

3M CO  
Form 10-Q  
July 31, 2014  
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, 2014**

**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, 2014
Common Stock, \$0.01 par value per share	647,969,147 shares

This document (excluding exhibits) contains 79 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 76.

Table of Contents

## 3M COMPANY

Form 10-Q for the Quarterly Period Ended June 30, 2014

## 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> 11
	<u>Note 4. Supplemental Equity and Comprehensive Income Information</u> 13
	<u>Note 5. Income Taxes</u> 18
	<u>Note 6. Marketable Securities</u> 19
	<u>Note 7. Long-Term Debt and Short-Term Borrowings</u> 21
	<u>Note 8. Pension and Postretirement Benefit Plans</u> 22
	<u>Note 9. Derivatives</u> 24
	<u>Note 10. Fair Value Measurements</u> 33
	<u>Note 11. Commitments and Contingencies</u> 37
	<u>Note 12. Stock-Based Compensation</u> 45
	<u>Note 13. Business Segments</u> 49
	<u>Report of Independent Registered Public Accounting Firm</u> 51
<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> 52
	<u>Results of Operations</u> 55
	<u>Performance by Business Segment</u> 59
	<u>Financial Condition and Liquidity</u> 65
	<u>Cautionary Note Concerning Factors That May Affect Future Results</u> 71
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 71
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b> 72
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b> 73
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b> 73
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 75
<b><u>ITEM 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 75

<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	75
<u>ITEM 5.</u>	<u>Other Information</u>	75
<u>ITEM 6.</u>	<u>Exhibits</u>	76

Table of Contents

## 3M COMPANY

## FORM 10-Q

For the Quarterly Period Ended June 30, 2014

## 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,	
	2014	2013	2014	2013
Net sales	\$ 8,134	\$ 7,752	\$ 15,965	\$ 15,386
Operating expenses				
Cost of sales	4,184	4,013	8,215	7,982
Selling, general and administrative expenses	1,646	1,610	3,278	3,199
Research, development and related expenses	448	427	900	857
Total operating expenses	6,278	6,050	12,393	12,038
Operating income	1,856	1,702	3,572	3,348
Interest expense and income				
Interest expense	45	41	82	80
Interest income	(9)	(10)	(18)	(20)
Total interest expense net	36	31	64	60
Income before income taxes	1,820	1,671	3,508	3,288
Provision for income taxes	537	458	1,000	928
Net income including noncontrolling interest	\$ 1,283	\$ 1,213	\$ 2,508	\$ 2,360
Less: Net income attributable to noncontrolling interest	16	16	34	34
Net income attributable to 3M	\$ 1,267	\$ 1,197	\$ 2,474	\$ 2,326
Weighted average 3M common shares outstanding basic	652.0	688.2	656.7	689.6
Earnings per share attributable to 3M common shareholders basic	\$ 1.94	\$ 1.74	\$ 3.77	\$ 3.37
Weighted average 3M common shares outstanding diluted	664.6	699.1	669.6	700.6

Edgar Filing: 3M CO - Form 10-Q

Earnings per share attributable to 3M common shareholders diluted	\$	<b>1.91</b>	\$	1.71	\$	<b>3.70</b>	\$	3.32
Cash dividends paid per 3M common share	\$	<b>0.855</b>	\$	0.635	\$	<b>1.71</b>	\$	1.27

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,	
	2014	2013	2014	2013
Net income including noncontrolling interest	\$ 1,283	\$ 1,213	\$ 2,508	\$ 2,360
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	127	(279)	147	(677)
Defined benefit pension and postretirement plans adjustment	60	91	121	176
Debt and equity securities, unrealized gain (loss)	1	(4)	2	(4)
Cash flow hedging instruments, unrealized gain (loss)	(9)	8	(7)	32
Total other comprehensive income (loss), net of tax	179	(184)	263	(473)
Comprehensive income (loss) including noncontrolling interest	1,462	1,029	2,771	1,887
Comprehensive (income) loss attributable to noncontrolling interest	(20)	3	(50)	23
Comprehensive income (loss) attributable to 3M	\$ 1,442	\$ 1,032	\$ 2,721	\$ 1,910

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, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,125	\$ 2,581
Marketable securities - current	884	756
Accounts receivable - net	4,759	4,253
Inventories		
Finished goods	1,898	1,790
Work in process	1,220	1,139
Raw materials and supplies	975	935
Total inventories	4,093	3,864
Other current assets	1,332	1,279
Total current assets	13,193	12,733
Marketable securities - non-current	1,204	1,453
Investments	113	122
Property, plant and equipment	23,447	23,068
Less: Accumulated depreciation	(14,762)	(14,416)
Property, plant and equipment - net	8,685	8,652
Goodwill	7,422	7,345
Intangible assets - net	1,603	1,688
Prepaid pension benefits	672	577
Other assets	1,078	980
Total assets	\$ 33,970	\$ 33,550
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,650	\$ 1,683
Accounts payable	1,844	1,799
Accrued payroll	656	708
Accrued income taxes	478	417
Other current liabilities	2,412	2,891
Total current liabilities	7,040	7,498
Long-term debt	5,323	4,326
Pension and postretirement benefits	1,829	1,794
Other liabilities	1,932	1,984
Total liabilities	\$ 16,124	\$ 15,602
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	4,641	4,375
Retained earnings	33,836	32,416
	(17,466)	(15,385)



Edgar Filing: 3M CO - Form 10-Q

Treasury stock, at cost: 296,063,909 shares at June 30, 2014; 280,736,817 shares at December 31, 2013

Accumulated other comprehensive income (loss)		<b>(3,666)</b>		(3,913)
Total 3M Company shareholders' equity		<b>17,354</b>		17,502
Noncontrolling interest		<b>492</b>		446
Total equity	\$	<b>17,846</b>	\$	17,948
Total liabilities and equity	\$	<b>33,970</b>	\$	33,550

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,	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 2,508	\$ 2,360
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	708	671
Company pension and postretirement contributions	(77)	(171)
Company pension and postretirement expense	196	275
Stock-based compensation expense	174	150
Deferred income taxes	(36)	37
Excess tax benefits from stock-based compensation	(97)	(51)
Changes in assets and liabilities		
Accounts receivable	(484)	(628)
Inventories	(242)	(167)
Accounts payable	57	199
Accrued income taxes (current and long-term)	16	166
Product and other insurance receivables and claims	13	19
Other net	(4)	(187)
Net cash provided by operating activities	2,732	2,673
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(634)	(718)
Proceeds from sale of PP&E and other assets	38	18
Acquisitions, net of cash acquired	(94)	
Purchases of marketable securities and investments	(849)	(3,000)
Proceeds from maturities and sale of marketable securities and investments	982	2,948
Proceeds from sale of businesses		8
Other investing	(22)	4
Net cash used in investing activities	(579)	(740)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	62	(12)
Repayment of debt (maturities greater than 90 days)	(119)	(12)
Proceeds from debt (maturities greater than 90 days)	1,078	11
Purchases of treasury stock	(3,134)	(1,995)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	585	1,103
Dividends paid to shareholders	(1,122)	(876)
Excess tax benefits from stock-based compensation	97	51
Other net	(31)	3
Net cash used in financing activities	(2,584)	(1,727)
Effect of exchange rate changes on cash and cash equivalents	(25)	(147)
Net increase (decrease) in cash and cash equivalents	(456)	59
Cash and cash equivalents at beginning of year	2,581	2,883
Cash and cash equivalents at end of period	\$ 2,125	\$ 2,942

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 15, 2014 (which updated 3M's 2013 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2014, effective in the first quarter of 2014, the Company transferred a product line between divisions within different business segments and made other changes within business segments in its continuing effort to improve the alignment of its businesses around markets and customers (refer to Note 13 herein). Segment 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 15, 2014.

Also, effective in the second quarter of 2014, within the Electronics and Energy business segment, 3M combined three existing divisions into two new divisions. A large portion of both the Electronics Markets Materials Division and the Electronic Solutions Division were combined to form the Electronics Materials Solutions Division, which focuses on semiconductor and electronics materials and assembly solutions. The Optical Systems Division, the remaining portion of the Electronic Solutions Division and a portion of the Electronics Markets Materials Division were combined to form the Display Materials and Systems Division, which focuses on delivering light, color and user interface solutions.

**Foreign Currency Translation**

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

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

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 2013. 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.

The Venezuelan government sets official rates of exchange and conditions precedent to purchase foreign currency at these rates with local currency. Such rates and conditions are subject to change. For the periods presented through January 2013, this rate was set under the Transaction System for Foreign Currency Denominated Securities (SITME). In February 2013, the Venezuelan government announced a devaluation of its currency and the elimination of the SITME market. As a result, the official exchange rate controlled by the Commission for the Administration of Foreign Exchange (CADIVI) changed to a rate less favorable than the previous SITME rate.

In January 2014, the Venezuelan government announced that a new agency, the National Center for Foreign Commerce (CENCOEX), had assumed the previous role of CADIVI with respect to the continuation of the existing official exchange rate; significantly expanded the use of a second foreign exchange mechanism called the Complementary System for Foreign Currency Acquisition (or SICAD1); and issued exchange regulations indicating the SICAD1 rate of exchange would be used for payments related to international investments. The SICAD1 exchange mechanism, a complementary currency auction system, had previously been created for purchases of foreign currency by only certain eligible importers and tourists. The government had begun publishing the SICAD1 rate resulting from currency auctions in December 2013.

Table of Contents

In late March 2014, the Venezuelan government launched a third foreign exchange mechanism, SICAD2, which relies on U.S. dollar cash and U.S. dollar denominated bonds offered by the Venezuelan Central Bank, PDVSA (the Venezuelan national oil and gas company) and certain private companies. SICAD2 was announced as being available to all industry sectors and that its use would not be restricted as to purpose.

