

3M CO  
Form 10-Q  
August 01, 2013  
[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 June 30, 2013**

**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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Class	Outstanding at June 30, 2013
Common Stock, \$0.01 par value per share	683,468,043 shares

This document (excluding exhibits) contains 76 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 73.

Table of Contents

## 3M COMPANY

Form 10-Q for the Quarterly Period Ended June 30, 2013

## TABLE OF CONTENTS

	<b>BEGINNING PAGE</b>
<b><u>PART I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Financial Statements</u></b>
	<b><u>Index to Financial Statements:</u></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 and Divestitures</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. Supplemental Cash Flow Information</u> 17
	<u>Note 6. Income Taxes</u> 18
	<u>Note 7. Marketable Securities</u> 19
	<u>Note 8. Pension and Postretirement Benefit Plans</u> 21
	<u>Note 9. Derivatives</u> 23
	<u>Note 10. Fair Value Measurements</u> 31
	<u>Note 11. Commitments and Contingencies</u> 35
	<u>Note 12. Stock-Based Compensation</u> 44
	<u>Note 13. Business Segments</u> 48
	<u>Report of Independent Registered Public Accounting Firm</u> 50
<b><u>ITEM 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>
	<b><u>Index to Management's Discussion and Analysis:</u></b>
	<u>Overview</u> 51
	<u>Results of Operations</u> 54
	<u>Performance by Business Segment</u> 57
	<u>Financial Condition and Liquidity</u> 63
	<u>Cautionary Note Concerning Factors That May Affect Future Results</u> 68
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 68
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b> 69
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b> 70
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b> 70
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 72
<b><u>ITEM 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 72

Edgar Filing: 3M CO - Form 10-Q

<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	72
<u>ITEM 5.</u>	<u>Other Information</u>	72
<u>ITEM 6.</u>	<u>Exhibits</u>	73

Table of Contents

## 3M COMPANY

## FORM 10-Q

For the Quarterly Period Ended June 30, 2013

## PART I. Financial Information

Item 1. Financial Statements.

## 3M Company and Subsidiaries

## Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 7,752	\$ 7,534	\$ 15,386	\$ 15,020
Operating expenses				
Cost of sales	4,013	3,870	7,982	7,759
Selling, general and administrative expenses	1,610	1,528	3,199	3,080
Research, development and related expenses	427	408	857	819
Total operating expenses	6,050	5,806	12,038	11,658
Operating income	1,702	1,728	3,348	3,362
Interest expense and income				
Interest expense	41	43	80	83
Interest income	(10)	(10)	(20)	(19)
Total interest expense net	31	33	60	64
Income before income taxes	1,671	1,695	3,288	3,298
Provision for income taxes	458	509	928	971
Net income including noncontrolling interest	\$ 1,213	\$ 1,186	\$ 2,360	\$ 2,327
Less: Net income attributable to noncontrolling interest	16	19	34	35
Net income attributable to 3M	\$ 1,197	\$ 1,167	\$ 2,326	\$ 2,292
Weighted average 3M common shares outstanding basic	688.2	694.3	689.6	695.5
Earnings per share attributable to 3M common shareholders basic	\$ 1.74	\$ 1.68	\$ 3.37	\$ 3.30
Weighted average 3M common shares outstanding diluted	699.1	702.6	700.6	704.4
Earnings per share attributable to 3M common shareholders diluted	\$ 1.71	\$ 1.66	\$ 3.32	\$ 3.25

Edgar Filing: 3M CO - Form 10-Q

Cash dividends paid per 3M common share	\$	<b>0.635</b>	\$	0.59	\$	<b>1.27</b>	\$	1.18
---	----	--------------	----	------	----	-------------	----	------

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income including noncontrolling interest	\$ 1,213	\$ 1,186	\$ 2,360	\$ 2,327
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	(279)	(335)	(677)	(201)
Defined benefit pension and postretirement plans adjustment	91	98	176	195
Debt and equity securities, unrealized gain (loss)	(4)	(2)	(4)	1
Cash flow hedging instruments, unrealized gain (loss)	8	23	32	8
Total other comprehensive income (loss), net of tax	(184)	(216)	(473)	3
Comprehensive income (loss) including noncontrolling interest	1,029	970	1,887	2,330
Comprehensive (income) loss attributable to noncontrolling interest	3	(30)	23	(25)
Comprehensive income (loss) attributable to 3M	\$ 1,032	\$ 940	\$ 1,910	\$ 2,305

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>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,942	\$ 2,883
Marketable securities - current	1,310	1,648
Accounts receivable - net	4,542	4,061
Inventories		
Finished goods	1,792	1,754
Work in process	1,222	1,186
Raw materials and supplies	905	897
Total inventories	3,919	3,837
Other current assets	1,270	1,201
Total current assets	13,983	13,630
Marketable securities - non-current	1,542	1,162
Investments	154	163
Property, plant and equipment	22,417	22,525
Less: Accumulated depreciation	(14,088)	(14,147)
Property, plant and equipment - net	8,329	8,378
Goodwill	7,231	7,385
Intangible assets - net	1,786	1,925
Prepaid pension benefits	22	16
Other assets	1,083	1,217
Total assets	\$ 34,130	\$ 33,876
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,062	\$ 1,085
Accounts payable	1,920	1,762
Accrued payroll	589	701
Accrued income taxes	460	371
Other current liabilities	2,304	2,281
Total current liabilities	6,335	6,200
Long-term debt	4,884	4,916
Pension and postretirement benefits	2,909	3,086
Other liabilities	1,683	1,634
Total liabilities	\$ 15,811	\$ 15,836
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	4,243	4,044
Retained earnings	31,716	30,679
	(12,926)	(12,407)



Edgar Filing: 3M CO - Form 10-Q

Treasury stock, at cost: 260,565,013 shares at June 30, 2013; 256,941,406 shares at December 31, 2012

Accumulated other comprehensive income (loss)		<b>(5,166)</b>		(4,750)
Total 3M Company shareholders' equity		<b>17,876</b>		17,575
Noncontrolling interest		<b>443</b>		465
Total equity	\$	<b>18,319</b>	\$	18,040
Total liabilities and equity	\$	<b>34,130</b>	\$	33,876

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)	Six months ended June 30,	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 2,360	\$ 2,327
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	671	634
Company pension and postretirement contributions	(171)	(672)
Company pension and postretirement expense	275	335
Stock-based compensation expense	150	145
Deferred income taxes	37	86
Excess tax benefits from stock-based compensation	(51)	(41)
Changes in assets and liabilities		
Accounts receivable	(628)	(553)
Inventories	(167)	(268)
Accounts payable	199	150
Accrued income taxes (current and long-term)	166	226
Product and other insurance receivables and claims	19	(63)
Other net	(187)	(89)
Net cash provided by operating activities	2,673	2,217
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(718)	(619)
Proceeds from sale of PP&E and other assets	18	8
Acquisitions, net of cash acquired		(144)
Purchases of marketable securities and investments	(3,000)	(2,311)
Proceeds from sale of marketable securities and investments	1,464	1,027
Proceeds from maturities of marketable securities	1,484	1,181
Proceeds from sale of businesses	8	
Other investing	4	4
Net cash used in investing activities	(740)	(854)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	(12)	(34)
Repayment of debt (maturities greater than 90 days)	(12)	(18)
Proceeds from debt (maturities greater than 90 days)	11	1,244
Purchases of treasury stock	(1,995)	(1,163)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	1,103	479
Dividends paid to shareholders	(876)	(820)
Excess tax benefits from stock-based compensation	51	41
Other net	3	
Net cash used in financing activities	(1,727)	(271)
Effect of exchange rate changes on cash and cash equivalents	(147)	(3)
Net increase (decrease) in cash and cash equivalents	59	1,089
Cash and cash equivalents at beginning of year	2,883	2,219

Edgar Filing: 3M CO - Form 10-Q

Cash and cash equivalents at end of period	\$	2,942	\$	3,308
--	----	-------	----	-------

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.

As described in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2013, during the first quarter of 2013 the Company completed a realignment of its business segments to better serve global markets and customers (refer to Note 13 herein). In addition, during the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States rather than in Latin America/Canada region. Segment and geographic information presented herein reflects the impact of these changes for all periods presented. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its Current Report on Form 8-K dated May 16, 2013.

**Foreign Currency Translation**

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

Although local currencies are typically considered as the functional currencies outside the United States, under Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, the reporting currency of a foreign entity's parent is assumed to be that entity's functional currency when the economic environment of a foreign entity is highly inflationary—generally when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. 3M has a subsidiary in Venezuela with operating income representing less than 1.0 percent of 3M's consolidated operating income for 2012. 3M has determined that the cumulative inflation rate of Venezuela has exceeded, and continues to exceed, 100 percent since November 2009. Accordingly, since January 1, 2010, the financial statements of the Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent.

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

Regulations in Venezuela require the purchase and sale of foreign currency to be made at official rates of exchange that are fixed from time to time by the Venezuelan government. Certain laws in the country had, however, provided an exemption for the purchase and sale of certain securities that resulted in an indirect parallel market through which companies obtained foreign currency without having to purchase it from Venezuela's Commission for the Administration of Foreign Exchange (CADIVI). However, in 2010, the Venezuelan government took control of the previously freely-traded parallel market and created a government-controlled rate under the Transaction System for Foreign Currency Denominated Securities (SITME). In February 2013, the Venezuelan government announced a devaluation of its currency, the elimination of the SITME market, and the creation of the Superior Body for the Optimization of the Exchange System to oversee its foreign currency exchange policies. As a result, the new official exchange rate changed to a rate less favorable than the previous SITME rate. Since January 1, 2010, as discussed above, the financial statements of 3M's Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent. This remeasurement utilized the parallel rate through May 2010, the SITME rate through January 2013, and the new official rate discussed above thereafter.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Other factors notwithstanding, the elimination of the SITME rate and use of the new official exchange rate beginning in February 2013 did not have a material impact on 3M's consolidated results of operations or financial condition.

Table of Contents**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 (3.7 million average options for the three months ended June 30, 2013; 3.9 million average options for the six months ended June 30, 2013; 21.3 million average options for the three months ended June 30, 2012; and 20.3 million average options for the six months ended June 30, 2012). The computations for basic and diluted earnings per share follow:

**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net income attributable to 3M	\$ 1,197	\$ 1,167	\$ 2,326	\$ 2,292
Denominator:				
Denominator for weighted average 3M common shares outstanding basic	688.2	694.3	689.6	695.5
Dilution associated with the Company's stock-based compensation plans	10.9	8.3	11.0	8.9
Denominator for weighted average 3M common shares outstanding diluted	699.1	702.6	700.6	704.4
Earnings per share attributable to 3M common shareholders basic	\$ 1.74	\$ 1.68	\$ 3.37	\$ 3.30
Earnings per share attributable to 3M common shareholders diluted	\$ 1.71	\$ 1.66	\$ 3.32	\$ 3.25

**New Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, and in January 2013 issued ASU No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. These standards created new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements are required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, these ASUs were effective January 1, 2013 with retrospective application required. The additional disclosures required by these ASUs are included in Note 9. Since these standards impact disclosure requirements only, their adoption did not have a material impact on 3M's consolidated results of operations or financial condition.

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

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 was effective beginning January 1, 2013. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under this standard, entities are required to disclose additional information with respect to

Table of Contents

changes in accumulated other comprehensive income (AOCI) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income (for example, unrealized gains or losses on available for sale debt and equity securities) as well as presenting separately for each such component the portion of change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location is required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts is required only for components of AOCI reclassified into income in their entirety. Therefore, disclosure of the income statement line items affected by AOCI components such as net periodic benefit costs is not included. The disclosures required with respect to income statement line item impacts are to be made in either the notes to the consolidated financial statements or parenthetically on the face of the financial statements. For 3M, this ASU was effective beginning January 1, 2013. The additional disclosures required by this ASU are included in Note 4. Because this standard only impacts presentation and disclosure requirements, its adoption did not have a material impact on 3M's consolidated results of operations or financial condition.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters*. This standard provides additional guidance with respect to the reclassification into income of the cumulative translation adjustment (CTA) recorded in accumulated other comprehensive income associated with a foreign entity of a parent company. The ASU differentiates between transactions occurring *within* a foreign entity and transactions/events affecting an *investment in* a foreign entity. For transactions *within* a foreign entity, the full CTA associated with the foreign entity would be reclassified into income only when the sale of a subsidiary or group of net assets *within* the foreign entity represents the substantially complete liquidation of that foreign entity. For transactions/events affecting an *investment in* a foreign entity (for example, control or ownership of shares in a foreign entity), the full CTA associated with the foreign entity would be reclassified into income only if the parent no longer has a controlling interest in that foreign entity as a result of the transaction/event. In addition, acquisitions of a foreign entity completed in stages will trigger release of the CTA associated with an equity method investment in that entity at the point a controlling interest in the foreign entity is obtained. For 3M, this ASU is effective prospectively beginning January 1, 2014, with early adoption permitted. This ASU would impact 3M's consolidated results of operations and financial condition only in the instance of an event/transaction as described above.

**NOTE 2. Acquisitions and Divestitures**

*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.

