographically, organic local-currency sales rose 20 percent in Latin America/Canada and 2 percent in EMEA. Organic local-currency sales declined 6 percent in the United States and 4 percent in Asia Pacific.

Operating income decreased 2.8 percent to \$196 million. Operating income margins were 21.1 percent, unchanged from the third quarter of 2011.

First nine months of 2012:

Safety, Security and Protection Services sales totaled \$2.9 billion, up 0.1 percent in U.S. dollars. Organic local-currency sales grew 3.4 percent and foreign currency translation reduced sales by 3.3 percent. Organic local-currency sales grew in infrastructure protection, personal safety, building and commercial services, and roofing granules.

First nine-months 2012 organic local-currency sales declined 11 percent in security systems. As discussed in *Significant Accounting Policies* earlier in the *Results of Operations* section, 3M will continue to monitor this business to assess whether long term expectations have been significantly impacted such that an asset or goodwill impairment test would be required. The Company concluded that no such test was required for the period ended September 30, 2012.

Table of Contents

Geographically, organic local-currency sales increased 21 percent in Latin America/Canada and 2 percent in the United States. Organic local-currency sales were flat in Asia Pacific and declined 1 percent in EMEA.

The combination of selling price increases and raw material cost reductions, plus factory efficiencies, drove a 6.5 percent increase in operating income. Operating income margins increased 1.4 percentage points to 23.6 percent.

*Display and Graphics Business:*

	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Sales (millions)	\$	936	\$	935	\$	2,650	\$	2,851
Sales change analysis:								
Organic local currency		1.3%		(14.2)%		(5.7)%		(7.0)%
Acquisitions		0.8		0.1		0.3		0.1
Translation		(2.1)		1.9		(1.7)		2.5
Total sales change		%		(12.2)%		(7.1)%		(4.4)%
Operating income (millions)	\$	199	\$	179	\$	541	\$	631
Percent change		11.2%		(36.5)%		(14.2)%		(21.4)%
Percent of sales		21.2%		19.1%		20.4%		22.1%

The Display and Graphics segment serves markets that include electronic display, traffic safety and commercial graphics. This segment includes optical film solutions for LCD electronic displays; reflective sheeting for transportation safety; commercial graphics sheeting and systems; architectural surface and lighting solutions; and mobile interactive solutions, including mobile display technology, visual systems products, and computer screen films.

## Third quarter of 2012:

Sales in Display and Graphics totaled \$936 million, basically unchanged from 2011 in U.S. dollars, but did increase 6 percent when compared to the second quarter of 2012. Organic local-currency sales year-on-year increased 1.3 percent, acquisitions added 0.8 percent (discussed below), and foreign currency translation reduced sales by 2.1 percent. On an organic local-currency basis, sales declined slightly year-on-year in optical systems, but rose 15 percent when compared to the second quarter of 2012. Quarterly year-on-year comparisons are improving as 2012 progresses, as 2011 optical sales were highest in the first quarter and sequentially declined each quarter throughout 2011. 3M continued to see growth in optical films for battery-powered devices, such as smartphones and tablets. Organic local-currency sales growth increased in architectural markets, commercial graphics and traffic safety systems.

Organic local-currency sales increased 16 percent in Latin America/Canada and 3 percent in the United States. Organic local-currency sales declined slightly in both EMEA and Asia Pacific.



## Edgar Filing: 3M CO - Form 10-Q

Acquisition growth related to the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group from Federal Signal Corp. This business focuses on electronic toll collection and parking management hardware and software services.

Operating income in the third quarter of 2012 totaled \$199 million, up 11.2 percent, with the year-on-year improvement primarily related to optical systems. Operating income margins were 21.2 percent of sales, compared to 19.1 percent in the third quarter of 2011.

First nine months of 2012:

Sales in Display and Graphics were \$2.7 billion, down 7.1 percent in U.S. dollars. Organic local-currency sales decreased 5.7 percent, acquisitions added 0.3 percent, and foreign currency translation reduced sales by 1.7 percent. Optical systems sales declined 17 percent, driven by lower optical film volumes for LCD TVs. Organic local-currency sales increased in both architectural markets and commercial graphics, and were down slightly in traffic safety systems.

Organic local-currency sales increased 11 percent in Latin America/Canada and 7 percent in the United States. Organic local-currency sales declined 5 percent in EMEA and 12 percent in Asia Pacific, where the decrease in optical systems sales was a major factor.

Table of Contents

Operating income in the first nine months of 2012 totaled \$541 million, down 14.2 percent. Operating income margins were 20.4 percent of sales, compared to 22.1 percent in the first nine months of 2011, with the difference largely attributable to the decline in optical systems.