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. For the periods presented, this remeasurement utilized the SITME rate through January 2013, the official CADIVI/CENCOEX rate beginning in February 2013, the SICAD1 rate beginning in March 2014, and the SICAD2 rate beginning in June 2014. 3M's use of SICAD1 and subsequently SICAD2 was based upon evaluation of a number of factors including, but not limited to, the exchange rate the Company's Venezuelan subsidiary may legally use to convert currency, settle transactions or pay dividends; the probability of accessing and obtaining currency by use of a particular rate or mechanism; and the Company's intent and ability to use a particular exchange mechanism. Other factors notwithstanding, the elimination of the SITME rate and use of the CADIVI/CENCOEX exchange rate beginning in February 2013, use of the SICAD1 rate beginning in March 2014, and use of the SICAD2 rate beginning in June 2014 did not have a material impact on 3M's consolidated results of operations or financial condition.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Changes in applicable exchange rates or exchange mechanisms may continue in the future. These changes could impact the rate of exchange applicable to remeasure the Company's net monetary assets (liabilities) denominated in Venezuelan Bolivars (VEF). As of June 30, 2014, the Company had a balance of net monetary liabilities denominated in VEF of less than 115 million VEF and the SICAD1 and SICAD2 exchange rates were approximately 10 VEF and 50 VEF per U.S. dollar, respectively. Had 3M utilized the SICAD1 rate rather than the SICAD2 rate of exchange for remeasurement of such items as of June 30, 2014, the differential would not have had a material impact on 3M's consolidated results of operations or financial condition.

**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 (3.1 million average options for the three months ended June 30, 2014; 2.7 million average options for the six months ended June 30, 2014; 3.7 million average options for the three months ended June 30, 2013; and 3.9 million average options for the six months ended June 30, 2013). The computations for basic and diluted earnings per share follow:

**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
<b>Numerator:</b>				
Net income attributable to 3M	\$ 1,267	\$ 1,197	\$ 2,474	\$ 2,326
<b>Denominator:</b>				
Denominator for weighted average 3M common shares outstanding - basic	652.0	688.2	656.7	689.6

Edgar Filing: 3M CO - Form 10-Q

Dilution associated with the Company's stock-based compensation plans	<b>12.6</b>	10.9	<b>12.9</b>	11.0
Denominator for weighted average 3M common shares outstanding - diluted	<b>664.6</b>	699.1	<b>669.6</b>	700.6
Earnings per share attributable to 3M common shareholders - basic	\$ <b>1.94</b>	\$ 1.74	\$ <b>3.77</b>	\$ 3.37
Earnings per share attributable to 3M common shareholders - diluted	\$ <b>1.91</b>	\$ 1.71	\$ <b>3.70</b>	\$ 3.32

Table of Contents

**New Accounting Pronouncements**

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. 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 was effective prospectively beginning January 1, 2014. This ASU had no immediate impact on 3M's consolidated results of operations and financial condition as the Company had no event/transaction as described above.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This standard will have the impact of reducing the frequency of disposals reported as discontinued operations, by requiring such a disposal to represent a strategic shift that has or will have a major effect on an entity's operations and financial results. However, existing provisions that prohibit an entity from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after disposal are eliminated by this standard. The ASU also expands the disclosures for discontinued operations and requires new disclosures related to individually significant disposals that do not qualify as discontinued operations. For 3M, this ASU is effective prospectively beginning January 1, 2015. Early adoption is, however, permitted. This ASU would impact 3M's consolidated results of operations and financial condition only in the instance of a disposal as described above.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard's stated core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle the ASU includes provisions within a five step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) an entity satisfies a performance obligation. The standard also specifies the accounting for some costs to obtain or fulfill a contract with a customer and requires expanded disclosures about revenue recognition. The standard provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. For 3M, this ASU is effective January 1, 2017. The Company is currently assessing this ASU's impact on 3M's consolidated results of operations and financial condition.

**NOTE 2. Acquisitions and Divestitures**

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



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

otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

During the six months ended June 30, 2014, the purchase price paid for business combinations (net of cash acquired) was \$94 million, which related to 3M's acquisition of Treo Solutions LLC (discussed below).

In April 2014, 3M (Health Care Business) purchased all of the outstanding equity interests of Treo Solutions LLC, headquartered in Troy, New York. Treo Solutions LLC is a provider of data analytics and business intelligence to

Table of Contents

healthcare payers and providers. The allocation of purchase price related to this acquisition is considered preliminary, largely with respect to intangible assets, and tax-related assets and liabilities.

Purchased identifiable finite-lived intangible assets related to the acquisition which closed in the first six months ended of 2014 totaled \$34 million and will be amortized on a straight-line basis over a weighted-average life of six years (lives ranging from three to 10 years). Acquired in-process research and development and identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

Refer to Note 2 in 3M's Current Report on Form 8-K dated May 15, 2014 (which updated 3M's 2013 Annual Report on Form 10-K) for information on 3M's 2011 through 2013 acquisitions and divestitures.

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

Purchased goodwill related to the acquisition which closed during the first six months of 2014 totaled \$65 million, none of which is deductible for tax purposes. 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, 2013 and June 30, 2014, are as follows:

**Goodwill**

(Millions)	December 31, 2013 Balance	Acquisition activity	Translation and other	June 30, 2014 Balance
Industrial	\$ 2,166	\$	\$ 10	\$ 2,176
Safety and Graphics	1,740		(2)	1,738
Electronics and Energy	1,612		1	1,613
Health Care	1,596	65	1	1,662
Consumer	231		2	233
Total Company	\$ 7,345	\$ 65	\$ 12	\$ 7,422

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 2014, the Company transferred a product line between divisions within different business segments and in both the first and second quarters of 2014 made other changes within business segments in its continuing effort to improve the alignment of its businesses around markets and customers. 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 and second quarters of 2014, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

**Acquired Intangible Assets**

For the six months ended June 30, 2014, gross intangible assets (excluding goodwill) acquired through business combinations increased the gross carrying amount, with this impact partially offset by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of June 30, 2014, and December 31, 2013, follow:

(Millions)	June 30, 2014	December 31, 2013
Customer related intangible assets	\$ 1,409	\$ 1,411

Edgar Filing: 3M CO - Form 10-Q

Patents		<b>601</b>		602
Other technology-based intangible assets		<b>422</b>		406
Definite-lived tradenames		<b>410</b>		411
Other amortizable intangible assets		<b>225</b>		217
Total gross carrying amount		<b>\$ 3,067</b>	<b>\$</b>	<b>3,047</b>
Accumulated amortization customer related		<b>(563)</b>		(514)
Accumulated amortization patents		<b>(474)</b>		(458)
Accumulated amortization other technology-based		<b>(203)</b>		(179)
Accumulated amortization definite-lived tradenames		<b>(187)</b>		(178)
Accumulated amortization other		<b>(166)</b>		(159)
Total accumulated amortization		<b>\$ (1,593)</b>	<b>\$</b>	<b>(1,488)</b>
Total finite-lived intangible assets net		<b>\$ 1,474</b>	<b>\$</b>	<b>1,559</b>
Non-amortizable intangible assets (primarily tradenames)		<b>129</b>		129
Total intangible assets net		<b>\$ 1,603</b>	<b>\$</b>	<b>1,688</b>

Table of Contents

Amortization expense for acquired intangible assets for the three-month and six-month periods ended June 30, 2014 and 2013 follows:

(Millions)	Three months ended June 30,				Six months ended June 30,			
	2014	2013	2014	2013	2014	2013	2014	2013
Amortization expense	\$ 57	\$ 60	\$ 114	\$ 120				

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2014:

(Millions)	Remainder of 2014	2015	2016	2017	2018	2019	After 2019
Amortization expense	\$ 109	\$ 206	\$ 193	\$ 177	\$ 160	\$ 148	\$ 481

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, 2014**

(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, 2014</b>	\$ 17,924	\$ 4,554	\$ 33,312	\$ (16,577)	\$ (3,841)	\$ 476
Net income	1,283		1,267			16
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	127				123	4
Defined benefit pension and post-retirement plans adjustment	60				60	
Debt and equity securities - unrealized gain (loss)	1				1	
Cash flow hedging instruments - unrealized gain (loss)	(9)				(9)	
Total other comprehensive income (loss), net of tax	179					
Dividends declared	(556)		(556)			
Purchase of subsidiary shares	(5)	(1)				(4)
Stock-based compensation, net of tax impacts	97	97				
Reacquired stock	(1,382)			(1,382)		
Issuances pursuant to stock option and benefit plans	306		(187)	493		
<b>Balance at June 30, 2014</b>	\$ 17,846	\$ 4,650	\$ 33,836	\$ (17,466)	\$ (3,666)	\$ 492

**Six months ended June 30, 2014**

(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, 2013</b>	\$ 17,948	\$ 4,384	\$ 32,416	\$ (15,385)	\$ (3,913)	\$ 446
Net income	2,508		2,474			34
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	147				131	16

Edgar Filing: 3M CO - Form 10-Q

Defined benefit pension and post-retirement plans adjustment	121			121
Debt and equity securities - unrealized gain (loss)	2			2
Cash flow hedging instruments - unrealized gain (loss)	(7)			(7)
Total other comprehensive income (loss), net of tax	263			
Dividends declared	(555)		(555)	
Purchase of subsidiary shares	(5)	(1)		(4)
Stock-based compensation, net of tax impacts	267	267		
Reacquired stock	(3,155)		(3,155)	
Issuances pursuant to stock option and benefit plans	575		(499)	1,074
<b>Balance at June 30, 2014</b>	<b>\$ 17,846</b>	<b>\$ 4,650</b>	<b>\$ 33,836</b>	<b>\$ (17,466) \$ (3,666) \$ 492</b>

Table of Contents**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 declared	(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
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)					



Edgar Filing: 3M CO - Form 10-Q

Dividends declared	(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

3M has historically declared and paid dividends in the same quarter. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share (paid in March 2014). This reduced 3M's stockholders equity and increased other current liabilities as of December 31, 2013 by \$567 million. This resulted in total year 2013 declared dividends of \$3.395 per share, with \$2.54 per share paid in 2013 and the additional \$0.855 per share paid in March 2014.