There were no business combinations that closed during the six months ended June 30, 2013. Adjustments in the first half of 2013 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2012 acquisition of Ceradyne, Inc. The allocation of purchase price related to the acquisition of Ceradyne, Inc. in November 2012 is considered preliminary, largely with respect to certain acquired property, plant and equipment; intangible assets; and tax-related assets and liabilities. Refer to Note 2 in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K) for more information on 3M's 2012 acquisitions.



*Divestitures:*

In June 2013, 3M (Consumer Business) completed the sale of its Scientific Anglers and Ross Reels businesses to The Orvis Company, Inc. based in Manchester, Vermont.

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

There were no acquisitions that closed during the first six months of 2013. 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 \$2 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, 2012 and June 30, 2013, follow:

**Goodwill**

(Millions)	December 31, 2012 Balance	Acquisition activity	Translation and other	June 30, 2013 Balance
Industrial	\$ 2,174	\$ 2	\$ (62)	\$ 2,114
Safety and Graphics	1,751		(38)	1,713
Electronics and Energy	1,622		(21)	1,601
Health Care	1,598		(24)	1,574
Consumer	240		(11)	229
Total Company	\$ 7,385	\$ 2	\$ (156)	\$ 7,231

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

As discussed in Note 13, effective in the first quarter of 2013, 3M completed a realignment of its business segments. Concurrent with this business segment realignment, certain products were also moved between business segments, with the resulting impact reflected in the goodwill balances by business segment above for all periods presented. 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. During the first quarter of 2013, 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**

3M did not complete any business combinations during the six months ended June 30, 2013. As a result, balances of acquired intangible assets were primarily impacted 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 June 30, 2013, and December 31, 2012, follow:

(Millions)	June 30, 2013	December 31, 2012
------------	------------------	----------------------

Edgar Filing: 3M CO - Form 10-Q

Patents	\$	593	\$	596
Other amortizable intangible assets (primarily tradenames and customer related intangibles)		2,424		2,456
Total gross carrying amount	\$	3,017	\$	3,052
Accumulated amortization patents		(435)		(421)
Accumulated amortization other		(922)		(833)
Total accumulated amortization	\$	(1,357)	\$	(1,254)
Total finite-lived intangible assets net	\$	1,660	\$	1,798
Non-amortizable intangible assets (primarily tradenames)		126		127
Total intangible assets net	\$	1,786	\$	1,925

Table of Contents

Amortization expense for acquired intangible assets for the three-month and six-month periods ended June 30, 2013 and 2012 follows:

(Millions)	Three months ended June 30,				Six months ended June 30,			
	2013	2012	2013	2012	2013	2012	2013	2012
Amortization expense	\$	60	\$	58	\$	120	\$	116

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2013:

(Millions)	Remainder of 2013	2014	2015	2016	2017	2018	After 2018
Amortization expense	\$ 119	\$ 212	\$ 198	\$ 184	\$ 169	\$ 152	\$ 626

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

Table of Contents**NOTE 4. Supplemental Equity and Comprehensive Income Information****Consolidated Statement of Changes in Equity****Three months ended June 30, 2013**

(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 March 31, 2013</b>	\$ 18,528	\$ 4,188	\$ 31,073	\$ (12,178)	\$ (5,001)	\$ 446
Net income	1,213		1,197			16
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(279)				(260)	(19)
Defined benefit pension and post-retirement plans adjustment	91				91	
Debt and equity securities - unrealized gain (loss)	(4)				(4)	
Cash flow hedging instruments - unrealized gain/(loss)	8				8	
Total other comprehensive income (loss), net of tax	(184)					
Dividends paid	(436)		(436)			
Stock-based compensation, net of tax impacts	64	64				
Reacquired stock	(1,232)			(1,232)		
Issuances pursuant to stock option and benefit plans	366		(118)	484		
<b>Balance at June 30, 2013</b>	\$ 18,319	\$ 4,252	\$ 31,716	\$ (12,926)	\$ (5,166)	\$ 443

**Six months ended June 30, 2013**

(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, 2012</b>	\$ 18,040	\$ 4,053	\$ 30,679	\$ (12,407)	\$ (4,750)	\$ 465
Net income	2,360		2,326			34

Edgar Filing: 3M CO - Form 10-Q

Other comprehensive income  
(loss), net of tax:

Cumulative translation adjustment	(677)			(620)	(57)
Defined benefit pension and post-retirement plans adjustment	176			176	
Debt and equity securities - unrealized gain (loss)	(4)			(4)	
Cash flow hedging instruments - unrealized gain/(loss)	32			32	
Total other comprehensive income (loss), net of tax	(473)				
Dividends paid	(876)		(876)		
Sale of subsidiary shares	8	7			1
Stock-based compensation, net of tax impacts	192	192			
Reacquired stock	(2,039)			(2,039)	
Issuances pursuant to stock option and benefit plans	1,107		(413)	1,520	
<b>Balance at June 30, 2013</b>	\$ 18,319	\$ 4,252	\$ 31,716	\$ (12,926)	\$ (5,166) \$ 443

Table of Contents**Three months ended June 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 March 31, 2012</b>	\$ 16,619	\$ 3,903	\$ 28,858	\$ (11,794)	\$ (4,785)	\$ 437
Net income	1,186		1,167			19
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(335)				(346)	11
Defined benefit pension and post-retirement plans adjustment	98				98	
Debt and equity securities - unrealized gain (loss)	(2)				(2)	
Cash flow hedging instruments - unrealized gain/(loss)	23				23	
Total other comprehensive income (loss), net of tax	(216)					
Dividends paid	(410)		(410)			
Stock-based compensation, net of tax impacts	60	60				
Reacquired stock	(633)			(633)		
Issuances pursuant to stock option and benefit plans	267		(150)	417		
<b>Balance at June 30, 2012</b>	\$ 16,873	\$ 3,963	\$ 29,465	\$ (12,010)	\$ (5,012)	\$ 467

**Six months ended June 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	2,327		2,292			35
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(201)				(191)	(10)
Defined benefit pension and post-retirement plans	195				195	

Edgar Filing: 3M CO - Form 10-Q

adjustment

Debt and equity securities - unrealized gain (loss)	1					1			
Cash flow hedging instruments - unrealized gain/(loss)	8					8			
Total other comprehensive income (loss), net of tax	3								
Dividends paid	(820)			(820)					
Stock-based compensation, net of tax impacts	187	187							
Reacquired stock	(1,167)				(1,167)				
Issuances pursuant to stock option and benefit plans	481			(355)		836			
<b>Balance at June 30, 2012</b>	\$ 16,873	\$ 3,963	\$ 29,465	\$ (12,010)	\$ (5,012)	\$ 467			



Table of Contents**Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component****Three months ended June 30, 2013**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2013, net of tax</b>	\$ (130)	\$ (4,870)	\$ (2)	\$ 1	\$ (5,001)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(260)		(6)	(42)	(308)
Amounts reclassified out		144		54	198
Total other comprehensive income (loss), before tax	(260)	144	(6)	12	(110)
Tax effect		(53)	2	(4)	(55)
Total other comprehensive income (loss), net of tax	(260)	91	(4)	8	(165)
<b>Balance at June 30, 2013, net of tax</b>	\$ (390)	\$ (4,779)	\$ (6)	\$ 9	\$ (5,166)

**Six months ended June 30, 2013**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2012, net of tax</b>	\$ 230	\$ (4,955)	\$ (2)	\$ (23)	\$ (4,750)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(584)		(6)	(112)	(702)
Amounts reclassified out		287		162	449
Total other comprehensive income (loss), before tax	(584)	287	(6)	50	(253)
Tax effect	(36)	(111)	2	(18)	(163)
Total other comprehensive income (loss), net of tax	(620)	176	(4)	32	(416)
<b>Balance at June 30, 2013, net of tax</b>	\$ (390)	\$ (4,779)	\$ (6)	\$ 9	\$ (5,166)

Table of Contents**Three months ended June 30, 2012**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at March 31, 2012, net of tax</b>	\$ 269	\$ (5,058)	\$ (3)	\$ 7	\$ (4,785)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(324)		(3)	29	(298)
Amounts reclassified out		154		8	162
Total other comprehensive income (loss), before tax	(324)	154	(3)	37	(136)
Tax effect	(22)	(56)	1	(14)	(91)
Total other comprehensive income (loss), net of tax	(346)	98	(2)	23	(227)
<b>Balance at June 30, 2012, net of tax</b>	\$ (77)	\$ (4,960)	\$ (5)	\$ 30	\$ (5,012)

**Six months ended June 30, 2012**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2011, net of tax</b>	\$ 114	\$ (5,155)	\$ (6)	\$ 22	\$ (5,025)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(169)		1	1	(167)
Amounts reclassified out		307	1	12	320
Total other comprehensive income (loss), before tax	(169)	307	2	13	153
Tax effect	(22)	(112)	(1)	(5)	(140)
Total other comprehensive income (loss), net of tax	(191)	195	1	8	13
<b>Balance at June 30, 2012, net of tax</b>	\$ (77)	\$ (4,960)	\$ (5)	\$ 30	\$ (5,012)

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

Table of Contents**Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M**

(Millions) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				Location on Income Statement				
	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012					
Gains (losses) associated with, defined benefit pension and postretirement plans amortization									
Transition asset	\$	\$	\$	\$	1 See Note 8				
Prior service benefit		20	22	40	42 See Note 8				
Net actuarial loss		(164)	(176)	(328)	(350) See Note 8				
Total before tax		(144)	(154)	(287)	(307)				
Tax effect		53	56	111	112 Provision for income taxes				
Net of tax	\$	(91)	\$	(98)	\$	(176)	\$	(195)	
Debt and equity security gains (losses)									
Sales or impairments of securities	\$	\$	\$	\$	(1) Selling, general and administrative expenses				
Total before tax					(1)				
Tax effect					Provision for income taxes				
Net of tax	\$	\$	\$	\$	(1)				
Cash flow hedging instruments gains (losses)									
Foreign currency forward/option contracts	\$	(3)	\$	9	\$	(9)	\$	9	Cost of sales
Foreign currency forward contracts		(52)	(13)	(153)	(13)	Interest expense			
Commodity price swap contracts		1	(4)	(8)	Cost of sales				
Total before tax		(54)	(8)	(162)	(12)				
Tax effect		19	3	58	4	Provision for income taxes			
Net of tax	\$	(35)	\$	(5)	\$	(104)	\$	(8)	
Total reclassifications for the period, net of tax	\$	(126)	\$	(103)	\$	(280)	\$	(204)	

**Sale of Subsidiary Shares**

In March 2013, 3M sold shares in 3M India Limited, a subsidiary of the Company, in return for \$8 million. The noncontrolling interest shares of this subsidiary trade on a public exchange in India. This sale of shares complied with an amendment to Indian securities regulations that required 3M India Limited, as a listed company, to achieve a minimum public shareholding of at least 25 percent. As a result of this transaction, 3M's ownership in 3M India Limited was reduced from 76 percent to 75 percent. The \$8 million received in the first quarter of 2013 was classified as other financing activity in the consolidated statement of cash flows. Because the Company retained its controlling interest, the sales resulted in an increase in 3M Company shareholder's equity of \$7 million and an increase in noncontrolling interest of \$1 million.

Table of Contents

**NOTE 5. Supplemental Cash Flow Information**

Transactions related to investing and financing activities with significant non-cash components are as follows:

- During the second quarter of 2013, the Company's Sumitomo 3M Limited subsidiary moved its administrative headquarters to a new leased location and sold the former site under an installment sale arrangement. As a result, at the time of the closing of the sale transaction, the Company received certain cash proceeds (included in proceeds from sale of property, plant and equipment in the consolidated statement of cash flows) and recorded a note receivable (due in quarterly installments through the first quarter of 2016) of \$78 million and deferred profit of \$49 million (both based on the foreign currency exchange rate at the time of closing). Remaining quarterly installments are due through the first quarter of 2016 and will be included in other investing activities in the consolidated statement of cash flows. Deferred profit is reduced and recognized into income in connection with such quarterly installments.

Table of Contents

**NOTE 6. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

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. In December 2012, the Company received a statutory notice of deficiency for the 2006 year. The Company filed a petition in Tax Court in the first quarter of 2013 relating to the 2006 tax year.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2011, 2012, and 2013. It is anticipated that the IRS will complete its examination of the Company for 2011 by the end of the fourth quarter of 2013, for 2012 by the end of the first quarter of 2014, and for 2013 by the end of the first quarter of 2015. As of June 30, 2013, the IRS has not proposed any significant adjustments to any of the Company's tax positions for which the Company is not adequately reserved.

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 2013 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 as of June 30, 2013 and December 31, 2012, respectively, are \$190 million and \$185 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately \$1 million of expense and \$1 million of benefit for the three months ended June 30, 2013 and June 30, 2012, respectively, and approximately \$5 million in expense and \$5 million of benefit for the six months ended June 30, 2013 and June 30, 2012, respectively. At June 30, 2013 and December 31, 2012, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$47 million and \$44 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 second quarter of 2013 was 27.4 percent, compared to 30.1 percent in the second quarter of 2012, a decrease of 2.7 percentage points. This decrease was due to several factors, which included benefits realized for certain future deductions, international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), the reinstatement of the U.S. research and development credit in 2013, and adjustments to 3M's income tax reserves.