*Electro and Communications Business:*

	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Sales (millions)	\$	<b>820</b>	\$	838	\$	<b>2,452</b>	\$	2,538
Sales change analysis:								
Organic local currency		<b>0.1%</b>		0.9%		<b>(1.6)%</b>		8.2%
Acquisitions				0.1				0.1
Translation		<b>(2.2)</b>		3.4		<b>(1.8)</b>		4.3
Total sales change		<b>(2.1)%</b>		4.4%		<b>(3.4)%</b>		12.6%
Operating income (millions)	\$	<b>186</b>	\$	181	\$	<b>549</b>	\$	559
Percent change		<b>2.5%</b>		(1.0)%		<b>(1.8)%</b>		10.6%
Percent of sales		<b>22.7%</b>		21.6%		<b>22.4%</b>		22.0%

The Electro and Communications segment serves the electrical, electronics and communications industries, including electrical utilities; electrical construction, maintenance and repair; original equipment manufacturer (OEM) electrical and electronics; computers and peripherals; consumer electronics; telecommunications central office, outside plant and enterprise; as well as aerospace, military, automotive and medical markets; with products that enable the efficient transmission of electrical power and speed the delivery of information. Products include electronic and interconnect solutions, micro interconnect systems, high-performance fluids, high-temperature and display tapes, telecommunications products, electrical products, and touch screens and touch monitors.

## Third quarter of 2012:

Electro and Communications sales totaled \$820 million, down 2.1 percent in U.S. dollars. Organic local-currency sales increased 0.1 percent and foreign currency translation reduced sales by 2.2 percent. Organic local-currency sales increased in 3M's electrical markets business, which supplies connectors and related solutions to the power utility, MRO (maintenance, repair and overhaul) and OEM markets. Organic local-currency sales declined in the telecommunications markets business and consumer electronics-related businesses. On the electronics side, a number of industry product launches were delayed, contributing to lower-than-expected growth in 3M's business. Overall the industry is showing signs of recovery, but at a much slower pace than expected earlier in the year. 3M will benefit from easier year-on-year comparisons in the fourth quarter of 2012.

On a geographic basis, organic local-currency sales increased 17 percent in Latin America/Canada, 4 percent in the United States, and 1 percent in EMEA. Organic local-currency sales declined 4 percent in Asia Pacific.

Operating income increased 2.5 percent to \$186 million in the third quarter of 2012. Operating income margins were 22.7 percent, compared to 21.6 percent in the third quarter of 2011, with the year-on-year improvement in margins across all major businesses.

First nine months of 2012:

Electro and Communications sales totaled \$2.5 billion, down 3.4 percent in U.S. dollars. Organic local-currency sales declined 1.6 percent and foreign currency translation reduced sales by 1.8 percent. Organic local-currency sales declined in the consumer electronics-related businesses and telecommunications markets business. Organic local-currency sales increased in 3M's electrical markets business.

On a geographic basis, organic local-currency sales increased 12 percent in Latin America/Canada and 5 percent in the United States. Organic local-currency sales declined 4 percent in EMEA and 6 percent in Asia Pacific.

Operating income decreased 1.8 percent to \$549 million in the first nine months of 2012. Operating income margins were 22.4 percent, compared to 22.0 percent in the first nine months of 2011, with the year-on-year improvement in margins primarily related to electrical markets.

Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

As indicated in the following table, 3M's net debt at September 30, 2012 was a negative \$60 million, as cash, cash equivalents and marketable securities exceeded total debt. This compared to net debt of \$590 million at December 31, 2011. At September 30, 2012, 3M had \$6.418 billion of cash, cash equivalents, and marketable securities and \$6.358 billion of debt. Debt included \$4.852 billion of long-term debt and \$1.506 billion related to the current portion of long-term debt and other borrowings. The current portion of long-term debt includes \$500 million (principal amount) of medium-term notes due in December 2012 and \$850 million (principal amount) of medium-term notes due in August 2013. As discussed in Note 7, in June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate notes due 2017 and \$600 million aggregate principal amount of ten-year fixed rate notes due 2022. The strength of 3M's capital structure and consistency of its cash flows provide 3M reliable access to capital markets. Additionally, the Company's maturity profile is staggered to help ensure refinancing needs in any given year are reasonable in proportion to the total portfolio. The Company has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service.

The Company generates significant ongoing cash flow, which has been used, in part, to pay dividends on 3M common stock, for acquisitions, and to fund share repurchase activities. In 2011, the Company acquired Winterthur Technologie AG and other businesses for approximately \$700 million (including purchases of noncontrolling interest). 3M was able to complete these acquisitions without incurring significant additional debt, while maintaining a strong level of cash, cash equivalents and marketable securities. 2012 closed and announced acquisitions are discussed in Note 2.

(Millions)	September 30, 2012	December 31, 2011
Total Debt	\$ 6,358	\$ 5,166
Less: Cash and cash equivalents and marketable securities	6,418	4,576
Net Debt	\$ (60)	\$ 590

The Company defines net debt as total debt less the total of cash, cash equivalents and current and long-term marketable securities. 3M considers net debt to be an important measure of liquidity and of its ability to meet ongoing obligations. This measure is not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies.

The Company has sufficient liquidity to meet currently anticipated growth plans, including capital expenditures, working capital investments and acquisitions. Operating cash flow of \$3.562 billion in the first nine months of 2012 was utilized for items such as dividends paid to shareholders (\$1.228 billion), capital spending (\$977 million), and net treasury stock repurchases (\$718 million). The Company does not utilize derivative instruments linked to the Company's stock.