Table of Contents**Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component****Three months ended June 30, 2014**

(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 Comprehen- sive Income (Loss)
<b>Balance at March 31, 2014, net of tax</b>	\$ (180)	\$ (3,654)	\$ (1)	\$ (6)	\$ (3,841)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	128		1	(21)	108
Amounts reclassified out		92		5	97
Total other comprehensive income (loss), before tax	128	92	1	(16)	205
Tax effect	(5)	(32)		7	(30)
Total other comprehensive income (loss), net of tax	123	60	1	(9)	175
<b>Balance at June 30, 2014, net of tax</b>	\$ (57)	\$ (3,594)	\$	\$ (15)	\$ (3,666)

**Six months ended June 30, 2014**

(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 Comprehen- sive Income (Loss)
<b>Balance at December 31, 2013, net of tax</b>	\$ (188)	\$ (3,715)	\$ (2)	\$ (8)	\$ (3,913)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	134		3	(12)	125
Amounts reclassified out		183		(1)	182
Total other comprehensive income (loss), before tax	134	183	3	(13)	307
Tax effect	(3)	(62)	(1)	6	(60)
Total other comprehensive income (loss), net of tax	131	121	2	(7)	247
<b>Balance at June 30, 2014, net of tax</b>	\$ (57)	\$ (3,594)	\$	\$ (15)	\$ (3,666)

Table of Contents**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 Comprehen- sive 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)	(79)	(345)
Amounts reclassified out		144		91	235
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 Comprehen- sive 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)	(114)	(704)
Amounts reclassified out		287		164	451
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)

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.

The previously reported before-tax amounts of other comprehensive income before reclassifications and amounts reclassified out of other comprehensive income for the three and six months ended June 30, 2013 relative to foreign currency forward contracts in the table above and below were impacted by the immaterial revisions discussed in Note 9.



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, 2014	2013	Six months ended June 30, 2014	2013	
Gains (losses) associated with, defined benefit pension and postretirement plans amortization					
Transition asset	\$	\$	\$	\$	1 See Note 8
Prior service benefit	<b>15</b>	20	<b>30</b>	40	See Note 8
Net actuarial loss	<b>(107)</b>	(164)	<b>(213)</b>	(328)	See Note 8
Total before tax	<b>(92)</b>	(144)	<b>(183)</b>	(287)	
Tax effect	<b>32</b>	53	<b>62</b>	111	Provision for income taxes
Net of tax	\$ <b>(60)</b>	\$ (91)	\$ <b>(121)</b>	\$ (176)	
Debt and equity security gains (losses)					
Sales or impairments of securities	\$	\$	\$	\$	Selling, general and administrative expenses
Total before tax					
Tax effect					Provision for income taxes
Net of tax	\$	\$	\$	\$	
Cash flow hedging instruments gains (losses)					
Foreign currency forward/option contracts	\$ <b>(6)</b>	\$ (3)	\$ <b>(2)</b>	\$ (9)	Cost of sales
Foreign currency forward contracts		(89)		(155)	Interest expense
Commodity price swap contracts	<b>1</b>	1	<b>3</b>		Cost of sales
Total before tax	<b>(5)</b>	(91)	<b>1</b>	(164)	
Tax effect	<b>2</b>	32		59	Provision for income taxes
Net of tax	\$ <b>(3)</b>	\$ (59)	\$ <b>1</b>	\$ (105)	
Total reclassifications for the period, net of tax	\$ <b>(63)</b>	\$ (150)	\$ <b>(120)</b>	\$ (281)	

**Purchase and Sale of Subsidiary Shares**

In April 2014, 3M purchased the remaining noncontrolling interest in a consolidated 3M subsidiary for an immaterial amount, which was classified as other financing activity in the consolidated statement of cash flows.

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.

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

In July 2014, 3M announced that it will acquire (via Sumitomo 3M Limited) Sumitomo Electric Industries, Ltd.'s 25 percent interest in 3M's consolidated Sumitomo 3M Limited subsidiary for 90 billion Japanese Yen (approximately \$885 million at announcement date exchange rates). Upon completion of the transaction, 3M will own 100 percent of Sumitomo 3M Limited. The transaction is expected to close on September 1, 2014 and will be reflected as a financing activity in the consolidated statement of cash flows.

Table of Contents

**NOTE 5. Income Taxes**

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

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. During the first quarter of 2014, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2011 and 2012 years. The Company protested certain IRS positions for 2011 and 2012 and entered into the administrative appeals process with the IRS during the first quarter of 2014.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2013 and 2014. It is anticipated that the IRS will complete its examination of the Company for 2013 by the end of the first quarter of 2015 and for 2014 by the end of the first quarter of 2016. As of June 30, 2014, the IRS has not proposed any significant adjustments to the Company's tax positions for which the Company is not adequately reserved.

During the first quarter of 2010, the Company paid the agreed upon assessments for the 2005 tax year. During the second quarter of 2010, the Company paid the agreed upon assessments for the 2008 tax year. During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. During the first quarter of 2014, the Company received refunds from the IRS for the 2005, 2007, 2008, and 2009 tax years. In addition, during the first quarter of 2014, the Company paid the agreed upon assessments for the 2011 and 2012 tax years. Payments or refunds relating to other proposed assessments arising from the 2005 through 2014 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, 2014 and December 31, 2013, respectively, are \$202 million and \$262 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 \$2 million of expense and \$1 million of expense for the three months ended June 30, 2014 and June 30, 2013, respectively, and approximately \$13 million in benefit and \$5 million of expense for the six months ended June 30, 2014 and June 30, 2013, respectively. At June 30, 2014 and December 31, 2013, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$45 million and \$62 million, respectively. Included in these interest and penalty amounts are interest and

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

penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The effective tax rate for the second quarter of 2014 was 29.5 percent, compared to 27.4 percent in the second quarter of 2013, an increase of 2.1 percentage points. Factors that increased the Company's effective tax rate on a combined basis by 2.1 percentage points year-on-year included the 2013 restoration of tax basis on certain assets for which depreciation was previously limited, international taxes as a result of changes to the geographic mix of income before taxes, lapse of



Table of Contents

the U.S. research and development credit as of January 1, 2014, adjustments to the Company's income tax reserves, and other items.

The effective tax rate for the first six months of 2014 was 28.5 percent, compared to 28.2 percent in the first six months of 2013, an increase of 0.3 percentage points. Factors which increased the Company's effective tax rate by 1.1 percentage points for the first six months of 2014 when compared to the same period for 2013 included the lapse of the U.S. research and development credit as of January 1, 2014, and international taxes as a result of changes to the geographic mix of income before taxes. This increase was partially offset by a 0.8 percentage point decrease as the result of adjustments to the Company's reserves and the restoration of tax basis on certain assets for which depreciation was previously limited.

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, 2014 and December 31, 2013, the Company had valuation allowances of \$28 million and \$23 million on its deferred tax assets, respectively.

**NOTE 6. Marketable Securities**

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

(Millions)	June 30, 2014	December 31, 2013
U.S. government agency securities	\$ 78	\$ 103
Foreign government agency securities	70	30
Corporate debt securities	182	143
Commercial paper		60
Certificates of deposit/time deposits	38	20
U.S. municipal securities		2
Asset-backed securities:		
Automobile loan related	297	287
Credit card related	137	52
Equipment lease related	63	30
Other	19	29
Asset-backed securities total	516	398
<b>Current marketable securities</b>	<b>\$ 884</b>	<b>\$ 756</b>
U.S. government agency securities	\$ 70	\$ 131
Foreign government agency securities	50	95
Corporate debt securities	614	638
Certificates of deposit/time deposits	10	20
U.S. treasury securities	49	49
Auction rate securities	12	11
Asset-backed securities:		

Edgar Filing: 3M CO - Form 10-Q

Automobile loan related	240	298
Credit card related	85	128
Equipment lease related	25	37
Other	49	46
Asset-backed securities total	399	509
<b>Non-current marketable securities</b>	<b>\$ 1,204</b>	<b>\$ 1,453</b>
<b>Total marketable securities</b>	<b>\$ 2,088</b>	<b>\$ 2,209</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

Table of Contents

hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At June 30, 2014, gross unrealized losses totaled approximately \$1 million (pre-tax), while gross unrealized gains totaled approximately \$1 million (pre-tax). At December 31, 2013, gross unrealized losses totaled approximately \$5 million (pre-tax), while gross unrealized gains totaled approximately \$1 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, 2014 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, 2014
Due in one year or less	\$ 329
Due after one year through five years	1,737
Due after five years through ten years	22
Due after ten years	
Total marketable securities	\$ 2,088

3M has a diversified marketable securities portfolio with a fair market value of \$2.088 billion as of June 30, 2014. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$915 million) 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 Investors Service or AA by Standard & Poor's or Fitch Ratings or DBRS. Asset-backed securities must be rated by at least two of the aforementioned rating agencies, one of which must be Moody's Investors Service or Standard & Poor's. At June 30, 2014, all asset-backed security investments were in compliance with this policy. Approximately 96.5 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's Investors Service.

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 \$12 million at June 30, 2014 and \$11 million at December 31, 2013. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$1 million (pre-tax) at June 30, 2014 and \$2 million (pre-tax) at December 31, 2013. As of June 30, 2014, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 10 for a table that reconciles the beginning and ending balances of auction rate securities.



Table of Contents

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

The Company has a well-known seasoned issuer shelf registration statement, effective May 16, 2014, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated August 5, 2011. In June 2014, in connection with the May 16, 2014 shelf registration, 3M re-commenced its medium-term notes program (Series F) under which 3M may issue, from time to time, up to \$9 billion aggregate principal amount of notes. Included in this \$9 billion are \$2.25 billion of notes previously issued in 2011 and 2012 as part of Series F. In June 2014, 3M issued \$625 million aggregate principal amount of five-year fixed rate medium-term notes due 2019 with a coupon rate of 1.625%. Upon debt issuance, the Company entered into an interest rate swap to convert \$600 million of this amount to an interest rate based on a floating LIBOR index. In addition, in June 2014, 3M issued \$325 million aggregate principal amount of thirty-year fixed rate medium-term notes due 2044 with a coupon rate of 3.875%. Both June 2014 debt issuances were from the medium-term notes program (Series F). In addition, subsequent to quarter-end, in July 2014, 3M repaid 1.025 billion Euros of maturing Eurobond notes funded primarily through the issuances of commercial paper.