The effective tax rate for the first six months of 2013 was 28.2 percent, compared to 29.5 percent in the first six months of 2012, a decrease of 1.3 percentage points. Factors which decreased the Company's effective tax rate by 3.0 percentage points for the first six months of 2013 compared to the same period for 2012 included international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), benefits

Table of Contents

realized for certain future deductions, and the reinstatement of the U.S. research and development credit in 2013. This decrease was partially offset by a 1.7 percentage point increase as a result of adjustments to 3M's reserves for the first six months of 2013 when compared to the same period for 2012.

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 June 30, 2013 and December 31, 2012, the Company had valuation allowances of \$27 million and \$29 million on its deferred tax assets, respectively.

**NOTE 7. 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)	June 30, 2013	December 31, 2012
U.S. government agency securities	\$ 158	\$ 162
Foreign government agency securities	11	16
Corporate debt securities	283	471
Commercial paper	165	116
Certificates of deposit/time deposits	57	41
U.S. treasury securities	54	54
U.S. municipal securities	12	13
Asset-backed securities:		
Automobile loan related	479	567
Credit card related	38	123
Equipment lease related	42	54
Other	11	31
Asset-backed securities total	570	775
<b>Current marketable securities</b>	<b>\$ 1,310</b>	<b>\$ 1,648</b>
U.S. government agency securities	\$ 207	\$ 125
Foreign government agency securities	62	51
Corporate debt securities	523	494
Certificates of deposit/time deposits	20	
U.S. treasury securities	49	18
U.S. municipal securities		14
Auction rate securities	10	7
Asset-backed securities:		
Automobile loan related	417	375
Credit card related	117	34
Equipment lease related	81	36
Other	56	8
Asset-backed securities total	671	453

Edgar Filing: 3M CO - Form 10-Q

<b>Non-current marketable securities</b>	<b>\$</b>	<b>1,542</b>	<b>\$</b>	<b>1,162</b>
<b>Total marketable securities</b>	<b>\$</b>	<b>2,852</b>	<b>\$</b>	<b>2,810</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 June 30, 2013, gross unrealized losses totaled approximately \$10 million (pre-tax), while gross unrealized gains totaled approximately \$1 million (pre-tax). At December 31, 2012, gross unrealized losses totaled approximately \$6 million (pre-



Table of Contents

tax), while gross unrealized gains totaled approximately \$3 million (pre-tax). Refer to Note 4 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

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

The balances at June 30, 2013 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	June 30, 2013
Due in one year or less	\$ 713
Due after one year through five years	2,077
Due after five years through ten years	62
Due after ten years	
Total marketable securities	\$ 2,852

3M has a diversified marketable securities portfolio with a fair market value of \$2.852 billion as of June 30, 2013. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$1.241 billion) primarily include interests in automobile loans, credit cards and equipment leases. 3M's investment policy allows investments in asset-backed securities with minimum credit ratings of Aa2 by Moody's or AA by S&P or Fitch. At June 30, 2013, all asset-backed security investments were in compliance with this policy. Approximately 99 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's 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 \$10 million at June 30, 2013 and \$7 million at December 31, 2012. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$3 million (pre-tax) at June 30, 2013 and \$6 million (pre-tax) at December 31, 2012. As of June 30, 2013, 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 8. Pension and Postretirement Benefit Plans**

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the six months ended June 30, 2013 and 2012 follow:

**Benefit Plan Information**

(Millions)	Three months ended June 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2013		2012	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 64	\$ 64	\$ 36	\$ 31	\$ 20	\$ 20	\$ 20	\$ 20
Interest cost	149	146	61	62	22	21	22	21
Expected return on plan assets	(261)	(248)	(75)	(73)	(23)	(22)	(23)	(22)
Amortization of transition (asset) obligation								
Amortization of prior service cost (benefit)	1	1	(5)	(5)	(16)	(18)	(16)	(18)
Amortization of net actuarial (gain) loss	100	118	40	30	24	28	24	28
Net periodic benefit cost (benefit)	\$ 53	\$ 81	\$ 57	\$ 45	\$ 27	\$ 29	\$ 27	\$ 29
Settlements, curtailments, special termination benefits and other								
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 53	\$ 81	\$ 57	\$ 45	\$ 27	\$ 29	\$ 27	\$ 29

(Millions)	Six months ended June 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2013		2012	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 128	\$ 127	\$ 72	\$ 62	\$ 40	\$ 39	\$ 40	\$ 39
Interest cost	299	293	122	123	44	43	44	43
Expected return on plan assets	(522)	(496)	(150)	(146)	(45)	(43)	(45)	(43)
Amortization of transition (asset) obligation			(1)	(1)				
Amortization of prior service cost (benefit)	2	3	(9)	(9)	(33)	(36)	(33)	(36)
Amortization of net actuarial (gain) loss	200	235	80	60	48	55	48	55
Net periodic benefit cost (benefit)	\$ 107	\$ 162	\$ 114	\$ 89	\$ 54	\$ 58	\$ 54	\$ 58
Settlements, curtailments, special termination benefits and other		26						
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 107	\$ 188	\$ 114	\$ 89	\$ 54	\$ 58	\$ 54	\$ 58

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

For the six months ended June 30, 2013, contributions totaling \$168 million were made to the Company's U.S. and international pension plans and \$3 million to its postretirement plans. For total year 2013, the Company expects to contribute approximately \$400 million to \$500 million of cash to its pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. 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.

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 were 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 (and in April 2013, the United States Court of Appeals for the Second Circuit affirmed the district court's ruling). 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 2012 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.

In addition, the Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code, as discussed in Note 10 in 3M's Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K).

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 9 to the Consolidated Financial Statements in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 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 six months ended June 30, 2013 and 2012. 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 June 30, 2013, 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 June 30, 2013 was approximately \$6.4 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

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

comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects 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 six months ended June 30, 2013 and 2012. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at June 30, 2013 was \$20 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 June 30, 2013, the Company had a balance of \$9 million associated with the after-tax net unrealized gain associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This net gain

Table of Contents

includes a \$3 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 June 30, 2013**

(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	\$ 10	Cost of sales	\$ (3)	Cost of sales	\$
Foreign currency forward contracts	(49)	Interest expense	(52)	Interest expense	
Commodity price swap contracts	(3)	Cost of sales	1	Cost of sales	
Total	\$ (42)		\$ (54)		\$

**Six months ended June 30, 2013**

(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	\$ 41	Cost of sales	\$ (9)	Cost of sales	\$
Foreign currency forward contracts	(152)	Interest expense	(153)	Interest expense	
Commodity price swap contracts	(1)	Cost of sales		Cost of sales	
Total	\$ (112)		\$ (162)		\$

**Three months ended June 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	\$ 42	Cost of sales	\$ 9	Cost of sales	\$
Foreign currency forward contracts	(13)	Interest expense	(13)	Interest expense	

Edgar Filing: 3M CO - Form 10-Q

Commodity price swap contracts		Cost of sales	(4)	Cost of sales	
Total	\$	29	\$	(8)	\$

Six months ended June 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	\$	18	Cost of sales	\$	9	Cost of sales	\$
Foreign currency forward contracts		(12)	Interest expense		(13)	Interest expense	
Commodity price swap contracts		(5)	Cost of sales		(8)	Cost of sales	
Total	\$	1		\$	(12)		\$



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 June 30, 2013 was \$342 million.

At June 30, 2013, 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, is 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 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 June 30, 2013**

(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

**Six months ended June 30, 2013**

(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	\$ (8)	Interest expense	\$ 8

Edgar Filing: 3M CO - Form 10-Q

Total \$ (8) \$ 8

Three months ended June 30, 2012

(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	\$ (2)	Interest expense	\$ 2
Total		\$ (2)		\$ 2

Six months ended June 30, 2012

(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

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 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

Table of Contents

such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At June 30, 2013, 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 June 30, 2013**

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	\$ (24)	N/A	\$	
Total	\$ (24)		\$	

**Six months ended June 30, 2013**

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	\$ 17	N/A	\$	
Total	\$ 17		\$	

**Three months ended June 30, 2012**

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from
--	--	---

Edgar Filing: 3M CO - Form 10-Q

(Millions)	Comprehensive Income on Effective Portion of Instrument		Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	
Foreign currency denominated debt	\$ 90	N/A	\$	
Total	\$ 90		\$	

Six months ended June 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	
Foreign currency denominated debt	\$ 50	N/A	\$	
Total	\$ 50		\$	

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 \$1.4 billion as of June 30, 2013. 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 June 30, 2013			Six months ended June 30, 2013		
	Gain (Loss) on Derivative Recognized in			Gain (Loss) on Derivative Recognized in		
	Location	Amount	Income	Location	Amount	Income
Foreign currency forward/option contracts	Cost of sales	\$	21	Cost of sales	\$	31
Foreign currency forward contracts	Interest expense		(48)	Interest expense		(27)
Commodity price swap contracts	Cost of sales		(1)	Cost of sales		(1)
Total		\$	(28)		\$	3

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended June 30, 2012			Six months ended June 30, 2012		
	Gain (Loss) on Derivative Recognized in			Gain (Loss) on Derivative Recognized in		
	Location	Amount	Income	Location	Amount	Income
Foreign currency forward/option contracts	Cost of sales	\$	20	Cost of sales	\$	5
Foreign currency forward contracts	Interest expense		(15)	Interest expense		12
Commodity price swap contracts	Cost of sales		(1)	Cost of sales		
Total		\$	4		\$	17

Table of Contents*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.

**June 30, 2013**

(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	\$	54	Other current liabilities	\$ 33
Commodity price swap contracts	Other current assets			Other current liabilities	1
Interest rate swap contracts	Other assets		15	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		\$	69	\$	34
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	34	Other current liabilities	\$ 24
<b>Total derivatives not designated as hedging instruments</b>		\$	34	\$	24
<b>Total derivative instruments</b>		\$	103	\$	58

**December 31, 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	\$	39	Other current liabilities	\$ 85
Commodity price swap contracts	Other current assets			Other current liabilities	1
Interest rate swap contracts	Other assets		23	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		\$	62	\$	86
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$	10	Other current liabilities	\$ 20
<b>Total derivatives not designated as hedging instruments</b>		\$	10	\$	20
<b>Total derivative instruments</b>		\$	72	\$	106

*Credit Risk and Offsetting of Assets and Liabilities of Derivative Instruments*

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 arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of June 30, 2013, 3M has International Swaps and Derivatives Association (ISDA) agreements with eight applicable banks and financial institutions which contain netting provisions. In addition to a master agreement with 3M supported by a primary counterparty's parent guarantee, 3M also has associated credit support agreements in place with seven of its primary derivative counterparties which, among other things, provide the circumstances under which either party is required to post eligible collateral (when the market value of transactions covered by these agreements exceeds specified thresholds or if a counterparty's credit rating has been downgraded to a predetermined rating). The Company does not anticipate nonperformance by any of these counterparties.

3M has elected to present the fair value of derivative assets and liabilities within the Company's consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. However, the following tables provide information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria in the event of default or

Table of Contents

termination as stipulated by the terms of netting arrangements with each of the counterparties. For each counterparty, if netted, the Company would offset the asset and liability balances of all derivatives at the end of the reporting period based on the 3M entity that is a party to the transactions. Derivatives not subject to master netting agreements are not eligible for net presentation. As of the applicable dates presented below, no cash collateral had been received or pledged related to these derivative instruments.

**Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties****June 30, 2013**

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		Net Amount of Derivative Assets
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	
Derivatives subject to master netting agreements	\$ 102	\$ 34	\$	\$ 68
Derivatives not subject to master netting agreements	1			1
<b>Total</b>	<b>\$ 103</b>			<b>\$ 69</b>

**June 30, 2013**

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		Net Amount of Derivative Liabilities
		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	
Derivatives subject to master netting agreements	\$ 51	\$ 34	\$	\$ 17
Derivatives not subject to master netting agreements	7			7
<b>Total</b>	<b>\$ 58</b>			<b>\$ 24</b>

**December 31, 2012**

(Millions)	Gross Amount of Derivative Assets Presented in the	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		Net Amount of Derivative Assets
		Gross Amount of Eligible Offsetting	Cash Collateral Received	



Edgar Filing: 3M CO - Form 10-Q

	Consolidated Balance Sheet	Recognized Derivative Liabilities			
Derivatives subject to master netting agreements	\$ 67	\$ 25	\$	\$	42
Derivatives not subject to master netting agreements	5				5
<b>Total</b>	<b>\$ 72</b>			<b>\$</b>	<b>47</b>

Table of Contents

December 31, 2012

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$ 106	\$ 25	\$	\$ 81
Derivatives not subject to master netting agreements				
<b>Total</b>	<b>\$ 106</b>			<b>\$ 81</b>

*Currency Effects*

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$12 million for the three months ended June 30, 2013 and decreased net income attributable to 3M by approximately \$18 million for the six months ended June 30, 2013. 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 decreased net income attributable to 3M by approximately \$3 million for three months ended June 30, 2013 and increased net income attributable to 3M by approximately \$10 million for the six months ended June 30, 2013.

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 six month periods ended June 30, 2013 and 2012.

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 7.