At September 30, 2012 and December 31, 2011, cash, cash equivalents and marketable securities held internationally totaled \$3.8 billion and \$2.7 billion, respectively, and in the United States totaled \$2.6 billion and \$1.9 billion, respectively. Cash available in the United States has historically been sufficient to fund dividend payments to shareholders and share repurchases, in addition to funding U.S. acquisitions, U.S. capital spending, U.S. pension/other postemployment benefit contributions, and other items as needed. For those international earnings considered to be reinvested indefinitely, the Company currently has no intention to repatriate these funds. If these international funds are needed for operations in the U.S., 3M would be required to accrue and pay U.S. taxes to repatriate these funds. However, for the international funds considered to be reinvested indefinitely, 3M's current plans do not indicate a need to repatriate these funds for U.S. operations.

The Company's financial condition and liquidity are strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$7.899 billion at September 30, 2012, compared with \$6.799 billion at December 31, 2011. Working capital increases were primarily attributable to increases in cash, cash equivalents, current marketable securities, accounts receivable and inventory, which were partially offset by increases in short-term borrowings and the current portion of long-term debt, accounts payable and other current liabilities.

Primary short-term liquidity needs are met through cash on hand, U.S. commercial paper and euro commercial paper issuances. The Company maintains a commercial paper program that allows 3M to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of issuance. As of September 30, 2012 and December 31,

Table of Contents

2011, 3M had no outstanding commercial paper. The Company believes it is unlikely that its access to the commercial paper market will be restricted.

In September 2012, 3M entered into a \$1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of up to \$500 million, bringing the total facility up to \$2 billion (at the lenders' discretion). This facility was undrawn at September 30, 2012. In August 2012, 3M entered into a \$150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year \$200 million committed credit facility that was entered into in August 2011. As of September 30, 2012, 3M letters of credit issued under this \$150 million committed facility totaled \$120 million. Apart from the committed facilities, an additional \$100 million in stand-alone letters of credit was also issued and outstanding at September 30, 2012. These letters of credit are utilized in connection with normal business activities. Under both the \$1.5 billion and \$150 million credit agreements, 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 total interest expense on all funded debt for the same period. At September 30, 2012, this ratio was approximately 44 to 1. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective August 5, 2011, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated February 17, 2009. In September 2011, in connection with the August 5, 2011 shelf registration statement, 3M established a \$3 billion medium-term notes program (Series F), from which 3M issued a five-year \$1 billion fixed rate note with a coupon rate of 1.375%. Proceeds were used for general corporate purposes, including repayment in November 2011 of \$800 million (principal amount) of medium-term notes. In June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022, which were both issued from this \$3 billion medium-term notes program (Series F). The designated use of proceeds is for general corporate purposes.

In connection with a prior well-known seasoned issuer shelf registration, in June 2007 the Company established a \$3 billion medium-term notes program (Series E). Three debt securities have been issued under this medium-term notes program. First, in December 2007, 3M issued a five-year, \$500 million, fixed rate note with a coupon rate of 4.65%. Second, in August 2008, 3M issued a five-year, \$850 million, fixed rate note with a coupon rate of 4.375%. Third, in October 2008, the Company issued a three-year \$800 million, fixed rate note with a coupon rate of 4.50%. The Company entered into interest rate swaps to convert this \$800 million note to a floating rate. This three-year fixed rate note and related interest rate swaps matured in the fourth quarter of 2011.

3M's strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M has a long history of dividend increases. In February 2012, 3M's Board of Directors increased the quarterly dividend on 3M common stock by 7.3 percent to 59 cents per share, equivalent to an annual dividend of \$2.36 per share. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. At September 30, 2012, the Company has \$3.2 billion remaining under the current authorization.

For total year 2012, the Company plans to contribute approximately \$1 billion of cash to its U.S. and international pension and postretirement plans. For the nine months ended September 30, 2012, contributions totaling \$853 million were made to the Company's U.S. and international pension plans and \$65 million to its postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2012. Therefore, the amount of future discretionary contributions could vary significantly depending on the U.S. qualified plans' funded status as of the 2012 measurement date and the anticipated tax deductibility of the contributions. Future contributions will also

## Edgar Filing: 3M CO - Form 10-Q

depend on market conditions, interest rates and other factors. 3M believes its strong cash flow and balance sheet will allow it to fund future pension needs without compromising growth opportunities.

The Company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. These measures are not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventory and accounts payable. This combined index (defined as current quarterly net sales multiplied by four, divided by the sum of ending net accounts receivable plus inventory less accounts payable) was 4.7 at September 30, 2012, down from 5.0 and 4.9, respectively, at December 31, 2011 and September 30, 2011. Receivables increased \$542 million, or 14 percent, compared with December 31, 2011,

Table of Contents

with higher September 2012 sales compared to December 2011 sales contributing to this increase. Inventories increased \$426 million, or 12 percent, compared with December 31, 2011. At September 30, 2012 compared with December 31, 2011, the combination of currency translation and acquisitions increased accounts receivable by \$50 million and inventories by \$59 million. As indicated in the next section (cash flows from operating activities), accounts receivable increased at a lower level and inventories increased at a similar level when compared to the first nine months of 2011. Accounts payable increased \$162 million compared with December 31, 2011, with currency translation and acquisitions accounting for \$21 million of this increase and the balance primarily related to changes in business activity.