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 three and six months ended June 30, 2014 and 2013 follow:

**Benefit Plan Information**

(Millions)	Three months ended June 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2014		2013	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 60	\$ 64	\$ 35	\$ 36	\$ 17	\$ 20		
Interest cost	169	149	65	61	24	22		
Expected return on plan assets	(261)	(261)	(80)	(75)	(23)	(23)		
Amortization of transition (asset) obligation								
Amortization of prior service cost (benefit)	1	1	(4)	(5)	(12)	(16)		
Amortization of net actuarial (gain) loss	61	100	31	40	15	24		
Net periodic benefit cost (benefit)	\$ 30	\$ 53	\$ 47	\$ 57	\$ 21	\$ 27		
Settlements, curtailments, special termination benefits and other								
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 30	\$ 53	\$ 47	\$ 57	\$ 21	\$ 27		

(Millions)	Six months ended June 30,							
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits			
	United States		International		2014		2013	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Net periodic benefit cost (benefit)</b>								
Service cost	\$ 120	\$ 128	\$ 71	\$ 72	\$ 33	\$ 40		
Interest cost	338	299	129	122	48	44		
Expected return on plan assets	(522)	(522)	(159)	(150)	(45)	(45)		
Amortization of transition (asset) obligation								
				(1)				
Amortization of prior service cost (benefit)	2	2	(8)	(9)	(24)	(33)		
Amortization of net actuarial (gain) loss	122	200	62	80	29	48		
Net periodic benefit cost (benefit)	\$ 60	\$ 107	\$ 95	\$ 114	\$ 41	\$ 54		
Settlements, curtailments, special termination benefits and other								
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 60	\$ 107	\$ 95	\$ 114	\$ 41	\$ 54		

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

For the six months ended June 30, 2014, contributions totaling \$74 million were made to the Company's U.S. and international pension plans and \$3 million to its postretirement plans. For total year 2014, the Company expects to contribute approximately \$100 million to \$200 million of cash to its global pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014. 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.

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

Table of Contents

decrease in original asset value. As of the 2013 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 15, 2014 (which updated 3M's 2013 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 15, 2014 (which updated 3M's 2013 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, 2014 and 2013. Beginning in the second quarter of 2014 3M began extending the maximum length of time over which it hedges its exposure to the variability in future cash flows of the forecasted transactions from a previous term of 12 months to a longer term of 24 months. At June 30, 2014, 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, 2014 was approximately \$1.9 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

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

forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects 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, 2014 and 2013. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at June 30, 2014 was \$22 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, 2014, the Company had a balance of \$15 million associated with the after-tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This net loss

Table of Contents

includes a \$2 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.

The Company revised amounts previously presented in the tables below for the pretax gain (loss) recognized in other comprehensive income on effective portion of derivative ( Gain Recognized in OCI ) and the pretax gain (loss) recognized in income on effective portion of derivative as a result of reclassification from accumulated other comprehensive income ( Gain Reclassified into Income ) for the three and six months ended June 30, 2013 relative to foreign currency forward contracts. These immaterial corrections decreased both the previously presented amounts of the Gain Recognized in OCI and the Gain Reclassified into Income in the disclosure tables below by \$37 million and \$2 million in for the three and six months ended June 30, 2013, respectively. The revisions had no impact on the Company's consolidated results of operations or financial condition.

**Three months ended June 30, 2014**

(Millions)	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
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ (20)	Cost of sales	\$ (6)	Cost of sales	\$	
Commodity price swap contracts	(1)	Cost of sales	1	Cost of sales		
<b>Total</b>	<b>\$ (21)</b>		<b>\$ (5)</b>		<b>\$</b>	

**Six months ended June 30, 2014**

(Millions)	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
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ (13)	Cost of sales	\$ (2)	Cost of sales	\$	
Commodity price swap contracts	1	Cost of sales	3	Cost of sales		
<b>Total</b>	<b>\$ (12)</b>		<b>\$ 1</b>		<b>\$</b>	



Table of Contents**Three months ended June 30, 2013**

(Millions)	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
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ 10	Cost of sales	\$ (3)	Cost of sales	\$	
Foreign currency forward contracts	(86)	Interest expense	(89)	Interest expense		
Commodity price swap contracts	(3)	Cost of sales	1	Cost of sales		
Total	\$ (79)		\$ (91)		\$	

**Six months ended June 30, 2013**

(Millions)	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
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ 41	Cost of sales	\$ (9)	Cost of sales	\$	
Foreign currency forward contracts	(154)	Interest expense	(155)	Interest expense		
Commodity price swap contracts	(1)	Cost of sales		Cost of sales		
Total	\$ (114)		\$ (164)		\$	

Fair 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, 2014 was \$1.3 billion.

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

At June 30, 2014, 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 as an offset to interest expense 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 the gain on hedged items recognized in income in the tables below.

Table of Contents

In November 2013, 3M issued an eight-year 1.875% fixed rate Eurobond for a face amount of 600 million Euros. Upon debt issuance, 3M completed a fixed-to-floating interest rate swap on a notional amount of 300 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation.

In June 2014, 3M issued a five-year 1.625% fixed rate medium-term note for a face amount of \$625 million. Upon debt issuance, 3M completed a fixed-to-floating interest rate swap on a notional amount of \$600 million as a fair value hedge of a portion of the fixed interest rate medium-term note obligation.

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, 2014**

(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	\$ 6	Interest expense	\$ (6)
Total		\$ 6		\$ (6)

**Six months ended June 30, 2014**

(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	\$ 13	Interest expense	\$ (13)
Total		\$ 13		\$ (13)

**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**

Edgar Filing: 3M CO - Form 10-Q

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ (8)	Interest expense	\$ 8
Total		\$ (8)		\$ 8

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 such as complete or substantially complete liquidation of the net investment in the hedged foreign operation.

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. In the second quarter of 2014, the Company dedesignated 716 million Euros of the seven-year Eurobond securities due in July 2014 from the net investment hedge relationship. Accordingly, changes in carrying value of this portion of the foreign currency denominated debt due to exchange rate changes will be recorded in earnings going forward through their July 2014 maturity.

In November 2013, the Company issued eight-year fixed rate Eurobond securities for 600 million Euros. 3M designated each of these Eurobond issuances as hedging instruments of the Company's net investment in its European subsidiaries.

In anticipation of the November 2013 Eurobond issuance, the Company entered into foreign currency forward contracts with notional amounts totaling 594 million Euros. These forward contracts were designated as hedging instruments of the Company's net investment in its European subsidiaries. These contracts matured in November 2013.



Table of Contents

In the second quarter of 2014, the Company entered into foreign currency forward contracts with notional amounts totaling 450 million Euros. These forward contracts were designated as hedging instruments of the Company's net investment in its European subsidiaries. These contracts mature in September 2014.

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, 2014**

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		Location	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Amount		Amount	Amount
Foreign currency denominated debt	\$	(18)	N/A	\$	
Foreign currency forward contracts		1	N/A		
Total	\$	(17)		\$	

**Six months ended June 30, 2014**

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		Location	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Amount		Amount	Amount
Foreign currency denominated debt	\$	(27)	N/A	\$	
Foreign currency forward contracts		1	N/A		
Total	\$	(26)		\$	

**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		Location	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Amount		Amount	Amount
Foreign currency denominated debt	\$	(24)	N/A	\$	

Edgar Filing: 3M CO - Form 10-Q

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		\$	

Derivatives 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

Table of Contents

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 \$8.1 billion as of June 30, 2014. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company revised amounts previously presented in the tables below for the gain (loss) on derivative recognized in income ( Gain Recognized in Income ) for the three and six months ended June 30, 2013 relative to foreign currency forward contracts. These immaterial corrections decreased the previously presented amounts of the Gain Recognized in Income in the disclosure tables below by \$21 million for both the three and six months ended June 30, 2013. The revisions had no impact on the Company's consolidated results of operations or financial condition

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, 2014			Six months ended June 30, 2014		
	Gain (Loss) on Derivative Recognized in Income			Gain (Loss) on Derivative Recognized in Income		
	Location	Amount		Location	Amount	
Foreign currency forward/option contracts	Cost of sales	\$	(2)	Cost of sales	\$	(3)
Foreign currency forward contracts	Interest expense		35	Interest expense		68
Total		\$	33		\$	65

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 Income			Gain (Loss) on Derivative Recognized in Income		
	Location	Amount		Location	Amount	
Foreign currency forward/option contracts	Cost of sales	\$	21	Cost of sales	\$	31
Foreign currency forward contracts	Interest expense		(27)	Interest expense		(6)
Commodity price swap contracts	Cost of sales		(1)	Cost of sales		(1)
Total		\$	(7)		\$	24

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, 2014**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 12	Other current liabilities	\$ 23
Commodity price swap contracts	Other current assets	1	Other current liabilities	1
Interest rate swap contracts	Other assets	17	Other liabilities	2
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 30</b>		<b>\$ 26</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 40	Other current liabilities	\$ 31
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 40</b>		<b>\$ 31</b>
<b>Total derivative instruments</b>		<b>\$ 70</b>		<b>\$ 57</b>

**December 31, 2013**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 24	Other current liabilities	\$ 35
Commodity price swap contracts	Other current assets	1	Other current liabilities	7
Interest rate swap contracts	Other assets	8	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 33</b>		<b>\$ 42</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 51	Other current liabilities	\$ 68
		<b>\$ 51</b>		<b>\$ 68</b>

**Total derivatives not designated as hedging instruments**

<b>Total derivative instruments</b>	\$	84	\$	110
-------------------------------------	----	----	----	-----

*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, 2014, 3M has International Swaps and Derivatives Association (ISDA) agreements with 12 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 11 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, 2014**

(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	\$ 69	\$ 33	\$	\$ 36
Derivatives not subject to master netting agreements	1			1
<b>Total</b>	<b>\$ 70</b>			<b>\$ 37</b>

**June 30, 2014**

(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	\$ 57	\$ 33	\$	\$ 24
Derivatives not subject to master netting agreements				
<b>Total</b>	<b>\$ 57</b>			<b>\$ 24</b>

**December 31, 2013**

(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	\$	83	\$	51
Derivatives not subject to master netting agreements		1		1
<b>Total</b>	\$	84	\$	33

Table of Contents

December 31, 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 Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$ 110	\$ 51	\$	\$ 59
Derivatives not subject to master netting agreements				
<b>Total</b>	<b>\$ 110</b>			<b>\$ 59</b>

*Currency Effects*

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$25 million for the three months ended June 30, 2014 and decreased net income attributable to 3M by approximately \$54 million for the six months ended June 30, 2014. 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 converting Venezuelan bolivars into Euros and U.S. dollars, which 3M estimates decreased net income attributable to 3M by approximately \$22 million for three months ended June 30, 2014 and decreased net income attributable to 3M by approximately \$25 million for the six months ended June 30, 2014.