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

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

As discussed in Note 7, 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 June 30, 2013	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	\$ 365		\$ 365	
Foreign government agency securities	73		73	
Corporate debt securities	806		806	
Certificates of deposit/time deposits	77		77	
Commercial paper	165		165	
Asset-backed securities:				
Automobile loan related	896		896	
Credit card related	155		155	
Equipment lease related	123		123	
Other	67		67	
U.S. treasury securities	103	103		
U.S. municipal securities	12		12	
Auction rate securities	10			10
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	88	88		
Interest rate swap contracts	15		15	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	57	57		
Commodity price swap contracts	1	1		

Table of Contents

(Millions) Description	Fair Value at December 31, 2012		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	\$	287	\$	\$	287
Foreign government agency securities		67			67
Corporate debt securities		965			965
Certificates of deposit/time deposits		41			41
Commercial paper		116			116
Asset-backed securities:					
Automobile loan related		942			942
Credit card related		157			157
Equipment lease related		90			90
Other		39			39
U.S. treasury securities		72	72		
U.S. municipal securities		27		27	
Auction rate securities		7			7
Investments		3	3		
Derivative instruments assets:					
Foreign currency forward/option contracts		49	49		
Interest rate swap contracts		23		23	
<b>Liabilities:</b>					
Derivative instruments liabilities:					
Foreign currency forward/option contracts		105	104		1
Commodity price swap contracts		1	1		

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 June 30,			Six months ended June 30,		
	2013	2012		2013	2012	
Beginning balance	\$	7	\$	5	\$	7
Total gains or losses:						
Included in earnings						
Included in other comprehensive income		3		(1)		3
Purchases, issuances, and settlements						
Transfers in and/or out of Level 3						
Ending balance (June 30)		10		4		10
Additional losses included in earnings due to reclassifications from other comprehensive income for:						
Securities sold during the period ended June 30						
Securities still held at June 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 10 in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 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 six months ended June 30, 2013 and 2012.

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)	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding current portion	\$ 4,884	\$ 5,116	\$ 4,916	\$ 5,363

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. Most of 3M's fixed-rate bonds were trading at a premium at June 30, 2013 and December 31, 2012 due to lower interest rates and tighter 3M credit spreads compared to levels at issuance.



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 13 "Commitments and Contingencies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company's Current Report on Form 8-K dated May 16, 2013, 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 Aeero—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 accruals and the related insurance receivables:

**Liability and Receivable Balances**

(Millions)	June 30, 2013	December 31, 2012
Respirator mask/asbestos liabilities	\$ 157	\$ 154
Respirator mask/asbestos insurance receivables	78	87
Environmental remediation liabilities	\$ 26	\$ 29
Environmental remediation insurance receivables	11	11
Other environmental liabilities	\$ 52	\$ 57
Other environmental insurance receivables	15	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 June 30, 2013, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,130 individual claimants, compared to approximately 2,060 individual claimants with actions pending at December 31, 2012.

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

Table of Contents

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 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 Company's on-going review of its accruals and the greater cost of resolving claims of persons with more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in the first six months of 2013 for respirator mask/asbestos liabilities by \$24 million, \$11 million of which occurred in the second quarter of 2013. In the first six months of 2013, the Company made payments for fees and settlements of \$20 million related to the respirator mask/asbestos litigation, \$13 million of which occurred in the second quarter of 2013. As of June 30, 2013, the Company had accruals for respirator mask/asbestos liabilities of \$130 million (excluding Aearo accruals). The Company cannot estimate the amount or range of amounts by which the liability may exceed the accrual 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 June 30, 2013, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$78 million. The Company estimates insurance receivables based on an analysis of its numerous policies, including their exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and assessment of the nature of each claim and remaining coverage, and

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

records an amount it has concluded is likely to be recovered. 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.

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,

Table of Contents

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. The plaintiffs, Continental Casualty and Continental Insurance Co., as well as a significant number of the insurer defendants named in the amended complaint have been dismissed because of settlements they have reached with the Company regarding the matters at issue in the lawsuit. In July 2013, the Company reached agreements in principle with the remaining insurers in the lawsuit. The Company and the insurers are in the process of negotiating settlement agreements. After the settlement agreements have been executed, the Company will file dismissals with the Court at a hearing scheduled in early August 2013 at which time this matter will be concluded. During the first six months of 2013, the Company received payments of \$10 million from settlements with insurers, \$2 million of which occurred in the second quarter of 2013.

The Company has unresolved coverage with claims-made carriers for respirator mask claims. Once the claims-made insurance coverage is resolved, the Company will have collected substantially all of its remaining insurance coverage for respirator mask claims.

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 June 30, 2013, 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 June 30, 2013, the Company, through its Aearo subsidiary, has recorded \$27 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 a quarterly fee of \$100,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, any product liability claims involving exposure to asbestos, silica, or silica products for respirators sold prior to July 11, 1995. Because of the difficulty in determining how long a particular respirator remains in the stream of commerce after being sold, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators involving exposure to asbestos, silica or silica products 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 quarterly 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 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, and/or (ix) 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 amount accrued.

Table of Contents

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 accrual the Company has established.

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 section entitled *Environmental Liabilities and Insurance Receivables* that follows for information on the amount of the accrual.

*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.

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

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. ATSDR released the results of its exposure investigation in April 2013. The exposure study found that drinking well or public water with detectable levels of PFC s may contribute to an increase of PFC levels in blood, but did not find a link between living near a biosolids-treated field and the PFC levels in blood.

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 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 and will submit an updated analysis of the sampling work in 2013.



Table of Contents

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. Pursuant to a permit issued by ADEM, for approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility. 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 2013 and is expected to be completed in 2017.

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 and Woodbury sites, and they are in an operational maintenance mode. Remediation will continue at the Cottage Grove site during 2013.

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. In May 2013, the Court stayed the case for an unknown period due to the filing of a bankruptcy petition by a co-defendant.

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

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

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

Table of Contents

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.

In December 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 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 NRD Lawsuit). 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.

In January 2011, the City of Lake Elmo filed a motion to intervene in the NRD 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, 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.

In November 2011, the Metropolitan Council filed a motion to intervene and a complaint in the NRD 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. The 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. In January 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.

In May 2012, 3M filed a motion to disqualify the State of Minnesota's counsel, Covington & Burling, LLP (Covington). In October 2012, the court granted 3M's motion to disqualify Covington as counsel to the State. In October 2012, the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals. In April 2013, the Minnesota Court of Appeals heard arguments on the appeal, and in July 2013, the Minnesota Court of Appeals affirmed the district court's disqualification order. Both the State of Minnesota and Covington have appealed the disqualification order to the Minnesota Supreme Court. The trial court stayed the NRD Case for up to 180 days following issuance of the Court of Appeals' decision to give the State time to secure new counsel. In a separate but related action, the Company filed suit against Covington for breach of its fiduciary duties to the Company and for breach of contract arising out of Covington's representation of the State of Minnesota in the NRD Lawsuit.

The State of New Jersey filed suit in 2005 against Occidental Chemical Corporation, Tierra Solutions Inc., Maxus Energy Corporation and five other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of a 17-mile stretch of the Passaic River in New Jersey. In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint by Tierra Solutions Inc. and Maxus Energy Corporation seeking contribution towards the cost and damages asserted or incurred for investigation and remediation of discharges to the Passaic River. The third-party complaint seeks to spread

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

those costs among the third-party defendants, including 3M. Allegations asserted against 3M relate to its use of two commercial drum conditioning facilities in New Jersey. In March 2013, 3M and other third party defendants entered into a settlement agreement with the state of New Jersey for an amount that is not material to 3M. The settlement is subject to public notice and Court approval. The proposed settlement resolves claims or potential claims by the State of New Jersey regarding discharges or alleged discharges into the Passaic River by the settling parties, and precludes certain cost recovery actions by the third-party plaintiffs. The proposed settlement with the State of New Jersey does not include release from potential federal claims, yet to be asserted. Total costs for the remedy currently proposed by EPA could

Table of Contents

easily exceed \$1 billion. While the Company does not yet have a basis for estimating its potential exposure in the yet to be asserted EPA claim, 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 accrual 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*

As of June 30, 2013, the Company had recorded liabilities of \$26 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 June 30, 2013, the Company had recorded liabilities of \$52 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 over the next four years. As of June 30, 2013, the Company's receivable for insurance recoveries related to other environmental liabilities was \$15 million.

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 accruals for the reasons described above.

Other Matters

*Commercial Litigation*

3M completed its acquisition of Cogent, Inc. in December 2010. Several holders of Cogent shares, representing a total of approximately 5.8 million shares, asserted appraisal rights under Delaware law. Trial in Delaware occurred in November 2012, and in July 2013, the Delaware Chancery Court decided that the fair value of Cogent's shares on the closing date of the acquisition was \$10.87 per share (plus pre-judgment interest), slightly more than the \$10.50 per share paid at closing. The Court entered its final order on July 23, 2013, triggering the 30 day period for the parties to appeal.

In October 2012, four plaintiffs filed purported class actions against Ceradyne, Inc., 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

Table of Contents

were filed in California Superior Court for Orange County and two were filed in the Delaware Chancery Court. The suits alleged 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 acquisition of Ceradyne. 3M completed its acquisition of Ceradyne in November 2012. In November 2012, the parties reached a settlement with the California plaintiffs for an amount that is not material to the Company, while the Delaware plaintiffs dismissed their complaints without prejudice. The settlement will bind all former Ceradyne shareholders and has received preliminary approval from the California court. A final approval hearing was held in July and a decision is expected soon.

Separately, one Ceradyne shareholder, who purports to hold 16,656 shares, filed a petition for appraisal rights under Delaware law. The parties reached a settlement of this matter for an amount that is not material to the Company.

The previously disclosed patent infringement litigation against Avery Dennison Corporation in the United States District Court for the District of Minnesota relating to retroreflective sheeting products used on traffic signs, pavement markings and other traffic control products has been resolved with the court entering a consent judgment in favor of 3M. Avery's separate claims of patent infringement and antitrust violations against 3M have been dismissed by the court with prejudice.

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 also alleged 3M obtained the patents through inequitable conduct and that 3M's attempt to enforce the patents constitutes a violation of the antitrust laws. In November 2012, a jury returned a verdict in favor of TransWeb on all but one count, including findings that 3M's patents were invalid and not infringed, and that 3M had committed an antitrust violation by seeking to enforce a patent it had obtained fraudulently. The jury also recommended that the court find 3M had committed inequitable conduct in obtaining the patents, and that the patents were therefore unenforceable. Since the vast majority of TransWeb's claim for treble antitrust damages is in the form of its attorneys' fees and expenses in connection with the defense of the patent case, the parties agreed that the measure of damages would not go to the jury, but rather would be submitted to a special master after the trial. This process is ongoing. The special master's recommendations will be forwarded to the court for review and entry of a final judgment. 3M intends to appeal if the court enters judgment against 3M.

In December 2010, Meda AB, the Swedish-based acquirer of 3M's European pharmaceutical business, filed a lawsuit against 3M, and its subsidiaries, 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. In October 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. A non-jury trial occurred in the United States District Court for the Southern District of New York in January 2013. The court is expected to issue its decision in 2013.

Shurtape Technologies, LLC sued 3M in the United States District Court for the Western District of North Carolina, alleging that 3M's ScotchBlue Painter's Masking Tape with Edge-Lock Paint Line Protector, which was introduced in late 2009, infringes Shurtape's U.S. patent describing masking tape having an absorbent coating applied to the edge of the tape and several of Shurtape's trademarks. 3M is challenging both Shurtape's allegations of infringement and the validity of the patent. Trial is anticipated in late 2013 or early 2014. 3M also requested reexamination of the Shurtape patent in the U.S. Patent and Trademark Office ("PTO"). In November 2012, the PTO examiner issued an initial decision in response to 3M's request that adopted many of 3M's invalidity arguments and rejected all claims in the Shurtape patent. Shurtape has

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

responded to that initial PTO action and 3M is awaiting the examiner's decision. If the examiner issues a final rejection of all claims in the patent, Shurtape could still appeal it within the PTO and, ultimately, to the U.S. Court of Appeals for the Federal Circuit.

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 accrual 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.



Table of Contents

*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 claims were caused by allegedly 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 issue a technical opinion on the cause of the network failures. The court-appointed expert is expected to submit his preliminary report to the commercial court by April 30, 2014. 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 3M Purification SAS (a French subsidiary) in October 2011 appointing an expert to determine the amount of commercial loss and property damage allegedly caused by allegedly defective 3M filters used in the customer's manufacturing process. An Austrian subsidiary of this same customer also filed a claim against 3M Austria GmbH (an Austrian subsidiary) and 3M Purification SAS in the Austrian courts in September 2012 seeking damages for the same issue. Another 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 the same 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 accruals at this time.

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

The 3M 2008 Long-Term Incentive Plan, as discussed in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K), provides for the issuance or delivery of up to 100 million shares of 3M common stock pursuant to awards granted under the plan. 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 Units, Restricted Stock, Other Stock Awards, and Performance Units and Performance Shares. The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 38,136,553 as of June 30, 2013.

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. 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 32 percent of the 2013 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter. 3M also has granted progressive (reload) options. These options are nonqualified stock options that were granted to certain participants under the 1997 or 2002 MSOP, but for which the reload feature was eliminated in 2005 (on a prospective basis only). Participants who had options granted prior to this effective date may still qualify to receive new progressive (reload) stock options.

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 units, restricted stock, performance shares and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material for the six months ended June 30, 2013 and 2012.