Cash flows from operating, investing and financing activities are provided in the tables that follow. Individual amounts in the Consolidated Statement of Cash Flows exclude the effects of acquisitions, divestitures and exchange rate impacts on cash and cash equivalents, each of which are presented separately in the cash flows. Thus, the amounts presented in the following operating, investing and financing activities tables reflect changes in balances from period to period adjusted for these effects.

***Cash Flows from Operating Activities:***

(Millions)	Nine months ended September 30,	
	2012	2011
Net income including noncontrolling interest	\$ 3,507	\$ 3,383
Depreciation and amortization	956	919
Company pension contributions	(853)	(310)
Company postretirement contributions	(65)	(63)
Company pension expense	403	321
Company postretirement expense	87	79
Stock-based compensation expense	181	210
Income taxes (deferred and accrued income taxes)	41	175
Excess tax benefits from stock-based compensation	(53)	(52)
Accounts receivable	(493)	(557)
Inventories	(368)	(364)
Accounts payable	141	(30)
Product and other insurance receivables and claims	(11)	(45)
Other net	89	(120)
Net cash provided by operating activities	\$ 3,562	\$ 3,546

Cash flows from operating activities can fluctuate significantly from period to period, as pension funding decisions, tax timing differences and other items can significantly impact cash flows.

In the first nine months of 2012, cash flows provided by operating activities increased \$16 million compared to the first nine months of 2011. 3M was able to achieve this growth in operating cash flow despite contributing an additional \$545 million in its pension and postretirement plans when compared to the same period last year. Working capital (which includes accounts receivable, inventories and accounts payable), increased \$720 million in the first nine months of 2012 compared to working capital increases of \$951 million in the first nine months of 2011. Additional discussion on working capital changes is provided towards the end of the preceding Financial Condition and Liquidity section.



*Free Cash Flow (non-GAAP measure):*

In addition to net cash provided by operating activities, 3M uses free cash flow as a useful measure of performance and as an indication of the strength of the Company and its ability to generate cash. 3M defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment (which is classified as an investing activity). Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. Below find a recap of free cash flow for the nine months ended September 30, 2012 and 2011.

Table of Contents

(Millions)	Nine months ended September 30,	
	2012	2011
Net cash provided by operating activities	\$ 3,562	\$ 3,546
Purchases of property, plant and equipment (PP&E)	(977)	(862)
Free Cash Flow	\$ 2,585	\$ 2,684

*Cash Flows from Investing Activities:*

(Millions)	Nine months ended September 30,	
	2012	2011
Purchases of property, plant and equipment (PP&E)	\$ (977)	\$ (862)
Proceeds from sale of PP&E and other assets	15	12
Acquisitions, net of cash acquired	(248)	(531)
Purchases and proceeds from sale or maturities of marketable securities and investments, net	(938)	(197)
Other investing	14	(6)
Net cash used in investing activities	\$ (2,134)	\$ (1,584)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital expenditures were \$977 million in the first nine months of 2012, an increase of \$115 million when compared to the first nine months of 2011. 3M's capital spending is increasingly shifting toward international markets and, in particular, fast-growing developing economies, as 3M continues to migrate manufacturing to better balance sales with manufacturing capability. The Company expects 2012 capital spending to be approximately \$1.5 billion.

Refer to Note 2 for information on acquisitions. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses.

Purchases of marketable securities and investments and proceeds from sale (or maturities) of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. 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. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 6 for more details about 3M's diversified marketable securities portfolio, which totaled \$3.389 billion as of September 30, 2012. Purchases of marketable securities and investments, net of proceeds from sales or maturities, totaled \$938 million in the first nine months of 2012 and \$197 million in the first nine months of 2011. Purchases of investments also include additional survivor benefit insurance and equity investments.



Table of Contents*Cash Flows from Financing Activities:*

(Millions)	Nine months ended September 30,	
	2012	2011
Change in short-term debt net	\$ (36)	\$ (13)
Repayment of debt (maturities greater than 90 days)	(18)	(474)
Proceeds from debt (maturities greater than 90 days)	1,251	1,108
Total cash change in debt	\$ 1,197	\$ 621
Purchases of treasury stock	(1,490)	(2,207)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	772	865
Dividends paid to stockholders	(1,228)	(1,171)
Excess tax benefits from stock-based compensation	53	52
Other net	(18)	(58)
Net cash used in financing activities	\$ (714)	\$ (1,898)