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 months ended June 30, 2014 and 2013.

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

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

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

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

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

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

Available-for-sale investments:

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

Derivative instruments:

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

Table of Contents

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

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

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

(Millions) Description	Fair Value at June 30, 2014	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	\$ 148		\$ 148	
Foreign government agency securities	120		120	
Corporate debt securities	796		796	
Certificates of deposit/time deposits	48		48	
Asset-backed securities:				
Automobile loan related	537		537	
Credit card related	222		222	
Equipment lease related	88		88	
Other	68		68	
U.S. treasury securities	49	49		
Auction rate securities	12			12
Investments	1	1		
Derivative instruments assets:				
Foreign currency forward/option contracts	52	52		
Commodity price swap contracts	1	1		
Interest rate swap contracts	17		17	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	54	54		
Commodity price swap contracts	1	1		
Interest rate swap contracts	2		2	

Edgar Filing: 3M CO - Form 10-Q

Table of Contents

(Millions) Description	Fair Value at December 31, 2013	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	\$ 234	\$	\$ 234	\$
Foreign government agency securities	125		125	
Corporate debt securities	781		781	
Certificates of deposit/time deposits	40		40	
Commercial paper	60		60	
Asset-backed securities:				
Automobile loan related	585		585	
Credit card related	180		180	
Equipment lease related	67		67	
Other	75		75	
U.S. treasury securities	49	49		
U.S. municipal securities	2		2	
Auction rate securities	11			11
Investments	2	2		
Derivative instruments assets:				
Foreign currency forward/option contracts	75	75		
Commodity price swap contracts	1	1		
Interest rate swap contracts	8		8	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	103	103		
Interest rate swap contracts	7		7	

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

(Millions) Marketable securities auction rate securities only	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Beginning balance	\$ 12	\$ 7	\$ 11	\$ 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	12	10	12	10
Change in unrealized gains or losses for the period included in earnings for securities held at the end of the reporting period				

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 15, 2014 (which updated 3M's 2013 Annual Report on Form 10-K).

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

### *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, 2014 and 2013.

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 (except the Eurobond securities totaling 1.025 billion Euros, which were moved from long-term debt to current portion of long-term debt in July 2013 and are shown separately in the table below) 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, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Eurobond securities due July 2014	\$ 1,396	\$ 1,398	\$ 1,424	\$ 1,447
Long-term debt, excluding current portion	5,323	5,575	4,326	4,463

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. Many of 3M's fixed-rate bonds were trading at a premium at June 30, 2014 and December 31, 2013 due to the low interest rates and tightening of 3M's credit spreads.

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

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information about the Company's process for disclosure and recording of liabilities and insurance receivables related to legal proceedings 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, 2013, as updated by the Company's Current Report on Form 8-K dated May 15, 2014.

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 recorded accruals and the related insurance receivables:

Liability and Receivable Balances (Millions)	June 30, 2014	December 31, 2013
Respirator mask/asbestos liabilities	\$ 153	\$ 152
Respirator mask/asbestos insurance receivables	47	58
Environmental remediation liabilities	\$ 26	\$ 27
Environmental remediation insurance receivables	11	11
Other environmental liabilities	\$ 45	\$ 48
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, 2014, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,225 individual claimants, compared to approximately 2,200 individual claimants with actions pending at December 31, 2013.

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

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 over a decade ago. 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 Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical conditions, even if significant, are attributable to the Company's respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with



Table of Contents

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. In November 2013, the State filed a motion to bifurcate the lawsuit into separate liability and damages proceedings. A hearing on that motion has not yet been scheduled. 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 lack of any meaningful discovery responses by the State of West Virginia, the otherwise 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, if any, a jury might allocate to each defendant if the 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 who claim more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in the first six months of 2014 for respirator mask/asbestos liabilities by \$21 million, \$14 million of which occurred in the second quarter of 2014. In the first six months of 2014, the Company made payments for fees and settlements of \$19 million related to the respirator mask/asbestos litigation, \$9 million of which occurred in the second quarter of 2014. As of June 30, 2014, the Company had accruals for respirator mask/asbestos liabilities of \$129 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, (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, 2014, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$47 million. The Company estimates insurance receivables based on an analysis of its 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 records an

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

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, in the District Court in Ramsey County, Minnesota, sought 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 were dismissed because of settlements they had reached with the Company regarding the

Table of Contents

matters at issue in the lawsuit. In July 2013, the Company reached agreements in principle with the remaining insurers in the lawsuit. All of the settlement agreements have now been executed. In June 2014, the Court issued an order dismissing the case. During the first six months of 2014, the Company received payments of \$11 million from settlements with insurers, \$6 million of which occurred in the second quarter of 2014.

The Company has unresolved coverage with claims-made carriers for respirator mask claims. The Company is also seeking coverage under the policies of certain insolvent insurers. Once those claims for coverage are resolved, the Company will have collected substantially all of its remaining insurance coverage for respirator mask/asbestos 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, 2014, 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, 2014, the Company, through its Aearo subsidiary, has recorded \$24 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. In June 2014, the court granted Aearo's motion for summary judgment on all claims. Cabot has filed a motion for reconsideration, and Aearo has filed a motion for clarification of the court's order granting Aearo summary judgment.

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.

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.

Table of Contents

Environmental Matters and Litigation

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

Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the Company may be jointly and severally liable, typically with other companies, for the costs of remediation of environmental contamination at current or former facilities and at off-site locations. The Company has identified numerous locations, most of which are in the United States, at which it may have some liability. Please refer to the 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, federal (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. As the database of studies of both chemicals has expanded, the EPA has developed draft human health effects documents summarizing the available data from these studies. In February 2014, the EPA initiated external peer review of its draft human health effects documents for PFOA and PFOS. Following peer review, the EPA stated it will revise its health effects documents and use them to establish lifetime health advisories for PFOS and PFOA in drinking water. Lifetime health advisories, while not enforceable, serve as guidance and are benchmarks for determining if concentrations of chemicals in tap water from public utilities are safe for public consumption. Once finalized, the EPA stated that the lifetime health advisories are expected to supersede the provisional health advisories for PFOA and PFOS in drinking water issued by the EPA in 2009 currently at 0.4 micrograms per liter for PFOA and 0.2 micrograms per liter for PFOS. In an effort to collect exposure information 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 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 Decatur, Alabama, Cottage Grove, Minnesota, and Cordova, Illinois 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 2014 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

Table of Contents

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 2014.

In February 2014, the Company submitted its most recent environmental assessment report to the Illinois Environmental Protection Agency summarizing the levels of PFCs in the soil, groundwater and surface water at or near its manufacturing facility in Cordova, Illinois. The Company will continue to monitor PFCs at the site and is engaged in discussions with the Illinois EPA concerning next steps for the site. In June 2014, the Illinois EPA conditionally approved a request by the Company to establish a groundwater management zone at the site, which includes ongoing pumping of impacted site groundwater, groundwater monitoring and routine reporting of results.

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 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.

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

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

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



Table of Contents

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 November 2011, the Metropolitan Council filed a motion to intervene and a complaint in the NRD Lawsuit seeking compensatory damages 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, including the installation and maintenance of a water treatment system. 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 April 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 and the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals. In July 2013, the Minnesota Court of Appeals affirmed the district court's disqualification order. In October 2013, the Minnesota Supreme Court granted both the State's and Covington's petition for review of the decision of the Minnesota Court of Appeals. In April 2014, the Minnesota Supreme Court affirmed in part, reversed in part, and remanded the case to the district court for further proceedings. 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 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. In December 2013, the Court approved the settlement and entered the Consent Judgment. The 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 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 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, 2014, 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

Table of Contents

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, 2014, the Company had recorded liabilities of \$45 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, 2014, 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*

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 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 2013, and the California Court denied approval of the settlement. The plaintiffs filed a motion for reconsideration of the denial of approval of the settlement, which motion was denied by the California court. The plaintiffs then filed a motion for leave to amend their complaint, which motion was denied without prejudice in January 2014. By stipulation in February 2014, plaintiffs agreed to voluntarily dismiss claims against 3M and Cyborg Acquisition Corporation without prejudice. In March 2014, the Court entered its Order dismissing 3M and Cyborg Acquisition Corporation from the action without prejudice.

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

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 filter 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 U.S. 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 constituted 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 were 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. The special master's recommendations were forwarded to the court in September 2013. On April 21, 2014, the court issued an order denying 3M's motions to set

Table of Contents

aside the jury's verdict. In addition, the court found two 3M patents unenforceable due to inequitable conduct. The court accepted the Special Master's recommendation as to the amount of attorneys' fees to be awarded as damages, and entered judgment against 3M in the amount of \$26 million. In July 2014, 3M filed a notice of appeal of the judgment 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, with the exception of the TransWeb matter, where the Company's range of potential exposure, if any, could be approximately \$26 million.