**Stock-Based Compensation Expense**

(Millions)	Three months ended			Six months ended		
	2013	June 30,	2012	2013	June 30,	2012
Cost of sales	\$	6	\$	5	\$	17
Selling, general and administrative expenses		36		31		109
Research, development and related expenses		5		6		19
Stock-based compensation expenses	\$	47	\$	42	\$	145
Income tax benefits	\$	(13)	\$	(12)	\$	(44)
Stock-based compensation expenses, net of tax	\$	34	\$	30	\$	101



Table of Contents

The following table summarizes stock option activity during the six months ended June 30, 2013:

**Stock Option Program**

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	56,565,030	\$ 80.33		
Granted:				
Annual	6,220,810	101.55		
Progressive (Reload)	95,112	102.64		
Exercised	(13,301,442)	78.13		
Canceled	(95,918)	85.77		
June 30	49,483,592	\$ 83.61	64	\$ 1,236
Options exercisable				
June 30	37,461,732	\$ 79.87	50	\$ 1,076

Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. As of June 30, 2013, there was \$79 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 24 months. The total intrinsic values of stock options exercised were \$338 million and \$147 million during the six months ended June 30, 2013 and 2012, respectively. Cash received from options exercised was \$1.039 billion and \$420 million for the six months ended June 30, 2013 and 2012, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$125 million and \$55 million for the six months ended June 30, 2013 and 2012, respectively.

For the primary 2013 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 2013
Exercise price	\$ 101.49
Risk-free interest rate	1.2%
Dividend yield	2.7%
Expected volatility	20.0%
Expected life (months)	75
Black-Scholes fair value	\$ 13.46

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2013 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 six months ended June 30, 2013:

**Restricted Stock Units and Restricted Stock**

<b>Restricted Stock Units and Restricted Stock</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested balance		
As of January 1	3,261,562	\$ 85.17
Granted:		
Annual	946,774	101.57
Other	38,193	109.82
Vested	(1,035,090)	79.83
Forfeited	(26,212)	89.96
As of June 30	3,185,227	\$ 92.04

As of June 30, 2013, there was \$112 million of compensation expense that has yet to be recognized related to non-vested restricted stock units and restricted stock. This expense is expected to be recognized over the remaining weighted-average vesting period of 27 months. The total fair value of restricted stock units and restricted stock that vested during the six months ended June 30, 2013 and 2012 was \$106 million and \$162 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock units and restricted stock was \$40 million and \$84 million for the six months ended June 30, 2013 and 2012, respectively.

Restricted stock units granted under the 3M 2008 Long-Term Incentive Plan generally vest three years following the grant date assuming continued employment. 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 2012. Performance share grants resumed in 2010 and continued thereafter.



Table of Contents

The following table summarizes performance share activity during the six months ended June 30, 2013:

Performance Shares	Number of Awards		Weighted Average Grant Date Fair Value
Undistributed balance			
As of January 1	1,089,084	\$	79.27
Granted	342,131		96.23
Distributed	(506,725)		75.16
Performance change	(29,559)		87.43
Forfeited	(20,845)		91.72
As of June 30	874,086	\$	87.72

As of June 30, 2013, there was \$27 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 10 months. The total fair value of performance shares that were distributed during the six months ended June 30, 2013 was \$52 million and actual tax benefits realized for the tax deductions related to the distribution of performance shares was \$16 million. There were no performance shares distributed or related tax benefits realized during the six months ended June 30, 2012.



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. Effective in the first quarter of 2013 (as discussed below), 3M now manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. 3M's five 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.

Effective in the first quarter of 2013, 3M completed a realignment of its business groups (segments) to better serve global markets and customers. This realignment included:

- The alignment of divisions into five business groups (segments) as further described below.
- The combination of certain existing divisions into new divisions. These included Traffic Safety and Security Division (reflecting the combination of the former Traffic Safety Systems Division and Security Systems Division) and the Optical Systems Division (reflecting the combination of the former Optical Systems Division and Mobile Interactive Solutions Division).
- The movement of certain product lines between various divisions.

In addition to the above, there were also adjustments for dual credit reporting to reflect the realigned structure. The new structure is comprised of five business segments: Industrial, Safety and Graphics, Electronics and Energy, Health Care, and Consumer.

Industrial: This business segment, previously referred to as Industrial and Transportation, is largely unchanged, except for the transfer of the Renewable Energy Division to the Electronics and Energy business segment.

Safety and Graphics: This business segment includes Architectural Markets, Building and Commercial Services, Commercial Graphics, Industrial Mineral Products, Personal Safety, and Traffic Safety and Security. This new business segment also reflects movement of certain product lines between various divisions.

Electronics and Energy: This business segment includes Communication Markets, Electrical Markets, Electronics Markets Materials, Electronic Solutions, Infrastructure Protection, Optical Systems, Renewable Energy, and 3M Touch Systems. This new business segment also reflects the movement of certain product lines between various divisions.

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

Health Care: This business segment is largely unchanged, except for the movement of certain product lines between various divisions.

Consumer: This business segment, previously referred to as Consumer and Office, is largely unchanged, except for the movement of certain product lines between various divisions.

The financial information presented herein reflects the impact of all of the preceding segment structure changes for all periods presented.

Table of Contents**Business Segment Information**

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Net Sales</b>				
Industrial	\$ 2,663	\$ 2,499	\$ 5,338	\$ 5,057
Safety and Graphics	1,453	1,421	2,870	2,808
Electronics and Energy	1,340	1,384	2,617	2,704
Health Care	1,336	1,277	2,647	2,552
Consumer	1,098	1,083	2,179	2,143
Corporate and Unallocated	2	1	4	3
Elimination of Dual Credit	(140)	(131)	(269)	(247)
Total Company	\$ 7,752	\$ 7,534	\$ 15,386	\$ 15,020
<b>Operating Income</b>				
Industrial	\$ 599	\$ 592	\$ 1,175	\$ 1,183
Safety and Graphics	333	368	668	702
Electronics and Energy	237	282	433	516
Health Care	417	412	821	813
Consumer	235	227	472	464
Corporate and Unallocated	(88)	(124)	(162)	(262)
Elimination of Dual Credit	(31)	(29)	(59)	(54)
Total Company	\$ 1,702	\$ 1,728	\$ 3,348	\$ 3,362

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 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 five 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 Personal Safety Division within the Safety and Graphics business segment; however, the Industrial business segment also sells this product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial) would also receive credit for the associated net 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 June 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, and the consolidated statement of cash flows for the six-month periods ended June 30, 2013 and 2012. 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, 2012, 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 14, 2013, except with respect to our opinion on the consolidated financial statements insofar as it relates to the segment and geographic area reporting realignments discussed in Notes 3, 15, and 16 and adoption of accounting standards regarding disclosures about offsetting assets and liabilities and amounts reclassified out of accumulated other comprehensive income discussed in Notes 1, 5, and 11 as to which the date is May 16, 2013, 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, 2012, 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

August 1, 2013

---

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

\* 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 five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. From a geographic perspective, any references to EMEA refer to Europe, Middle East and Africa on a combined basis.

As described in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2013, during the first quarter of 2013 the Company completed a realignment of its business segments to better serve global markets and customers (refer to Note 13 herein). In addition, during the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States rather than in the Latin America/Canada region. Segment and geographic information presented herein reflects the impact of these changes for all periods presented. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated statements and notes including in its Current Report on Form 8-K dated May 16, 2013.

Net income attributable to 3M was \$1.197 billion, or \$1.71 per diluted share, in the second quarter of 2013, compared to \$1.167 billion, or \$1.66 per diluted share, in the second quarter of 2012. Despite a continued slow-growth economic environment and the strong U.S. dollar, second-quarter 2013 sales increased 2.9 percent to \$7.8 billion. 3M achieved organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in four of its five business segments. Organic local-currency sales increased 5.7 percent in Health Care, 3.3 percent in Industrial, 2.9 percent in Consumer, and 2.0 percent in Safety and Graphics. Organic local-currency sales declined 2.1 percent in Electronics and Energy. For the company in total, organic local-currency sales grew 2.3 percent, with higher organic volumes contributing 1.7 percent and selling price increases contributing 0.6 percent. Acquisitions added 1.9 percent to sales, driven by the November 2012 acquisition of Ceradyne, Inc. and the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group. Currency impacts reduced sales by 1.3 percent year-on-year, due in large part to a 20 percent weakening of the Japanese yen versus the U.S. dollar.

On a geographic basis, second-quarter 2013 organic local-currency sales growth was led by Latin America/Canada at 8.5 percent. All business segments contributed to this growth, led by Health Care, Safety and Graphics, and Industrial. Organic local-currency sales growth in Asia Pacific was 2.2 percent, with sales growth led by Health Care, and Safety and Graphics. China/Hong Kong organic local-currency sales grew 3.4 percent and Japan declined 2.3 percent. Organic local-currency sales in EMEA increased 1.9 percent, with positive organic growth in Middle East/Africa and Central/East Europe, along with a slight increase in West Europe. This was the first positive organic local-currency sales growth in West Europe since the second quarter of 2011. In EMEA, organic local-currency sales grew in four of the five business segments, led by Health Care and Industrial. Organic sales growth in the United States was 0.8 percent, with positive growth in Health Care, Industrial, and Consumer, and declines in Electronics and Energy, and Safety and Graphics.

Operating income decreased 1.5 percent in the second quarter and operating margins were 22.0 percent, a decrease of 0.9 percentage points year-on-year. These results benefited from the combination of selling price increases and raw material cost decreases, organic volume growth, and lower pension and postretirement benefit costs, with these benefits more than offset by several items, including lower factory utilization levels and the impact of 2012 acquisitions on 2013 operating income margins. Refer to the section entitled Results of Operations for further discussion.

The income tax rate was 27.4 percent in the second quarter, down 2.7 percentage points versus last year's second quarter, which increased earnings per diluted share by approximately 6 cents. Weighted-average diluted shares outstanding in the second quarter of 2013 declined 0.5 percent year-on-year to 699.1 million, which increased earnings

Table of Contents

per diluted share by approximately 1 cent. Foreign exchange impacts decreased earnings per diluted share by approximately 2 cents.

Net income attributable to 3M was \$2.326 billion, or \$3.32 per diluted share, in the first six months of 2013, compared to \$2.292 billion, or \$3.25 per diluted share, in the first six months of 2012. Sales in the first six months of 2013 totaled \$15.4 billion, an increase of 2.4 percent, with organic local-currency sales growth of 4.8 percent in Health Care, 3.2 percent in Consumer, 3.1 percent in Industrial, and 2.1 percent in Safety and Graphics. Organic local-currency sales declined 2.1 percent in Electronics and Energy. Geographically, organic local-currency sales increased in all major geographic regions, led by Latin American/Canada at 7.9 percent.

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, were 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.

The following table contains sales and operating income results by business segment for the three months ended June 30, 2013 and 2012. 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)	2013		2012		% change	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
<b>Business Segments</b>						
Industrial	\$ 2,663	\$ 599	\$ 2,499	\$ 592	6.6%	1.2%
Safety and Graphics	1,453	333	1,421	368	2.3	(9.7)
Electronics and Energy	1,340	237	1,384	282	(3.2)	(16.0)
Health Care	1,336	417	1,277	412	4.6	1.2
Consumer	1,098	235	1,083	227	1.4	3.5
Corporate and Unallocated	2	(88)	1	(124)		
Elimination of Dual Credit	(140)	(31)	(131)	(29)		
<b>Total Company</b>	<b>\$ 7,752</b>	<b>\$ 1,702</b>	<b>\$ 7,534</b>	<b>\$ 1,728</b>	<b>2.9%</b>	<b>(1.5)%</b>

Sales in the second quarter of 2013 increased 2.9 percent. Organic local-currency sales increased 2.3 percent, acquisitions added 1.9 percent, and foreign currency translation impacts reduced sales by 1.3 percent. Sales increased 6.6 percent in Industrial, 4.6 percent in Health Care, 2.3 percent in Safety and Graphics, and 1.4 percent in Consumer. Sales declined 3.2 percent in Electronics and Energy. Four of 3M's five business segments achieved operating income margins in excess of 21 percent. Worldwide operating income margins for the second quarter of 2013 were 22.0 percent, compared to 22.9 percent for the second quarter of 2012.

3M generated \$2.673 billion of operating cash flows in the first six months of 2013, an increase of \$456 million when compared to the first six months of 2012. Refer to the section entitled *Financial Condition and Liquidity* later in MD&A for a discussion of items impacting cash flows.



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

In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first six months of 2013, the Company purchased \$1.995 billion of stock, of which a portion was under the previous authorization, compared to \$1.163 billion of stock repurchases in the first six months of 2012. As of June 30, 2013, approximately \$5.7 billion remained available under the February 2013 repurchase authorization. In February 2013, 3M's Board of Directors authorized a per-share dividend increase of 7.6 percent for 2013, marking the 55th consecutive year of dividend increases for 3M.

3M's debt to total capital ratio (total capital defined as debt plus equity) was 25 percent at both June 30, 2013 and December 31, 2012. 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.

Table of Contents

3M expects to contribute approximately \$400 million to \$500 million of cash to its global pension and postretirement plans in 2013. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. 3M expects pension and postretirement benefit expense in 2013 to decrease by approximately \$100 million pre-tax, or approximately 10 cents per diluted share, when compared to 2012. Refer to Note 8 (Pension and Postretirement Benefit Plans) for additional information concerning 3M's pension and postretirement plans.