Total debt at September 30, 2012, was \$6.4 billion, up \$1.2 billion from year-end 2011. Total debt was 26 percent of total capital (total capital is defined as debt plus equity) at September 30, 2012, compared to 25 percent of total capital at year-end 2011. Repayment of debt in the first nine months of 2012 was minimal. Repayment of debt in the first nine months of 2011 includes redemption of Convertible Notes, repayment of a portion of debt related to the 5.8 billion Japanese Yen note, repayment of a portion of the Canadian Dollar loan, and repayment of a portion of debt that was acquired, primarily related to the Winterthur acquisition. Proceeds from debt in the first nine months of 2012 related to the June 2012 issuance of \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022 (refer to Note 7 for further detail). Proceeds from debt in the first nine months of 2011 primarily relate to issuance of a \$1 billion medium term note and an amendment to a Canada loan agreement which increased the principal amount of the loan by 100.5 million Canadian Dollars.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In the first nine months of 2012, the Company purchased \$1.490 billion of treasury stock compared to \$2.207 billion of treasury stock in the first nine months of 2011. As of September 30, 2012, approximately \$3.2 billion of 3M common stock remained available for repurchase under the February 2011 repurchase authorization of \$7.0 billion, which has no pre-established end date. For more information, refer to the table titled Issuer Purchases of Equity Securities in Part II, Item 2.

Cash dividends paid to stockholders totaled \$1.228 billion in the first nine months of 2012 compared to \$1.171 billion in the first nine months of 2011. 3M has paid dividends since 1916. In February 2012, the Board of Directors increased the quarterly dividend on 3M common stock by 7.3 percent to 59 cents per share, equivalent to an annual dividend of \$2.36 per share. This marked the 54th consecutive year of dividend increases.

In addition to the items described below, other cash flows from financing activities may include various other items, such as distributions to or sales of noncontrolling interests, changes in cash overdraft balances, and principal payments for capital leases.

In the first nine months of 2011, subsequent to acquiring a controlling interest in Winterthur, 3M purchased additional outstanding shares of its Winterthur subsidiary for \$50 million, increasing 3M's ownership interest from approximately 86 percent to approximately 98 percent as of September 30, 2011 (subsequently increased to 100 percent as of December 31, 2011). These additional purchases are reflected as other

financing activities in the statement of cash flows. In addition, during the first nine months of 2011 and 2012, 3M sold a noncontrolling interest in a newly formed subsidiary and purchased the remaining noncontrolling interest of another subsidiary, both for immaterial amounts, which were also classified as other financing activities in the consolidated statement of cash flows.

**CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may also make forward-looking statements in other reports filed with the

Table of Contents

Securities and Exchange Commission, in materials delivered to shareholders and in press releases. In addition, the Company's representatives may from time to time make oral forward-looking statements.

Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as plan, expect, aim, believe, project, target, anticipate, intend, estimate, will, should, could and other words having similar meaning, typically identify such forward-looking statements. In particular, these include, among others, statements relating to the Company's

- strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position,
- worldwide economic and capital markets conditions, such as interest rates, foreign currency exchange rates, financial conditions of our suppliers and customers, and natural and other disasters affecting the operations of the Company or our suppliers and customers,
- new business opportunities, product development, and future performance or results of current or anticipated products,
- the scope, nature or impact of acquisition, strategic alliance and divestiture activities,
- the outcome of contingencies, such as legal and regulatory proceedings,
- future levels of indebtedness, common stock repurchases and capital spending,
- future availability of and access to credit markets,
- pension and postretirement obligation assumptions and future contributions, asset impairments, tax liabilities, information technology security, and
- the effects of changes in tax, environmental and other laws and regulations in the United States and other countries in which we operate.

The Company assumes no obligation to update or revise any forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Important information as to these factors can be found in this document, including, among others, Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings of Overview, Financial Condition and Liquidity and annually in Critical Accounting Estimates. Discussion of these factors is incorporated by reference from Part II, Item 1A, Risk Factors, of this document, and should be considered an integral part of Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

In the context of Item 3, 3M is exposed to market risk due to the risk of loss arising from adverse changes in foreign currency exchange rates, interest rates and commodity prices. Changes in those factors could cause fluctuations in earnings and cash flows. Senior management provides oversight for risk management and derivative activities, determines certain of the Company's financial risk policies and objectives, and provides guidelines for derivative instrument utilization. Senior management also establishes certain associated procedures relative to control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties.

Foreign Exchange Rates Risk:

Foreign currency exchange rates and fluctuations in those rates may affect the Company's net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. 3M is also exposed to the translation of foreign currency earnings to the U.S. dollar. The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The

Table of Contents

maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at September 30, 2012, the majority of the Company's open foreign exchange forward and option contracts had maturities of one year or less. In addition, 3M enters into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements). As circumstances warrant, the Company also uses cross currency swaps, forwards and foreign currency denominated debt as hedging instruments to hedge portions of the Company's net investments in foreign operations. The dollar equivalent gross notional amount of the Company's foreign exchange forward and option contracts designated as cash flow hedges and those not designated as hedging instruments were \$6.5 billion and \$1.2 billion, respectively, at September 30, 2012. As of September 30, 2012, the Company had no cross currency swap and foreign currency forward contracts designated as net investment hedges, but had designated certain of 3M's foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges as discussed in Note 9 in the Net Investment Hedges section.