*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 submitted his report to the commercial court in May 2014. The expert found potential defects in 3M's product and found that EDF incurred damages in excess of 100 million Euros. The expert's opinion is not dispositive of liability or damages and is subject to numerous factual and legal challenges that will be raised with the court. 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 15, 2014 (which updated 3M's 2013 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 28,813,481 as of June 30, 2014.

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 33 percent of the 2014 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter.

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

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock 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, 2014 and 2013.

**Stock-Based Compensation Expense**

(Millions)	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
Cost of sales	\$ 11	\$ 6	\$ 33	\$ 18
Selling, general and administrative expenses	35	36	112	113
Research, development and related expenses	6	5	29	19
Stock-based compensation expenses	\$ 52	\$ 47	\$ 174	\$ 150
Income tax benefits	\$ (13)	\$ (13)	\$ (53)	\$ (45)
Stock-based compensation expenses, net of tax	\$ 39	\$ 34	\$ 121	\$ 105



Table of Contents

The following table summarizes stock option activity during the six months ended June 30, 2014:

**Stock Option Program**

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	43,938,778	\$ 83.84		
Granted:				
Annual	5,736,183	126.77		
Exercised	(6,229,925)	83.02		
Canceled	(154,922)	103.29		
June 30	43,290,114	\$ 89.58	68	\$ 2,323
Options exercisable				
June 30	31,486,006	\$ 81.41	53	\$ 1,947

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, 2014, there was \$89 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 25 months. The total intrinsic values of stock options exercised were \$340 million and \$338 million during the six months ended June 30, 2014 and 2013, respectively. Cash received from options exercised was \$517 million and \$1.039 billion for the six months ended June 30, 2014 and 2013, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$125 million for both the six months ended June 30, 2014 and 2013.

For the primary 2014 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 2014
Exercise price	\$ 126.72
Risk-free interest rate	1.9%
Dividend yield	2.6%
Expected volatility	20.8%
Expected life (months)	75
Black-Scholes fair value	\$ 19.63

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2014 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, 2014:

**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	3,105,361	\$ 92.31
Granted:		
Annual	798,615	126.79
Other	15,647	141.58
Vested	(1,066,382)	90.63
Forfeited	(33,543)	100.63
As of June 30	2,819,698	\$ 102.89

As of June 30, 2014, there was \$110 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 25 months. The total fair value of restricted stock units and restricted stock that vested during the six months ended June 30, 2014 and 2013 was \$140 million and \$106 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 \$53 million and \$40 million for the six months ended June 30, 2014 and 2013, 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**

Instead of restricted stock units, the Company makes annual grants of performance shares to members of its executive management. The performance criteria for these performance shares (Organic Sales Growth, Return on Invested Capital and sales from new products) were selected because the Company believes that they are important drivers of long-term shareholder value. 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.



Table of Contents

The following table summarizes performance share activity during the six months ended June 30, 2014:

Performance Shares	Number of Awards		Weighted Average Grant Date Fair Value
Undistributed balance			
As of January 1	895,635	\$	88.12
Granted	285,149		123.88
Distributed	(277,357)		84.74
Performance change	59,443		114.15
Forfeited	(6,501)		102.45
As of June 30	956,369	\$	101.28

As of June 30, 2014, there was \$35 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. During the six months ended June 30, 2014 and June 30, 2013, the total fair value of performance shares that were distributed were \$35 million and \$52 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the distribution of performance shares for the six months ended June 30, 2014 and June 30, 2013 were \$11 million and \$16 million, respectively.

Table of Contents

**NOTE 13. Business Segments**

3M's businesses are organized, managed and internally grouped into segments based on differences in markets, products, technologies and services. 3M 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 2014, 3M transferred a product line between divisions within different business segments and made other changes within business segments in its continuing effort to improve the alignment of its businesses around markets and customers.

The product move between business segments was as follows:

- The movement of the Fire Protection product line from the Building and Commercial Services Division (Safety and Graphics business segment) to the Industrial Adhesives and Tapes Division (Industrial business segment). This product move resulted in an increase in net sales for total year 2013 of \$73 million in the Industrial business segment offset by a corresponding decrease in the Safety and Graphics business segment.

In addition, other changes within business segments were as follows:

- The combination of certain existing divisions/departments into new divisions. Within the Electronics and Energy business segment, the new divisions include the Electrical Markets Division (which includes the former Infrastructure Protection Division), and the Electronic Solutions Division (which includes the former 3M Touch Systems, Inc.). Within the Safety and Graphics business segment, the new Commercial Solutions Division was created from the combination of the former Architectural Markets Department, the former Building and Commercial Services Division and the former Commercial Graphics Division. None of these combinations crossed business segments.
- The renaming of the former Aerospace and Aircraft Maintenance Division within the Industrial business segment to the Aerospace and Commercial Transportation Division.
- The movement of certain product lines between various divisions within the same business segment.

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

Effective in the second quarter of 2014, within the Electronics and Energy business segment, 3M combined three existing divisions into two new divisions. A large portion of both the Electronics Markets Materials Division and the Electronic Solutions Division were combined to form the Electronics Materials Solutions Division, which focuses on semiconductor and electronics materials and assembly solutions. The Optical Systems Division, the remaining portion of the Electronic Solutions Division and a portion of the Electronics Markets Materials Division were combined to form the Display Materials and Systems Division, which focuses on delivering light, color and user interface solutions.

The financial information presented herein reflects the impact of the preceding product move between business segments for all periods presented.

Table of Contents**Business Segment Information**

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
<b>Net Sales</b>				
Industrial	\$ 2,815	\$ 2,683	\$ 5,591	\$ 5,376
Safety and Graphics	1,494	1,434	2,917	2,833
Electronics and Energy	1,422	1,340	2,733	2,617
Health Care	1,416	1,336	2,790	2,647
Consumer	1,139	1,098	2,218	2,179
Corporate and Unallocated	(1)	1	2	3
Elimination of Dual Credit	(151)	(140)	(286)	(269)
Total Company	\$ 8,134	\$ 7,752	\$ 15,965	\$ 15,386
<b>Operating Income</b>				
Industrial	\$ 617	\$ 603	\$ 1,235	\$ 1,182
Safety and Graphics	353	328	671	660
Electronics and Energy	293	237	520	433
Health Care	434	417	861	821
Consumer	241	235	469	472
Corporate and Unallocated	(49)	(87)	(121)	(161)
Elimination of Dual Credit	(33)	(31)	(63)	(59)
Total Company	\$ 1,856	\$ 1,702	\$ 3,572	\$ 3,348

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, 2014, and the related consolidated statements of income and comprehensive income, for the three-month and six-month periods ended June 30, 2014 and 2013, and the consolidated statement of cash flows for the six-month periods ended June 30, 2014 and 2013. 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, 2013, 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 13, 2014, except with respect to our opinion on the consolidated financial statements insofar as it relates to the segment realignments discussed in Notes 3 and 15 as to which the date is May 15, 2014, 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, 2013, 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

July 31, 2014

---

\* 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 15, 2014 (which updated 3M's 2013 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2014, effective in the first quarter of 2014, 3M transferred a product line between divisions within different business segments and made other changes within business segments in its continuing effort to improve the alignment of its businesses around markets and customers. Segment 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 included in its Current Report on Form 8-K dated May 15, 2014.

In addition, effective in the second quarter of 2014, within the Electronics and Energy business segment, 3M combined three existing divisions into two new divisions. A large portion of both the Electronics Markets Materials Division and the Electronic Solutions Division were combined to form the Electronics Materials Solutions Division, which focuses on semiconductor and electronics materials and assembly solutions. The Optical Systems Division, the remaining portion of the Electronic Solutions Division and a portion of the Electronics Markets Materials Division were combined to form the Display Materials and Systems Division, which focuses on delivering light, color and user interface solutions.

Net income attributable to 3M was \$1.267 billion, or \$1.91 per diluted share, in the second quarter of 2014, compared to \$1.197 billion, or \$1.71 per diluted share, in the second quarter of 2013. Second-quarter 2014 sales increased 4.9 percent to \$8.1 billion. 3M achieved organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in all five of its business segments. Organic

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

local-currency sales increased 6.4 percent in Electronics and Energy, 5.1 percent in Health Care, 4.7 percent in both the Industrial business segment and Safety and Graphics, and 4.2 percent in Consumer. For the Company in total, organic local-currency sales grew 4.8 percent, with higher organic volumes contributing 3.5 percent and selling price increases contributing 1.3 percent. Acquisitions added 0.1 percent to sales, which related to the April 2014 acquisition of Treo Solutions LLC (Health Care business segment). Foreign currency translation had no impact on worldwide sales. Foreign currency translation benefited EMEA sales by 3.7 percent, with this benefit completely offset in other geographic areas as foreign currency translation reduced Latin America/Canada sales by 5.8 percent and Asia Pacific sales by 0.7 percent.

On a geographic basis, second-quarter 2014 organic local-currency sales growth was positive across all geographic areas. Asia Pacific local-currency sales growth of 6.6 percent was broad-based, with all five business segments growing, led by Electronics and Energy, and Consumer. Based on sales, Electronics and Energy is the largest business segment in Asia Pacific, with results significantly impacted by electronics-related divisions (Display Materials and Systems Division, and the Electronics Materials Solutions Division). Organic local-currency sales growth was 7 percent in Japan, or 2 percent without electronics-related businesses. China/Hong Kong organic local-currency sales growth was 6 percent, or 10 percent without electronics-related businesses, which was an improvement versus the first quarter's underlying growth rate. Refer to the Electronic and Energy business segment section for additional discussion of electronics-related businesses.

In EMEA, organic local-currency sales increased 4.8 percent. Organic local-currency sales growth was led by Middle East/Africa and Central/East Europe. Organic local-currency sales growth in West Europe was 3.5 percent. Sales growth in EMEA was led by Safety and Graphics, Electronics and Energy, and Industrial.

Table of Contents

In the United States, organic local-currency sales growth was 4.5 percent, up from first quarter year-on-year sales growth of 2.6 percent, led by Health Care, and Safety and Graphics.