There are a few major items that will impact earnings in 2013. As discussed above, 3M expects that a decrease in pension and postretirement expense will increase 2013 earnings, when compared to 2012, by approximately 10 cents per diluted share. 3M currently expects that its effective tax rate for 2013 will be approximately 29.0 to 29.5 percent, compared to 29.0 percent for 2012. Based on June 30, 2013 exchange rates, currency effects are expected to reduce total year 2013 sales by approximately 2.0 percent. Considering these items, 3M currently expects that sales growth and related incremental income, in addition to 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 second quarter or first six months of 2013 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended June 30, 2013					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 2,808	\$ 2,239	\$ 1,777	\$ 930	\$ (2)	\$ 7,752
% of worldwide sales	36.2%	28.9%	22.9%	12.0%		100.0%
Components of net sales change:						
Volume organic	0.7%	3.1%	1.4%	2.4%		1.7%
Price	0.1	(0.9)	0.5	6.1		0.6
Organic local-currency sales	0.8	2.2	1.9	8.5		2.3
Acquisitions	3.4	0.4	2.1	0.7		1.9
Translation		(3.9)	0.9	(3.2)		(1.3)
Total sales change	4.2%	(1.3)%	4.9%	6.0%		2.9%

Sales in the second quarter of 2013 increased 2.9 percent when compared to the second quarter of 2012. Organic local-currency sales grew 2.3 percent, led by Latin America/Canada at 8.5 percent. Organic local-currency sales increased 2.2 percent in Asia Pacific, 1.9 percent in Europe, Middle East and Africa and 0.8 percent in the United States. Acquisitions added 1.9 percent to worldwide growth and currency impacts reduced second quarter 2013 worldwide sales growth by 1.3 percent. Worldwide selling prices rose 0.6 percent in the second quarter, despite selling price declines in 3M's optical systems business, where prices typically decline each year, which is common for the electronics industry.

	Six months ended June 30, 2013					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 5,512	\$ 4,525	\$ 3,542	\$ 1,812	\$ (5)	\$ 15,386
% of worldwide sales	35.8%	29.4%	23.0%	11.8%		100.0%
Components of net sales change:						
Volume organic	1.2%	3.2%	0.1%	2.7%		1.6%
Price	0.4	(1.1)	0.4	5.2		0.5
Organic local-currency sales	1.6	2.1	0.5	7.9		2.1
Acquisitions	3.2	0.3	2.2	0.5		1.8
Translation		(3.3)	(0.3)	(4.1)		(1.5)
Total sales change	4.8%	(0.9)%	2.4%	4.3%		2.4%

Sales in the first six months of 2013 increased 2.4 percent when compared to the first six months of 2012. Organic local-currency sales grew 2.1 percent, with increases of 7.9 percent in Latin America/Canada, 2.1 percent in Asia Pacific, and 1.6 percent in the United States. Organic local-currency sales increased 0.5 percent in Europe, Middle East and Africa, impacted by weakness in West Europe. Acquisitions added 1.8

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

percent to worldwide growth and currency impacts reduced first six months 2013 worldwide sales growth by 1.5 percent. Worldwide selling prices rose 0.5 percent in the first six months, despite selling price declines in 3M's optical systems business.

Table of Contents**Operating Expenses:**

(Percent of net sales)	Three months ended			Six months ended		
	2013	June 30, 2012	Change	2013	June 30, 2012	Change
Cost of sales	<b>51.7%</b>	51.4%	0.3%	<b>51.8%</b>	51.6%	0.2%
Selling, general and administrative expenses	<b>20.8</b>	20.3	0.5	<b>20.8</b>	20.5	0.3
Research, development and related expenses	<b>5.5</b>	5.4	0.1	<b>5.6</b>	5.5	0.1
Operating income	<b>22.0%</b>	22.9%	(0.9)%	<b>21.8%</b>	22.4%	(0.6)%

As discussed in the overview section, 3M expects its global pension and postretirement expense to decrease \$100 million for total year 2013 when compared to 2012, which impacts cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D). Refer to the 3M's Current Report on Form 8-K dated May 16, 2013 (MD&A section entitled Critical Accounting Estimates - Pension and Postretirement Obligations) for background concerning this reduction. The year-on-year decrease in pension and postretirement expense for the second quarter and first six months was \$18 million and \$60 million, respectively. The first six months included a year-on-year benefit related to a \$26 million charge in the first quarter of 2012 for a 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 51.7 percent in the second quarter of 2013 and 51.8 percent in the first six months of 2013, both up slightly from the same periods last year. Cost of sales as a percent of sales increased due to lower factory utilization and the impact of 2012 acquisitions. These impacts were partially offset by the combination of selling price increases and raw material cost decreases, lower pension and postretirement costs (of which a portion impacts cost of sales), in addition to organic volume increases.

**Selling, General and Administrative Expenses:**

SG&A increased 5.4 percent in the second quarter of 2013 when compared to the second quarter of 2012. Second quarter 2013 SG&A included strategic investments in enterprise resource planning (ERP) and business transformation efforts, in addition to increases from acquired businesses that were not in 3M's second-quarter 2012 spending (Ceradyne, Inc. and Federal Signal Technologies), which were partially offset by lower pension and postretirement expense. SG&A increased 3.9 percent in the first six months of 2013, impacted by these same factors. SG&A, measured as a percent of sales, increased 0.3 percentage points to 20.8 percent in the first six months of 2013, compared to 20.5 in the same period last year.

**Research, Development and Related Expenses:**

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

R&D expense increased approximately 5 percent in both the second quarter and first six months of 2013 when compared to the same periods last year. 3M continued to invest in its key growth initiatives, including more R&D aimed at disruptive innovation. In addition, 2013 R&D included increases from acquired businesses which were not in 3M's first six months 2012 spending (Ceradyne, Inc. and Federal Signal Technologies). These increases were partially offset by lower pension and postretirement expense. R&D, measured as a percent of sales, increased to 5.6 percent of sales in the first six months of 2013, compared to 5.5 percent of sales in the first six months of 2012.

### *Operating Income:*

Operating income margins were 22.0 percent in the second quarter of 2013 compared to 22.9 in the second quarter of 2012, a decrease of 0.9 percentage points. These results included a 0.8 percentage point benefit from the combination of selling price increases and raw material cost decreases. Selling prices rose 0.6 percent and raw material cost deflation was approximately 2 percent favorable year-on-year. In addition, cost of sales reflected a 0.2 percentage point benefit from operating income leverage on organic volume growth, and a 0.1 percentage point benefit from lower year-on-year pension and postretirement benefit costs. Items that reduced operating income margins included a 0.5 percentage point impact from lower factory utilization (which is an improvement from first quarter) and acquisition impacts, which decreased operating income margins by 0.4 percentage points. In addition, there was a 0.4 percentage point impact from strategic

Table of Contents

investments in ERP and business transformation efforts, along with more R&D aimed at disruptive innovation, which are all expected to strengthen 3M for the future. Finally, the combination of the recently enacted medical device tax in the U.S., foreign exchange impacts, and other factors reduced operating income margins by 0.7 percentage points.

Operating income margins were 21.8 percent in the first six months of 2013 compared to 22.4 in the first six months of 2012, a decrease of 0.6 percentage points. These results included a 0.9 percentage point benefit from the combination of selling price increases and raw material cost decreases. Selling prices rose 0.5 percent and raw material cost deflation was approximately 2 percent favorable year-on-year. In addition, cost of sales reflected a 0.3 percentage point benefit from lower year-on-year pension and postretirement benefit costs, and a 0.2 percentage point benefit from operating income leverage on organic volume growth. Items that reduced operating income margins included a 0.7 percentage point impact from lower factory utilization, and acquisition impacts, which decreased operating income margins by 0.4 percentage points. Finally, the combination of strategic investments in ERP and business transformation efforts, along with more R&D aimed at disruptive innovation, the recently enacted medical device tax in the U.S., and other factors reduced operating income margins by 0.9 percentage points.

***Interest Expense and Income:***

(Millions)	Three months ended				Six months ended			
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Interest expense	\$	41	\$	43	\$	80	\$	83
Interest income		(10)		(10)		(20)		(19)
Total	\$	31	\$	33	\$	60	\$	64

Interest expense was slightly lower in the second quarter and first six months of 2013 compared to the same periods last year, primarily due to lower interest rates, partially offset by higher average debt balances. Interest income was relatively flat year-on-year when comparing the second quarter and first six months of 2013 to the same periods last year, as higher average cash balances were offset by lower interest rates.

***Provision for Income Taxes:***

(Percent of pre-tax income)	Three months ended				Six months ended			
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Effective tax rate		27.4%		30.1%		28.2%		29.5%

The effective tax rate for the second quarter of 2013 was 27.4 percent, compared to 30.1 percent in the second quarter of 2012, a decrease of 2.7 percentage points. This decrease was due to several factors, which included benefits realized for certain future deductions, international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), the reinstatement of the U.S. research and development credit in 2013, and adjustments to 3M's income tax reserves.

The effective tax rate for the first six months of 2013 was 28.2 percent, compared to 29.5 percent in the first six months of 2012, a decrease of 1.3 percentage points. Factors which decreased the Company's effective tax rate by 3.0 percentage points for the first six months of 2013 when

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

compared to the same period for 2012 included international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), benefits realized for certain future deductions, and the reinstatement of the U.S. research and development credit in 2013. This decrease was partially offset by a 1.7 percentage point increase as a result of adjustments to 3M's reserves for the first six months of 2013 when compared to the same period for 2012. Refer to Note 6 for further discussion of income taxes.

The Company currently expects that its effective tax rate for total year 2013 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 estimated current year geographic mix of income before taxes.



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

(Millions)	Three months ended June 30,			Six months ended June 30,		
	2013	2012	2011	2013	2012	2011
Net income attributable to noncontrolling interest	\$ 16	\$ 19	\$ 19	\$ 34	\$ 35	\$ 35

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 June 30, 2013, 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 \$12 million for the three months ended June 30, 2013 and decreased net income attributable to 3M by approximately \$18 million for the six months ended June 30, 2013. 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 decreased net income attributable to 3M by approximately \$3 million for three months ended June 30, 2013 and increased net income attributable to 3M by approximately \$10 million for the six months ended June 30, 2013.

***Significant Accounting Policies:***

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

**PERFORMANCE BY BUSINESS SEGMENT**

Disclosures related to 3M's business segments are provided in Note 13. The reportable segments are Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer.

In addition to these five 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

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

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. Corporate and Unallocated operating expenses decreased by \$36 million and \$100 million in the second quarter and first six months of 2013, respectively, when compared to the same periods last year. A majority of this decrease was due to lower pension and postretirement benefit expense. In addition, while the implementation of 3M's ERP system has increased spending in total, the transition of the ERP system from the development stage into deployment has resulted in more ERP costs being borne by the business segments rather than Corporate.

Information related to 3M's business segments for the second quarter and first six months of both 2013 and 2012 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.

Table of Contents**Industrial Business:**

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	2012	2013	2012	2012
Sales (millions)	\$ 2,663	\$ 2,499	\$ 2,499	\$ 5,338	\$ 5,057	\$ 5,057
Sales change analysis:						
Organic local currency	3.3%	4.4%	4.4%	3.1%	5.7%	5.7%
Acquisitions	4.6	0.2	0.2	4.1	1.7	1.7
Translation	(1.3)	(5.2)	(5.2)	(1.6)	(3.3)	(3.3)
Total sales change	6.6%	(0.6)%	(0.6)%	5.6%	4.1%	4.1%
Operating income (millions)	\$ 599	\$ 592	\$ 592	\$ 1,175	\$ 1,183	\$ 1,183
Percent change	1.2%	13.5%	13.5%	(0.7)%	16.3%	16.3%
Percent of sales	22.5%	23.7%	23.7%	22.0%	23.4%	23.4%

The Industrial segment serves a broad range of markets, such as automotive original equipment manufacturers (OEM) and automotive aftermarket (auto body shops and retail), electronics, paper and packaging, food and beverage, and appliance. Industrial products include tapes, a wide variety of coated and non-woven abrasives, adhesives, specialty materials, filtration products, closure systems for personal hygiene products, acoustic systems products, and components and products that are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

## Second quarter of 2013:

Sales in Industrial totaled \$2.7 billion, up 6.6 percent in U.S. dollars. Organic local-currency sales increased 3.3 percent, acquisitions added 4.6 percent, and foreign currency translation reduced sales by 1.3 percent. On an organic local-currency basis, most of Industrial's businesses experienced sales growth in the second quarter. Sales growth was led by aerospace, followed by automotive aftermarket, liquid filtration, industrial adhesives and tapes, and automotive OEM. Acquisition growth related to the November 2012 acquisition of Ceradyne, Inc., which 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.

Geographically, organic local-currency sales increased 9 percent in Latin America/Canada, 3 percent in both the United States and EMEA, and 2 percent in Asia Pacific.

Operating income was \$599 million in the second quarter, up 1.2 percent year-on-year. Operating income margins decreased by 1.2 percentage points to 22.5 percent. This decline in margins partially related to the Ceradyne acquisition, which reduced operating income margins by 0.7 percentage points.