Interest Rates Risk:

The Company may be impacted by interest rate volatility with respect to existing debt and future debt issuances. 3M manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps that are designated and qualify as fair value hedges. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at September 30, 2012 was \$342 million. Additional details about 3M's long-term debt can be found in Note 10 in 3M's 2011 Annual Report on Form 10-K, including references to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt.

Commodity Prices Risk:

Certain commodities the Company uses in the production of its products are exposed to market price risks. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. 3M also enters into commodity price swaps that are not designated in hedge relationships to offset, in part, the impacts of fluctuations in costs associated with the use of certain precious metals.

The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges and precious metal commodity price swaps not designated in hedge relationships were \$19 million and \$3 million, respectively, at September 30, 2012.

Value At Risk:

The value at risk analysis is performed annually. A Monte Carlo simulation technique was used to test the Company's exposure to changes in currency rates, interest rates, and commodity prices and assess the risk of loss or benefit in after-tax earnings of financial instruments (primarily debt), derivatives and underlying exposures outstanding at December 31, 2011. The model (third-party bank dataset) used a 95 percent confidence level over a 12-month time horizon. The model used analyzed 18 currencies, interest rates related to two currencies, and five



## Edgar Filing: 3M CO - Form 10-Q

commodities, but does not purport to represent what actually will be experienced by the Company. This model does not include certain hedge transactions, because the Company believes their inclusion would not materially impact the results. Foreign exchange rate risk of loss or benefit increased in 2011, primarily due to increases in exposures, which is one of the key drivers in the valuation model. Interest rate volatility decreased in 2011 because interest rates are currently very low and are projected to remain low, based on forward rates. The following table summarizes the possible adverse and positive impacts to after-tax earnings related to these exposures.

(Millions)	Adverse impact on after-tax earnings		Positive impact on after-tax earnings	
	2011	2010	2011	2010
Foreign exchange rates	\$ (131)	\$ (108)	\$ 146	\$ 120
Interest rates	(2)	(4)	2	4
Commodity prices	(10)	(15)	7	12

Table of Contents

In addition to the possible adverse and positive impacts discussed in the preceding table related to foreign exchange rates, recent historical information is as follows. 3M estimates that year-on-year currency effects, including hedging impacts, had the following effects on net income attributable to 3M: first nine-months 2012 (\$104 million decrease), full-year 2011 (\$154 million increase) and full-year 2010 (\$15 million increase). This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses had the following effects on net income attributable to 3M: first nine-months 2012 (\$38 million increase), full-year 2011 (immaterial impact) and full-year 2010 (\$115 million decrease).

An analysis of the global exposures related to purchased components and materials is performed at each year-end. A one percent price change would result in a pre-tax cost or savings of approximately \$71 million per year. The global energy exposure is such that a 10 percent price change would result in a pre-tax cost or savings of approximately \$43 million per year.

Table of Contents

**Item 4. Controls and Procedures.**

a. The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

b. There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is implementing an enterprise resource planning ( ERP ) system on a worldwide basis, which is expected to improve the efficiency of certain financial and related transaction processes. The gradual implementation is expected to occur in phases over the next several years. The implementation of a worldwide ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

The Company completed implementation with respect to elements of certain processes/sub-processes in limited subsidiaries/locations and will continue to roll-out the ERP system over the next several years. As with any new information technology application we implement, this application, along with the internal controls over financial reporting included in this process, was appropriately considered within the testing for effectiveness with respect to the implementation in these instances. We concluded, as part of our evaluation described in the above paragraphs, that the implementation of ERP in these circumstances has not materially affected our internal control over financial reporting.

Table of Contents

**3M COMPANY**

**FORM 10-Q**

**For the Quarterly Period Ended September 30, 2012**

**PART II. Other Information**

**Item 1. Legal Proceedings.**

Discussion of legal matters is incorporated by reference from Part I, Item 1, Note 11, Commitments and Contingencies, of this document, and should be considered an integral part of Part II, Item 1, Legal Proceedings.

**Item 1A. Risk Factors.**

Provided below is a cautionary discussion of what we believe to be the most important risk factors applicable to the Company. Discussion of these factors is incorporated by reference into and considered an integral part of Part I, Item 2, Management's Discussion and Analysis of Financial Conditions and Results of Operations.

*\* Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 65 countries and derives approximately two-thirds of its revenues from outside the United States. The Company's business is subject to global competition and may be adversely affected by factors in the United States and other countries that are beyond its control, such as disruptions in financial markets, economic downturns in the form of either contained or widespread recessionary conditions, elevated unemployment levels, sluggish or uneven recovery, in specific countries or regions, or in the various industries in which the Company operates; social, political or labor conditions in specific countries or regions; natural and other disasters affecting the operations of the Company or its customers and suppliers; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

*\* The Company's credit ratings are important to 3M's cost of capital.* The major rating agencies routinely evaluate the Company's credit profile and assign debt ratings to 3M. The Company currently has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company's current ratings have served to lower 3M's borrowing costs and facilitate access to a variety of lenders. Failure to maintain the current ratings level would adversely affect the Company's cost of funds and could adversely affect liquidity and access to capital markets.