In Latin America/Canada, organic local-currency sales grew 2.7 percent, led by Electronics and Energy, and Health Care. Latin America/Canada organic sales growth was led by Mexico, and Brazil was down slightly. Sales and operating income were down substantially in Venezuela during the second quarter of 2014.

Operating income increased 9.1 percent in the second quarter and operating margins were 22.8 percent, a margin increase of 0.8 percentage points year-on-year. These results benefited from the combination of selling price increases and raw material cost decreases, lower pension and postretirement benefit costs, plus leverage from organic volume growth. These benefits were partially offset by the impact of strategic investments and foreign exchange impacts. Refer to the section entitled "Results of Operations" for further discussion.

The income tax rate was 29.5 percent in the second quarter, up 2.1 percentage points versus last year's second quarter. This higher rate decreased earnings per diluted share by approximately 5 cents. Weighted-average diluted shares outstanding in the second quarter of 2014 declined 4.9 percent year-on-year to 664.6 million, which increased earnings per diluted share by approximately 9 cents. Foreign exchange impacts decreased earnings per diluted share by approximately 4 cents.

In the first six months of 2014, net income attributable to 3M was \$2.474 billion, or \$3.70 per diluted share, compared to \$2.326 billion, or \$3.32 per diluted share, in the first six months of 2013. First-half 2014 sales increased 3.8 percent to \$16.0 billion. 3M achieved organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in all five of its business segments. Organic local-currency sales increased 5.7 percent in Health Care, 5.3 percent in Electronics and Energy, 4.8 percent in Industrial, 4.7 percent in Safety and Graphics, and 3.4 percent in Consumer. For the Company in total, organic local-currency sales grew 4.8 percent, with higher organic volumes contributing 3.6 percent and selling price increases contributing 1.2 percent. Foreign currency translation reduced sales by 1.0 percent year-on-year, with Latin America/Canada sales reduced by 8.5 percent and Asia Pacific sales reduced by 2.2 percent, while EMEA sales benefited by 2.8 percent.

The following table contains sales and operating income results by business segment for the three months ended June 30, 2014 and 2013. In addition to the discussion below, refer to the section entitled "Performance by Business Segment" later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 13 for additional information on business segments, including Elimination of Dual Credit.

(Dollars in millions)	Three months ended June 30,				% change	
	2014		2013		Net Sales	Operating Income
	Net Sales	Operating Income	Net Sales	Operating Income		
<b>Business Segments</b>						
Industrial	\$ 2,815	\$ 617	\$ 2,683	\$ 603	4.9%	2.4%
Safety and Graphics	1,494	353	1,434	328	4.1	7.4
Electronics and Energy	1,422	293	1,340	237	6.2	23.4
Health Care	1,416	434	1,336	417	5.9	4.1
Consumer	1,139	241	1,098	235	3.7	2.3
Corporate and Unallocated	(1)	(49)	1	(87)		
Elimination of Dual Credit	(151)	(33)	(140)	(31)		

Edgar Filing: 3M CO - Form 10-Q

Total Company	\$	8,134	\$	1,856	\$	7,752	\$	1,702	4.9%	9.1%
---------------	----	-------	----	-------	----	-------	----	-------	------	------

Sales in the second quarter of 2014 increased 4.9 percent, led by Electronics and Energy at 6.2 percent, Health Care at 5.9 percent, Industrial at 4.9 percent, Safety and Graphics at 4.1 percent, and Consumer at 3.7 percent. Total company organic local-currency sales increased 4.8 percent, acquisitions increased sales by 0.1 percent, and foreign currency translation had no impact on worldwide sales. All five of 3M's business segments achieved operating income margins in excess of 20 percent. Worldwide operating income margins for the second quarter of 2014 were 22.8 percent, compared to 22.0 percent for the second quarter of 2013.

Table of Contents

3M generated \$2.732 billion of operating cash flows in the first six months of 2014, an increase of \$59 million when compared to the first six months of 2013. Refer to the section entitled "Financial Condition and Liquidity" later in MD&A for a discussion of items impacting cash flows.

In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This new program has no pre-established end date. In the first six months of 2014, the Company purchased \$3.134 billion of stock, of which a portion was under the previous authorization, compared to \$1.995 billion of stock purchases in the first six months of 2013. As of June 30, 2014, approximately \$9.2 billion remained available under the February 2014 authorization. The Company expects to purchase \$4.5 billion to \$5.0 billion of stock in 2014. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share, an increase of 35 percent. This marked the 56th consecutive year of dividend increases for 3M.

3M's debt to total capital ratio (total capital defined as debt plus equity) was 28 percent at June 30, 2014 and 25 percent at December 31, 2013. 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 generates significant ongoing cash flow and has proven access to capital markets funding throughout business cycles.

3M expects to contribute approximately \$100 million to \$200 million of cash to its global pension and postretirement plans in 2014. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014. 3M expects defined benefit pension and postretirement expense in 2014 to decrease by approximately \$160 million pre-tax when compared to 2013. The change in both defined benefit and defined contribution plan expenses would increase earnings in 2014 by approximately 15 cents per diluted share when compared to 2013. Refer to Note 8 (Pension and Postretirement Benefit Plans) for additional information concerning 3M's pension and post-retirement plans. In addition, 3M currently expects that its effective tax rate for 2014 will be approximately 28.0 to 29.0 percent, compared to 28.1 percent for 2013. The 2014 estimate assumes that the U.S. research and development credit will be reinstated for 2014.

As discussed in Note 4, in July 2014, 3M announced that it will acquire (via Sumitomo 3M Limited) Sumitomo Electric Industries, Ltd.'s 25 percent interest in 3M's consolidated Sumitomo 3M Limited subsidiary for 90 billion Japanese Yen (approximately \$885 million at announcement date exchange rates). This will add approximately \$0.08 per diluted share to earnings during the first 12 months following closing, with closing expected on September 1, 2014. As a result of this transaction, 3M expects that its balance sheet amounts for noncontrolling interest equity and 3M Company shareholders' equity will be reduced by approximately \$460 million and \$425 million, respectively, based on June 30, 2014 balances, with an aggregate offsetting reduction to cash held by foreign subsidiaries.

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 of 2014 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended June 30, 2014					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 2,936	\$ 2,371	\$ 1,929	\$ 901	\$ (3)	\$ 8,134
% of worldwide sales	36.1%	29.1%	23.7%	11.1%		100.0%
Components of net sales change:						
Volume organic	3.6%	6.4%	3.6%	(2.2)%		3.5%
Price	0.9	0.2	1.2	4.9		1.3
Organic local-currency sales	4.5	6.6	4.8	2.7		4.8
Acquisitions	0.2					0.1
Divestitures	(0.1)					
Translation		(0.7)	3.7	(5.8)		
Total sales change	4.6%	5.9%	8.5%	(3.1)%		4.9%

Sales in the second quarter of 2014 increased 4.9 percent when compared to the second quarter of 2013. Organic local-currency sales grew 4.8 percent, with increases of 6.6 percent in Asia Pacific, 4.8 percent in Europe, Middle East and Africa, 4.5 percent in the United States, and 2.7 percent in Latin America/Canada. Organic local-currency sales growth was 7 percent across all developing markets, and 4 percent in developed markets. Currency impacts had no impact on second quarter 2014 worldwide sales growth, with a benefit in EMEA offset by impacts in Latin America/Canada and Asia Pacific.

Worldwide selling prices rose 1.3 percent in the second quarter of 2014. Selling prices continue to be supported by technology innovation, which is a key fundamental strength of the Company, helping to drive unique customer solutions and an increasing flow of new products. 3M also began raising selling prices in mid-2013 to help offset currency weakness in select developing countries. This will result in 3M's price performance moderating in the second half of 2014, beginning in the third quarter.

	Six months ended June 30, 2014					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 5,707	\$ 4,732	\$ 3,791	\$ 1,741	\$ (6)	\$ 15,965
% of worldwide sales	35.7%	29.6%	23.8%	10.9%		100.0%
Components of net sales change:						
Volume organic	2.8%	6.4%	3.2%	(1.0)%		3.6%

Edgar Filing: 3M CO - Form 10-Q

Price	<b>0.7</b>	<b>0.4</b>	<b>1.0</b>	<b>5.6</b>	<b>1.2</b>
Organic local-currency sales	<b>3.5</b>	<b>6.8</b>	<b>4.2</b>	<b>4.6</b>	<b>4.8</b>
Acquisitions	<b>0.1</b>				
Divestitures	<b>(0.1)</b>				
Translation		<b>(2.2)</b>	<b>2.8</b>	<b>(8.5)</b>	<b>(1.0)</b>
Total sales change	<b>3.5%</b>	<b>4.6%</b>	<b>7.0%</b>	<b>(3.9)%</b>	<b>3.8%</b>

Sales in the first six months of 2014 increased 3.8 percent when compared to the first six months of 2013. Organic local-currency sales grew 4.8 percent, with increases of 6.8 percent in Asia Pacific, 4.6 percent in Latin America/Canada, 4.2 percent in Europe, Middle East and Africa, and 3.5 percent in the United States. Organic local-currency sales growth was 6 percent across all developing markets, and 4 percent in developed markets. Currency impacts reduced first six months 2014 worldwide sales growth by 1.0 percent.

Worldwide selling prices rose 1.2 percent in the first six months of 2014, as 3M continues to experience positive selling price changes across most of its businesses. As discussed in second-quarter results above, 3M also began raising selling prices in mid-2013 to help offset currency weakness in select developing countries.



Table of Contents**Operating Expenses:**

(Percent of net sales)	Three months ended			Six months ended		
	2014	June 30, 2013	Change	2014	June 30, 2013	Change
Cost of sales	<b>51.5%</b>	51.7%	(0.2)%	<b>51.5%</b>	51.8%	(0.3)%
Selling, general and administrative expenses	<b>20.2</b>	20.8	(0.6)	<b>20.5</b>	20.8	(0.3)
Research, development and related expenses	<b>5.5</b>	5.5		<b>5.6</b>	5.6	
Operating income	<b>22.8%</b>	22.0%	0.8%	<b>22.4%</b>	21.8%	0.6%

As discussed in the overview section, 3M expects defined benefit pension and postretirement expense for total year 2014 to decrease by approximately \$160 million pre-tax when compared to 2013, 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 15, 2014 (MD&A section entitled Critical Accounting Estimates – Pension and Postretirement Obligations) for background concerning this reduction. The year-on-year decrease in defined benefit pension and postretirement expense for the second quarter and first six months was \$39 million and \$79 million, respectively.