## First six months of 2013:

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

Sales in Industrial totaled \$5.3 billion, up 5.6 percent in U.S. dollars. Organic local-currency sales increased 3.1 percent, acquisitions added 4.1 percent, and foreign currency translation reduced sales by 1.6 percent. On an organic local-currency basis, most of Industrial's businesses experienced sales growth in the second quarter. Sales growth was led by aerospace, followed by industrial adhesives and tapes, liquid filtration, and the personal care division. Organic local-currency sales declined in advanced materials. Acquisition growth related to the November 2012 acquisition of Ceradyne, Inc.

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

Operating income was \$1.2 billion in the first six months, down 0.7 percent year-on-year. Operating income margins decreased by 1.4 percentage points to 22.0 percent. This decline in margins partially related to the Ceradyne acquisition, which reduced operating income margins by 0.8 percentage points.

Table of Contents**Safety and Graphics Business:**

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	2012	2013	2012	2012
Sales (millions)	\$ 1,453	\$ 1,421	\$ 1,421	\$ 2,870	\$ 2,808	\$ 2,808
Sales change analysis:						
Organic local currency	2.0%	3.3%	3.3%	2.1%	4.3%	4.3%
Acquisitions	1.9			2.0		
Translation	(1.6)	(5.0)	(5.0)	(1.9)	(3.2)	(3.2)
Total sales change	2.3%	(1.7)%	(1.7)%	2.2%	1.1%	1.1%
Operating income (millions)	\$ 333	\$ 368	\$ 368	\$ 668	\$ 702	\$ 702
Percent change	(9.7)%	3.6%	3.6%	(4.9)%	5.2%	5.2%
Percent of sales	22.9%	25.9%	25.9%	23.3%	25.0%	25.0%

The Safety and Graphics segment serves a broad range of markets that increase the safety, security and productivity of people, facilities and systems. Major product offerings include personal protection products; traffic safety and security products, including border and civil security solutions; commercial graphics sheeting and systems; architectural surface and lighting solutions; cleaning and protection products for commercial establishments, roofing granules for asphalt shingles, and track and trace solutions.

## Second quarter of 2013:

Sales in Safety and Graphics totaled \$1.5 billion, up 2.3 percent in U.S. dollars. Organic local-currency sales increased 2.0 percent, acquisitions added 1.9 percent, and foreign currency translation reduced sales by 1.6 percent. On an organic local-currency basis, sales growth was led by commercial graphics, personal safety, architectural markets, and building and commercial services. Organic local-currency sales declined in roofing granules and traffic safety and security systems. 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.

Organic local-currency sales increased 9 percent in Latin America/Canada, 7 percent in Asia Pacific, and 1 percent in the EMEA. Organic local-currency sales declined 3 percent in the United States.

Operating income in the second quarter of 2013 totaled \$333 million, down 9.7 percent. Operating income margins were 22.9 percent of sales, compared to 25.9 percent in the second quarter of 2012. This decline in margins partially related to the Federal Signal Technologies Group acquisition, which reduced operating income margins by 0.9 percentage points. 3M is also investing to accelerate growth in this business, particularly in personal safety and in the mining, oil and gas businesses.

## First six months of 2013:

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

Sales in Safety and Graphics totaled \$2.9 billion, up 2.2 percent in U.S. dollars. Organic local-currency sales increased 2.1 percent, acquisitions added 2.0 percent, and foreign currency translation reduced sales by 1.9 percent. On an organic local-currency basis, sales growth was led by commercial graphics, architectural markets, personal safety, and building and commercial services. Organic local-currency sales declined in roofing granules and traffic safety and security systems. Acquisition growth related to the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group.

Organic local-currency sales increased 10 percent in Latin America/Canada and 5 percent in Asia Pacific. Organic local-currency sales declined 1 percent in both the United States and EMEA.

Operating income in the first six months of 2013 totaled \$668 million, down 4.9 percent. Operating income margins were 23.3 percent of sales, compared to 25.0 percent in the first six months of 2012. This decline in margins partially related to the Federal Signal Technologies Group acquisition, which reduced operating income margins by 0.8 percentage points. 3M is also investing to accelerate growth in this business, particularly in personal safety and in the mining, oil and gas businesses. In addition, in the first quarter of 2013, 3M incurred some restructuring expenses in the traffic safety and security business.

Table of Contents*Electronics and Energy Business:*

	Three months ended June 30,				Six months ended June 30,			
	2013		2012		2013		2012	
Sales (millions)	\$	<b>1,340</b>	\$	1,384	\$	<b>2,617</b>	\$	2,704
Sales change analysis:								
Organic local currency		<b>(2.1)%</b>		(6.3)%		<b>(2.1)%</b>		(8.2)%
Translation		<b>(1.1)</b>		(2.1)		<b>(1.1)</b>		(1.1)
Total sales change		<b>(3.2)%</b>		(8.4)%		<b>(3.2)%</b>		(9.3)%
Operating income (millions)	\$	<b>237</b>	\$	282	\$	<b>433</b>	\$	516
Percent change		<b>(16.0)%</b>		(13.7)%		<b>(16.1)%</b>		(19.3)%
Percent of sales		<b>17.7%</b>		20.4%		<b>16.5%</b>		19.1%

The Electronics and Energy segment serves customers in the electronics and energy markets, including solutions for dependable, cost-effective, high-performance electronic devices, telecommunications networks, electrical products, power generation and distribution, and infrastructure protection. This segment's electronics solutions include optical film solutions for the LCD electronic display industry; projection solutions for the world's office and education markets; packaging and interconnection devices; high performance fluids and abrasives; high-temperature and display tapes; 3M Flexible Circuits, which use electronic packaging and interconnection technology; and the touch systems business, which includes touch screens, touch monitors, and touch sensor components. This segment's energy solutions include pressure sensitive tapes and resins; electrical insulation; a wide array of fiber-optic and copper-based telecommunications systems; renewable energy component solutions for the solar and wind power industries; and infrastructure products that provide both protection and detection solutions.

## Second quarter of 2013:

Electronics and Energy sales totaled \$1.3 billion, down 3.2 percent in U.S. dollars. Organic local-currency sales decreased 2.1 percent, and foreign currency translation reduced sales by 1.1 percent. Organic local-currency sales decreased approximately 1 percent in 3M's electronics-related businesses. Consumer electronics end-market demand was fairly weak throughout the first half of 2013, but the market appears to have stabilized. 3M expects third quarter sales to show recovery. High end-market inventories at year-end 2012 decreased as the first half progressed, with some modest excess still remaining in the handheld space. Organic local-currency sales declined approximately 4 percent in 3M's energy-related businesses, as weakness in renewable energy more than offset sales gains in electrical markets. About 60 percent of this segment is electronics-related and about 40 percent is energy-related.

On a geographic basis, organic local-currency sales increased slightly in Latin America/Canada. Organic local-currency sales declined 3 percent in the United States, and 2 percent in both Asia Pacific and EMEA.

Operating income decreased 16.0 percent to \$237 million in the second quarter of 2013. Operating income margins were 17.7 percent, but did show improvement from the 15.3 percent margin in the first quarter of 2013. The operating margin decline when compared to second quarter last year was primarily attributable to lower factory utilization and year-on-year organic local-currency sales declines.

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

First six months of 2013:

Electronics and Energy sales totaled \$2.6 billion, down 3.2 percent in U.S. dollars. Organic local-currency sales decreased 2.1 percent, and foreign currency translation reduced sales by 1.1 percent. Organic local-currency sales decreased approximately 3 percent in 3M's electronics-related businesses. Organic local-currency sales declined approximately 1 percent in 3M's energy businesses, where weakness in renewable energy and communication markets more than offset sales gains in electrical markets.

On a geographic basis, organic local-currency sales increased 2 percent in Latin America/Canada. Organic local-currency sales declined approximately 2 percent in EMEA, the United States, and Asia Pacific.

Operating income decreased 16.1 percent to \$433 million in the first six months of 2013. Operating income margins were 16.5 percent, compared to 19.1 percent in the first six months of 2012. The operating margin decline was primarily attributable to lower factory utilization and year-on-year organic local-currency sales declines.



Table of Contents**Health Care Business:**

	Three months ended June 30,				Six months ended June 30,			
	2013		2012		2013		2012	
Sales (millions)	\$	<b>1,336</b>	\$	1,277	\$	<b>2,647</b>	\$	2,552
Sales change analysis:								
Organic local currency		<b>5.7%</b>		5.4%		<b>4.8%</b>		4.3%
Acquisitions				0.4		<b>0.2</b>		0.2
Translation		<b>(1.1)</b>		(4.7)		<b>(1.3)</b>		(3.0)
Total sales change		<b>4.6%</b>		1.1%		<b>3.7%</b>		1.5%
Operating income (millions)	\$	<b>417</b>	\$	412	\$	<b>821</b>	\$	813
Percent change		<b>1.2%</b>		13.3%		<b>1.0%</b>		11.2%
Percent of sales		<b>31.2%</b>		32.3%		<b>31.0%</b>		31.9%

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.

## Second quarter of 2013:

Health Care sales totaled \$1.3 billion, an increase of 4.6 percent in U.S. dollars. Organic local-currency sales increased 5.7 percent, and foreign currency translation reduced sales by 1.1 percent. Organic local-currency sales growth was led by health information systems, food safety, critical and chronic care, oral care, and infection prevention. Organic local-currency sales declined in drug delivery.

On a geographic basis, organic local-currency sales increased 14 percent in Latin America/Canada, 10 percent in Asia Pacific, 4 percent in EMEA, and 3 percent in the United States. Health Care organic local-currency sales grew 15 percent in developing markets. In developed markets, Health Care organic local-currency sales grew 8 percent in Japan and 3 percent in both the United States and West Europe.

Operating income increased 1.2 percent to \$417 million. Operating income margins were 31.2 percent in the second quarter of 2013, compared to 32.3 percent in the second quarter of 2012. Effective January 1, 2013, 3M began to absorb additional costs related to the recently enacted U.S. medical device tax, which impacted operating income margins by 0.4 percentage points.

## First six months of 2013:

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

Health Care sales totaled \$2.6 billion, an increase of 3.7 percent in U.S. dollars. Organic local-currency sales increased 4.8 percent, acquisitions added 0.2 percent, and foreign currency translation reduced sales by 1.3 percent. Organic local-currency sales growth was led by health information systems, food safety, critical and chronic care, oral care, and infection prevention. Organic local-currency sales declined in drug delivery. In April 2012, 3M further strengthened its health information systems business by acquiring CodeRyte, Inc., which provides clinical natural language processing technology and computer-assisted coding solutions for outpatient providers.

On a geographic basis, organic local-currency sales increased 13 percent in Latin America/Canada, 9 percent in Asia Pacific, 4 percent in EMEA, and 2 percent in the United States.

Operating income increased 1.0 percent to \$821 million. Operating income margins were 31.0 percent in the first six months of 2013, compared to 31.9 percent in the first six months of 2012. Effective January 1, 2013, 3M began to absorb additional costs related to the U.S. medical device tax, which impacted operating income margins by 0.4 percentage points.

Table of Contents*Consumer Business:*

	Three months ended June 30,			Six months ended June 30,		
	2013	2012	2012	2013	2012	2012
Sales (millions)	\$ 1,098	\$ 1,083	\$ 1,083	\$ 2,179	\$ 2,143	\$ 2,143
Sales change analysis:						
Organic local currency	2.9%	2.7%	2.7%	3.2%	2.3%	2.3%
Acquisitions		2.6	2.6			2.8
Divestitures	(0.1)					
Translation	(1.4)	(3.4)	(3.4)	(1.5)	(2.1)	(2.1)
Total sales change	1.4%	1.9%	1.9%	1.7%	3.0%	3.0%
Operating income (millions)	\$ 235	\$ 227	\$ 227	\$ 472	\$ 464	\$ 464
Percent change	3.5%	9.6%	9.6%	1.7%	8.9%	8.9%
Percent of sales	21.4%	21.0%	21.0%	21.7%	21.6%	21.6%

The Consumer 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.

## Second quarter of 2013:

Sales in Consumer totaled \$1.1 billion, up 1.4 percent in U.S. dollars. Organic local-currency sales increased 2.9 percent, divestitures reduced sales by 0.1 percent, and foreign currency translation reduced sales by 1.4 percent. On an organic local-currency basis, sales growth was led by consumer health care, where 3M's Ace® and Futuro® brands showed good growth in the second quarter. In addition, Consumer posted positive local-currency sales growth in home care, stationery and office supplies, and the construction and home improvement businesses. In the second quarter, 3M began to see the impact of the back-to-school season, helped by several new Scotch® and Command® products.

On a geographic basis, organic local-currency sales increased 7 percent in Latin America/Canada, 4 percent in Asia Pacific and 2 percent in the United States. Organic local-currency sales increased slightly in EMEA. Organic local-currency growth was 7 percent in developing markets. Like Health Care, Consumer is one of 3M's most significant growth opportunities in developing markets, as retail sectors expand along with a growing middle class.

Consumer operating income was \$235 million, up 3.5 percent from the second quarter last year. Operating income margins were 21.4 percent, compared to 21.0 percent in the same period last year.

As discussed in Note 2, in June 2013, 3M completed the sale of the Scientific Anglers and Ross Reels businesses to The Orvis Company Inc. based in Manchester, Vermont.

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

First six months of 2013:

Sales in Consumer totaled \$2.2 billion, up 1.7 percent in U.S. dollars. Organic local-currency sales increased 3.2 percent, and foreign currency translation reduced sales by 1.5 percent. On an organic local-currency basis, sales growth was led by the consumer health care, home care, and the construction and home improvement businesses.