*\* The Company's results are affected by competitive conditions and customer preferences.* Demand for the Company's products, which impacts revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products; (ii) the Company's response to downward pricing to stay competitive; (iii) changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases which may be affected by announced price changes, changes in the Company's incentive

programs, or the customer's ability to achieve incentive goals; and (iv) changes in customer's preferences for our products, including the success of products offered by our competitors, and changes in customer designs for their products that can affect the demand for some of the Company's products.

*\* Foreign currency exchange rates and fluctuations in those rates may affect the Company's ability to realize projected growth rates in its sales and earnings.* Because the Company's financial statements are denominated in U.S. dollars and approximately two-thirds of the Company's revenues are derived from outside the United States, the Company's results of operations and its ability to realize projected growth rates in sales and earnings could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

*\* The Company's growth objectives are largely dependent on the timing and market acceptance of its new product offerings, including its ability to continually renew its pipeline of new products and to bring those products to market.* This ability may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection, or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful.

*\* The Company's future results are subject to fluctuations in the costs and availability of purchased components, compounds, raw materials and energy, including oil and natural gas and their derivatives, due to shortages, increased demand, supply interruptions, currency exchange risks, natural disasters and other factors.* The Company depends on various components, compounds, raw materials, and energy (including oil and natural gas and their derivatives) supplied by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due

Table of Contents

to natural and other disasters and other events, or be terminated in the future. Any sustained interruption in the Company's receipt of adequate supplies could have a material adverse effect on the Company. In addition, while the Company has a process to minimize volatility in component and material pricing, no assurance can be given that the Company will be able to successfully manage price fluctuations or that future price fluctuations or shortages will not have a material adverse effect on the Company.

*\* Acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring could affect future results.* The Company monitors its business portfolio and organizational structure and has made and may continue to make acquisitions, strategic alliances, divestitures and changes to its organizational structure. With respect to acquisitions, future results will be affected by the Company's ability to integrate acquired businesses quickly and obtain the anticipated synergies.

*\* The Company's future results may be affected if the Company generates fewer productivity improvements than estimated.* The Company utilizes various tools, such as Lean Six Sigma, to improve operational efficiency and productivity. There can be no assurance that all of the projected productivity improvements will be realized.

*\* Security breaches and other disruptions to the Company's information technology infrastructure could interfere with the Company's operations, compromise information belonging to the Company and its customers and suppliers, and expose the Company to liability which could adversely impact the Company's business and reputation.* In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company's reputation, which could adversely affect the Company's business.

*\* The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, environmental, the U.S. Foreign Corrupt Practices Act and other anti-bribery, anti-corruption, or other matters.* The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period. For a more detailed discussion of the legal proceedings involving the Company and the associated accounting estimates, see the discussion in Note 11 Commitments and Contingencies within the Notes to Consolidated Financial Statements.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****(e) Issuer Purchases of Equity Securities**

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2011, 3M's Board of Directors replaced the Company's existing repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$7.0 billion of 3M's outstanding common stock, with no pre-established end date.

**Issuer Purchases of Equity****Securities (registered pursuant to****Section 12 of the Exchange Act)**

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)</b>
January 1-31, 2012	1,263,561	\$ 84.83	1,252,356	\$ 4,483
February 1-29, 2012	2,396,317	\$ 87.73	1,745,000	\$ 4,330
March 1-31, 2012	2,466,062	\$ 87.94	2,433,944	\$ 4,116
Total January 1-March 31, 2012	6,125,940	\$ 87.22	5,431,300	\$ 4,116
April 1-30, 2012	2,452,708	\$ 87.24	2,434,773	\$ 3,904
May 1-31, 2012	2,654,275	\$ 85.98	2,363,345	\$ 3,701
June 1-30, 2012	2,218,795	\$ 85.99	2,212,897	\$ 3,511
Total April 1-June 30, 2012	7,325,778	\$ 86.41	7,011,015	\$ 3,511
July 1-31, 2012	1,588,973	\$ 88.99	1,584,376	\$ 3,370
August 1-31, 2012	1,087,478	\$ 92.11	1,066,823	\$ 3,271
September 1-30, 2012	807,242	\$ 92.39	796,874	\$ 3,198
Total July 1-September 30, 2012	3,483,693	\$ 90.75	3,448,073	\$ 3,198
Total January 1-September 30, 2012	16,935,411	\$ 87.59	15,890,388	\$ 3,198

(1) The total number of shares purchased includes: (i) shares purchased under the Board's authorizations described above, and (ii) shares purchased in connection with the exercise of stock options.

(2) The total number of shares purchased as part of publicly announced plans or programs includes shares purchased under the Board's authorizations described above.

**Item 3. Defaults Upon Senior Securities.** No matters require disclosure.

**Item 4. Mine Safety Disclosures.** Pursuant to Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), the Company is required to disclose, in connection with the mines it operates, information concerning mine safety violations or other regulatory matters in its periodic reports filed with the SEC. The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Act is included in Exhibit 95 to this quarterly report.

**Item 5. Other Information.** No matters require disclosure.



Table of Contents

**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed herewith with this report. Exhibit numbers 10.1 through 10.37 are management contracts or compensatory plans or arrangements.

**Index to Exhibits:**

- (3) Articles of Incorporation and bylaws
  - (3.1) Certificate of incorporation, as amended as of May 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.
  - (3.2) Bylaws, as amended as of February 10, 2009, are incorporated by reference from our Form 8-K dated February 12, 2009.
  
- (4) Instruments defining the rights of security holders, including indentures:
  - (4.1) Indenture, dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 8-K dated December 7, 2000.
  - (4.2) First Supplemental Indenture, dated as of July 29, 2011, to Indenture dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2011.
  
- (10) Material contracts and management compensation plans and arrangements:
  - (10.1) 3M 2008 Long-Term Incentive Plan (including amendments through February 2010) is incorporated by reference from our Form 8-K dated May 12, 2010.
  - (10.2) Form of Agreement for Stock Option Grants to Executive Officers under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated May 13, 2008.
  - (10.3) Form of Stock Option Agreement for options granted to Executive Officers under the 3M 2008 Long-Term Incentive Plan, commencing February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
  - (10.4) Form of Restricted Stock Unit Agreement for restricted stock units granted to Executive Officers under the 3M Long-Term Incentive Plan, effective February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
  - (10.5) Form of 3M 2010 Performance Share Award under the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated March 4, 2010.
  - (10.6) Form of Stock Option Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
  - (10.7) Form of Restricted Stock Unit Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.

## Edgar Filing: 3M CO - Form 10-Q

- (10.8) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan – transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.9) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.10) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.11) Amendments of 3M 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.12) Form of award agreement for non-qualified stock options granted under the 2005 Management Stock Ownership Program, is incorporated by reference from our Form 8-K dated May 16, 2005.
- (10.13) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.14) 3M 1997 General Employees – Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 3M Board resolution dated May 12, 2009, regarding three-year extension of 3M 1997 General Employees – Stock Purchase Plan is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2009.

## Edgar Filing: 3M CO - Form 10-Q

### Table of Contents

- (10.16) Amendment of the 3M 1997 General Employees Stock Purchase Plan approved on February 9, 2010 is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.17) 3M Board resolution dated February 7, 2012 extending for three additional one-year periods the General Employees Stock Purchase Plan, is incorporated by reference from our Form 10-K for the year ended December 31, 2011.
- (10.18) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.19) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.20) 3M VIP (Voluntary Investment Plan) Plus is incorporated by reference from Registration Statement No. 333-73192 on Form S-8, filed on November 13, 2001.
- (10.21) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.22) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.23) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.24) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.25) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.26) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.27) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.28) 3M Compensation Plan for Non-Employee Directors, as amended, through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.29) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.30) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.31) Summary of Personal Financial Planning Services for 3M Executives is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.32) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.33) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.34) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.35) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.36) Appointment and Compensatory arrangements between 3M and David W. Meline are incorporated by reference from our Form 8-K dated July 23, 2008.
- (10.37) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.38) Amended and restated five-year credit agreement as of September 28, 2012, is incorporated by reference from our Form 8-K dated October 3, 2012.
- (10.39) Letter of credit agreement as of August 24, 2012 is incorporated by reference from our Form 8-K dated August 29, 2012.
- (10.40) Registration Rights Agreement as of August 4, 2009, between 3M Company and State Street Bank and Trust Company as Independent Fiduciary of the 3M Employee Retirement Income Plan, is incorporated by reference from our Form 8-K dated August 5, 2009.

Filed herewith:

- (12) Calculation of ratio of earnings to fixed charges.
- (15) A letter from the Company's independent registered public accounting firm regarding unaudited interim consolidated financial statements.
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (31.2)

Edgar Filing: 3M CO - Form 10-Q

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

Table of Contents

- (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (95) Mine Safety Disclosures.
- (101) The following financial information from 3M Company's Quarterly Report on Form 10-Q for the period ended September 30, 2012, filed with the SEC on November 1, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month and nine-month periods ended September 30, 2012 and 2011, (ii) the Consolidated Statement of Comprehensive Income for the three-month and nine-month periods ended September 30, 2012 and 2011 (iii) the Consolidated Balance Sheet at September 30, 2012 and December 31, 2011, (iv) the Consolidated Statement of Cash Flows for the nine-month periods ended September 30, 2012 and 2011, and (v) Notes to Consolidated Financial Statements.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

3M COMPANY

(Registrant)

Date: November 1, 2012

By /s/ David W. Meline  
David W. Meline,  
Senior Vice President and Chief Financial Officer  
(Mr. Meline is the Principal Financial Officer and has  
been duly authorized to sign on behalf of the Registrant.)