On a geographic basis, organic local-currency sales increased 6 percent in both Latin America/Canada and Asia Pacific, and 4 percent in the United States. Organic local-currency sales declined 3 percent in EMEA.

Consumer operating income was \$472 million, up 1.7 percent from the first six months last year. Operating income margins were 21.7 percent, up slightly from the same period last year.

Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

As indicated in the following table, 3M's net debt at June 30, 2013 was \$152 million. This compared to net debt of \$308 million at December 31, 2012. At June 30, 2013, 3M had \$5.794 billion of cash, cash equivalents, and marketable securities and \$5.946 billion of debt. Debt included \$4.884 billion of long-term debt and \$1.062 billion related to the current portion of long-term debt and other borrowings. The current portion of long-term debt includes \$850 million (principal amount) of medium-term notes due in August 2013. 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 2012, the Company acquired Ceradyne, Inc. and other businesses for approximately \$1.0 billion. 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 acquisitions are discussed in Note 2 in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K).

(Millions)	June 30, 2013	December 31, 2012
Total Debt	\$ 5,946	\$ 6,001
Less: Cash and cash equivalents and marketable securities	5,794	5,693
Net Debt	\$ 152	\$ 308

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 \$2.673 billion in the first six months of 2013 was utilized for items such as 3M common stock repurchases, net of issuances (\$892 million), dividends paid to shareholders (\$876 million) and capital spending (\$718 million). The Company does not utilize derivative instruments linked to the Company's stock.

At June 30, 2013 and December 31, 2012, cash, cash equivalents and marketable securities held internationally totaled \$4.3 billion and \$3.7 billion, respectively, and in the United States totaled \$1.5 billion and \$2.0 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 plans or intentions to repatriate these funds for U.S. operations. However, 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 them.

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)

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

totaled \$7.648 billion at June 30, 2013, compared with \$7.430 billion at December 31, 2012. Working capital increases were primarily attributable to increases in accounts receivable and decreases in accrued payroll, partially offset by net decreases in the combination of cash, cash equivalents and the current portion of marketable securities, in addition to increases in accounts payable.

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 June 30, 2013 and December 31, 2012, 3M had no outstanding commercial paper. During July 2013, 3M resumed commercial paper funding and expects to maintain a consistent presence in the market, as it manages the U.S. cash balance, and believes it is unlikely that its access to the commercial paper market will be restricted. The Company had elected to access the longer term debt market without relying on commercial paper from late 2008 until July this year.

Table of Contents

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 June 30, 2013. 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 June 30, 2013, 3M letters of credit issued under this \$150 million committed facility totaled \$121 million. In December 2012, 3M entered into a three-year 66 million British Pound (approximately \$106 million based on agreement date exchange rates) committed credit agreement with JP Morgan Chase Bank, which is fully drawn as of June 30, 2013. Apart from the committed facilities, an additional \$106 million in stand-alone letters of credit was also issued and outstanding at June 30, 2013. 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 June 30, 2013, this ratio was approximately 46 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 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 proceeds is for general corporate purposes.

3M's cash and cash equivalents balance at June 30, 2013 totaled \$2.942 billion, with an additional \$2.852 billion in current and long-term marketable securities. 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 2013, 3M's Board of Directors increased the quarterly dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of \$2.54 per share. In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. As of June 30, 2013, approximately \$5.7 billion remained available under the February 2013 repurchase authorization.

In 2013, the Company plans to contribute an amount in the range of \$400 million to \$500 million of cash to its pension and postretirement plans. For the six months ended June 30, 2013, contributions totaling \$168 million were made to the Company's U.S. and international pension plans and \$3 million to its postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of future discretionary contributions could vary significantly depending on the U.S. qualified plans' funded status as of the 2013 measurement date and the anticipated tax deductibility of the contributions. Future contributions will also 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 June 30, 2013, down from 4.8 at both December 31, 2012 and June 30, 2012. Receivables increased \$481 million, or 12 percent, compared with December 31, 2012, with higher June 2013 sales compared to December 2012 sales contributing to this increase. Inventories increased \$82 million, or 2 percent, compared with December 31, 2012, reflecting

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

in part an increase in organic sales volume. At June 30, 2013 compared with December 31, 2012, currency translation decreased accounts receivable by \$136 million and inventories by \$98 million. As indicated in the next section (cash flows from operating activities), accounts receivable increased at a slightly higher level and inventories increased at a lower level when compared to the first six months of 2012. Accounts payable increased \$158 million compared with December 31, 2012, with the increase primarily related to changes in business activity partially offset by currency translation, which reduced accounts payable by \$46 million.



Table of Contents

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)	Six months ended June 30,	
	2013	2012
Net income including noncontrolling interest	\$ 2,360	\$ 2,327
Depreciation and amortization	671	634
Company pension contributions	(168)	(609)
Company postretirement contributions	(3)	(63)
Company pension expense	221	277
Company postretirement expense	54	58
Stock-based compensation expense	150	145
Income taxes (deferred and accrued income taxes)	203	312
Excess tax benefits from stock-based compensation	(51)	(41)
Accounts receivable	(628)	(553)
Inventories	(167)	(268)
Accounts payable	199	150
Product and other insurance receivables and claims	19	(63)
Other net	(187)	(89)
Net cash provided by operating activities	\$ 2,673	\$ 2,217

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 six months of 2013, cash flows provided by operating activities increased \$456 million compared to the first six months of 2012. Operating cash flows benefited year-on-year from \$501 million of lower pension and postretirement plans contributions and lower year-on-year working capital requirements, which were offset in part by higher year-on-year tax payments. Working capital (which includes accounts receivable, inventories and accounts payable) increased \$596 million in the first six months of 2013 compared to working capital increases of \$671 million in the first six months of 2012. The category Other-net in the preceding table reflects changes in other assets and liabilities accounts, which in the first six months of both 2013 and 2012 partially relates to reductions in accrued payroll, driven by annual incentive plan payments. Additional discussion on working capital changes is provided earlier in the 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

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

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 six months ended June 30, 2013 and 2012.

(Millions)	Six months ended June 30,	
	2013	2012
Net cash provided by operating activities	\$ 2,673	\$ 2,217
Purchases of property, plant and equipment (PP&E)	(718)	(619)
Free Cash Flow	\$ 1,955	\$ 1,598

Table of Contents**Cash Flows from Investing Activities:**

(Millions)	Six months ended	
	2013	June 30, 2012
Purchases of property, plant and equipment (PP&E)	\$ (718)	\$ (619)
Proceeds from sale of PP&E and other assets	18	8
Acquisitions, net of cash acquired		(144)
Purchases and proceeds from sale or maturities of marketable securities and investments, net	(52)	(103)
Other investing	12	4
Net cash used in investing activities	\$ (740)	\$ (854)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital expenditures were \$718 million in the first six months of 2013, an increase of \$99 million when compared to the first six months of 2012. The Company expects 2013 capital spending to be approximately \$1.6 to \$1.8 billion. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth.

3M is striving to increase its manufacturing and sourcing capacity, particularly in developing economies, in order to more closely align its production capability with its sales in major geographic regions. The initiative is expected to help improve customer service, lower transportation costs, and reduce working capital requirements. 3M will continue to make investments in critical emerging markets, such as China and India, including plans to establish and begin production in a new wholly-owned manufacturing entity in India to serve as a source of supply to 3M's business in India and in other countries.

Refer to Note 2 for information on acquisitions and divestitures. 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 7 for more details about 3M's diversified marketable securities portfolio, which totaled \$2.852 billion as of June 30, 2013. Purchases of marketable securities and investments, net of proceeds from sales or maturities, totaled \$52 million in the first six months of 2013 and \$103 million in the first six months of 2012. Purchases of investments also include additional survivor benefit insurance and equity investments.



Table of Contents*Cash Flows from Financing Activities:*

(Millions)	Six months ended	
	2013	June 30, 2012
Change in short-term debt net	\$ (12)	\$ (34)
Repayment of debt (maturities greater than 90 days)	(12)	(18)
Proceeds from debt (maturities greater than 90 days)	11	1,244
Total cash change in debt	\$ (13)	\$ 1,192
Purchases of treasury stock	(1,995)	(1,163)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	1,103	479
Dividends paid to stockholders	(876)	(820)
Excess tax benefits from stock-based compensation	51	41
Other net	3	
Net cash used in financing activities	\$ (1,727)	\$ (271)

Total debt at June 30, 2013, was \$5.9 billion, down slightly from \$6.0 billion at year-end 2012. Total debt was 25 percent of total capital (total capital is defined as debt plus equity) at both June 30, 2013 and year-end 2012. Changes in short-term debt and repayment of debt in the first six months of 2013 and first six months of 2012 were minimal. Proceeds from debt in the first six months of 2013 were minimal. Proceeds from debt in the first six 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.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first six months of 2013, the Company purchased \$1.995 billion of stock, of which a portion was under the previous authorization, compared to \$1.163 billion of stock repurchases in the first six months of 2012. The Company expects full-year 2013 gross share repurchases will be in the range of \$3.5 billion to \$4.5 billion, significantly higher than prior years. 3M is increasing purchases as it already has a strong capital structure and is generating substantial free cash flow, which it expects to continue. In addition, rising interest rates are positively impacting 3M's already well-funded pension status, and 3M has not closed any new acquisitions in the first half of 2013. As of June 30, 2013, approximately \$5.7 billion remained available under the February 2013 repurchase authorization. For more information, refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 2. The Company does not utilize derivative instruments linked to the Company's stock.

Cash dividends paid to stockholders totaled \$876 million in the first six months of 2013 compared to \$820 million in the first six months of 2012. 3M has paid dividends since 1916. In February 2013, the Board of Directors increased the quarterly dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of \$2.54 per share. This marked the 55th 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.

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

In March 2013, 3M sold shares in 3M India Limited, a subsidiary of the Company, in return for \$8 million. The noncontrolling interest shares of this subsidiary trade on a public exchange in India. This sale of shares complied with an amendment to Indian securities regulations that required 3M India Limited, as a listed company, to achieve a minimum public shareholding of at least 25 percent. As a result of this transaction, 3M's ownership in 3M India Limited was reduced from 76 percent to 75 percent. The \$8 million received in the first quarter of 2013 was classified as other financing activity in the consolidated statement of cash flows. Because the Company retained its controlling interest, the sale resulted in an increase in 3M Company shareholders' equity of \$7 million and an increase in noncontrolling interest of \$1 million.

Table of Contents

**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 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 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. For a discussion of sensitivity analysis related to these types of market risks, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in 3M's Current Report on Form 8-K dated May 16, 2013 (which updated 3M's 2012 Annual Report on Form 10-K). There have been no material changes in information that would have been provided in the context of Item 3 from the end of the preceding year until June 30, 2013. However, the Company does provide risk management discussion in various places in this Quarterly Report on Form 10-Q, primarily in the Derivatives note.



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 June 30, 2013**

**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 70 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 strong investment grade ratings 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

Table of Contents

by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due 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.

*\* The Company employs information technology systems to support its business, including ongoing phased implementation of an enterprise resource planning (ERP) system on a worldwide basis over the next several years. 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. There may be other challenges and risks as the Company upgrades and standardizes its ERP system on a worldwide basis. 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.****Issuer Purchases of Equity Securities**

Repurchases of 3M 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 authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, with no pre-established end date. In February 2013, 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 \$7.5 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, 2013	1,664,478	\$ 97.17	1,634,216	\$ 2,306
February 1-28, 2013	3,199,508	\$ 103.21	2,644,039	\$ 7,227
March 1-31, 2013	2,995,946	\$ 105.13	2,981,063	\$ 6,913
Total January 1-March 31, 2013	7,859,932	\$ 102.66	7,259,318	\$ 6,913
April 1-30, 2013	2,739,109	\$ 105.56	2,730,861	\$ 6,625
May 1-31, 2013	6,626,563	\$ 110.46	6,594,113	\$ 5,897
June 1-30, 2013	1,930,590	\$ 109.34	1,930,331	\$ 5,685
Total April 1-June 30, 2013	11,296,262	\$ 109.08	11,255,305	\$ 5,685
Total January 1-June 30, 2013	19,156,194	\$ 106.45	18,514,623	\$ 5,685

- 
- (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.

Edgar Filing: 3M CO - Form 10-Q

**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 2012) is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Stockholders.
  - (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.
  - (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.

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

- (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.



Table of Contents

- (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.
- (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 2012 Amended and Restated General Employees Stock Purchase Plan is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Shareholders.
- (10.19) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.20) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.21) 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.
- (10.22) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.23) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.24) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.25) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.26) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.27) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.28) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.29) 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.
- (10.30) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.31) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.32) 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.
- (10.33) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.34) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.35) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.36) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 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.

Table of Contents

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) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (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 June 30, 2013, filed with the SEC on August 1, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month and six-month periods ended June 30, 2013 and 2012, (ii) the Consolidated Statement of Comprehensive Income for the three-month and six-month periods ended June 30, 2013 and 2012 (iii) the Consolidated Balance Sheet at June 30, 2013 and December 31, 2012, (iv) the Consolidated Statement of Cash Flows for the six-month periods ended June 30, 2013 and 2012, 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: August 1, 2013

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.)