**Cost of Sales:**

Cost of sales includes manufacturing, engineering and freight costs. Cost of sales as a percent of net sales was 51.5 percent in both the second quarter and first six months of 2014, down 0.2 and 0.3 percentage points, respectively, from the same periods last year. Cost of sales as a percent of sales decreased due to the combination of selling price increases and raw material cost decreases, as selling prices rose 1.3 percent and 1.2 percent in the second quarter and first six months, respectively. Raw material cost deflation was approximately 2 percent favorable year-on-year for both the second quarter and first six months. In addition, lower pension and postretirement costs (of which a portion impacts cost of sales), along with organic volume leverage, decreased cost of sales as a percent of sales. These benefits were partially offset by foreign exchange impacts.

**Selling, General and Administrative Expenses:**

SG&A increased 2.2 percent and 2.5 percent in the second quarter and first six months of 2014, respectively, when compared to the same periods last year. Second quarter and first six months 2014 SG&A included strategic investments in business transformation and 3M's global enterprise resource planning (ERP) implementation, which were partially offset by lower pension and postretirement expense. SG&A, measured as a percent of sales, was 20.2 percent of sales in the second quarter of 2014 and 20.5 percent of sales in the first six months of 2014, compared to 20.8 percent in the same periods 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 2014 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, which refers to innovation that helps create a new market and which eventually disrupts an existing market. These increases were partially offset by lower pension and postretirement expense. R&D, measured as a percent of sales, was 5.6 percent of sales in both the first six months of 2014 and 2013.

### *Operating Income:*

Operating income margins were 22.8 percent in the second quarter of 2014 compared to 22.0 in the second quarter of 2013, an increase of 0.8 percentage points. These results included a 1.2 percentage point benefit from the combination of higher selling prices and lower raw material costs. In addition, lower year-on-year pension and postretirement benefit costs provided a 0.5 percentage point benefit and profit leverage on organic volume growth added 0.3 percentage points. Items that reduced operating income margins included a 0.4 percentage point impact from strategic investments. Strategic investments included incremental increases in new disruptive R&D programs, business transformation and ERP costs, and the establishment of a new manufacturing, supply chain, and distribution Center of Expertise in Europe, all of which

Table of Contents

are expected to strengthen 3M for the future. Foreign exchange impacts reduced operating income margins by 0.6 percentage points and other items reduced margins by 0.2 percentage points.

Operating income margins were 22.4 percent in the first six months of 2014 compared to 21.8 in the first six months of 2013, an increase of 0.6 percentage points. These results included a 1.2 percentage point benefit from the combination of higher selling prices and lower raw material costs. In addition, lower year-on-year pension and postretirement benefit costs provided a 0.5 percentage point benefit and profit leverage on organic volume growth added 0.3 percentage points. Items that reduced operating income margins included a 0.6 percentage point impact from strategic investments, which included disruptive R&D, business transformation and ERP costs, the Center of Expertise in Europe, and restructuring. Foreign exchange impacts reduced operating income margins by 0.5 percentage points, and other items reduced margins by 0.3 percentage points.

***Interest Expense and Income:***

(Millions)	Three months ended June 30,			Six months ended June 30,		
	2014	2013		2014	2013	
Interest expense	\$ 45	\$ 41	\$	\$ 82	\$ 80	\$
Interest income	(9)	(10)		(18)	(20)	
Total	\$ 36	\$ 31	\$	\$ 64	\$ 60	\$

Interest expense was higher in the second quarter and first six months of 2014 compared to the same periods last year, primarily due to international bank borrowings and a higher debt balance for the Company, partially offset by the lower average financing costs from commercial paper and lower rates on new debt issuances. Interest income in the second quarter and first six months of 2014 is comparable to prior periods.

***Provision for Income Taxes:***

(Percent of pre-tax income)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Effective tax rate	29.5%	27.4%	28.5%	28.2%

The effective tax rate for the second quarter of 2014 was 29.5 percent, compared to 27.4 percent in the second quarter of 2013, an increase of 2.1 percentage points. Factors that increased the Company's effective tax rate on a combined basis by 2.1 percentage points year-on-year included the 2013 restoration of tax basis on certain assets for which depreciation was previously limited, international taxes as a result of changes to the geographic mix of income before taxes, lapse of the U.S. research and development credit as of January 1, 2014, adjustments to the Company's income tax reserves, and other items.

The effective tax rate for the first six months of 2014 was 28.5 percent, compared to 28.2 percent in the first six months of 2013, an increase of 0.3 percentage points. Factors which increased the Company's effective tax rate by 1.1 percentage points for the first six months of 2014 when compared to the same period for 2013 included the lapse of the U.S. research and development credit as of January 1, 2014, and international

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

taxes as a result of changes to the geographic mix of income before taxes. This increase was partially offset by a 0.8 percentage point decrease as the result of adjustments to the Company's reserves and the restoration of tax basis on certain assets for which depreciation was previously limited. Refer to Note 5 for further discussion of income taxes.

During 2014, the Company will be establishing a new manufacturing, supply chain, and distribution center of expertise in Europe. As a result of this establishment, the Company may incur jurisdictional tax charges related to the transfer of certain functions to the center of expertise.

The Company currently expects that its effective tax rate for total year 2014 will be approximately 28.0 to 29.0 percent, which assumes that the U.S. research and development credit will be reinstated for 2014. The rate can vary 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 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,		
	2014	2013	2013	2014	2013	2013
Net income attributable to noncontrolling interest	\$ 16	\$ 16	\$ 16	\$ 34	\$ 34	\$ 34

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 largely related to Sumitomo 3M Limited (Japan), which is 3M's most significant consolidated entity with non-3M ownership interests. As of June 30, 2014, 3M's effective ownership in Sumitomo 3M Limited is 75 percent. As discussed in Note 4, in July 2014, 3M announced that it will purchase the remaining 25 percent ownership in Sumitomo 3M Limited, with an anticipated close date of September 1, 2014.

*Currency Effects:*

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$25 million for the three months ended June 30, 2014 and decreased net income attributable to 3M by approximately \$54 million for the six months ended June 30, 2014. 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 converting Venezuelan bolivars into Euros and U.S. dollars, which 3M estimates decreased net income attributable to 3M by approximately \$22 million for three months ended June 30, 2014 and decreased net income attributable to 3M by approximately \$25 million for the six months ended June 30, 2014.

*Significant Accounting Policies:*

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

Table of Contents

**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.

***Corporate and Unallocated:***

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 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 improved by \$38 million and \$40 million in the second quarter and first six months of 2014, respectively, when compared to the same periods last year. A majority of this decrease was due to lower pension and postretirement benefit expenses, which declined year-on-year by \$39 million and \$79 million, respectively, when compared to the same periods last year. Of this reduction, \$29 million and \$58 million, respectively, was allocated to Corporate and Unallocated. In addition, the sale of certain real estate benefited the second quarter of 2014.

***Operating Business Segments:***

Each of 3M's five business segments is absorbing incremental investments in 2014 related to business transformation and global ERP implementation. This resulted in a 0.30 percentage point year-on-year reduction in operating income margins for each of the five business segments in both the second-quarter and first six months of 2014 when compared to the same periods last year.

Information related to 3M's business segments for the second quarter and first six months of both 2014 and 2013 is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts, if any, are measured separately for the first twelve months of the acquisition. The divestiture impacts, if any, foreign currency translation impacts 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,			
	2014		2013		2014		2013	
Sales (millions)	\$	<b>2,815</b>	\$	2,683	\$	<b>5,591</b>	\$	5,376
Sales change analysis:								
Organic local currency		<b>4.7%</b>		3.4%		<b>4.8%</b>		3.1%
Acquisitions				4.6				4.1
Translation		<b>0.2</b>		(1.3)		<b>(0.8)</b>		(1.6)
Total sales change		<b>4.9%</b>		6.7%		<b>4.0%</b>		5.6%
Operating income (millions)	\$	<b>617</b>	\$	603	\$	<b>1,235</b>	\$	1,182
Percent change		<b>2.4%</b>		1.5%		<b>4.5%</b>		(0.4)%
Percent of sales		<b>21.9%</b>		22.5%		<b>22.1%</b>		22.0%

The Industrial segment serves a broad range of markets, such as automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail), electronics, appliance, paper and printing, packaging, food and beverage, and construction. Industrial products include tapes, a wide variety of coated, non-woven and bonded abrasives, adhesives, advanced ceramics, sealants, specialty materials, 3M Purification Inc. (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 2014:

Sales in Industrial totaled \$2.8 billion, up 4.9 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, and foreign currency translation increased sales by 0.2 percent. On an organic local-currency basis, sales growth was led by 3M Purification Inc. Organic local-currency sales growth was also strong in automotive OEM, aerospace and commercial transportation, abrasive systems, and industrial adhesives and tapes. Organic local-currency sales declined in personal care.

Geographically, organic local-currency sales increased 7 percent in Asia Pacific, 5 percent in both the United States and EMEA, and declined slightly in Latin America/Canada.

Operating income was \$617 million in the second quarter of 2014, an increase of 2.4 percent. Operating income margins decreased by 0.6 percentage points to 21.9 percent. As indicated in the preceding Operating Business Segments section, each of 3M's five business segments is absorbing incremental investments in 2014 related to business transformation and global ERP implementation. This reduced margins in each of the businesses by approximately 0.3 percentage points year-on-year.

## First six months of 2014:

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

Sales in Industrial totaled \$5.6 billion, up 4.0 percent in U.S. dollars. Organic local-currency sales increased 4.8 percent, and foreign currency translation reduced sales by 0.8 percent. On an organic local-currency basis, sales growth was led by 3M Purification Inc. Organic local-currency sales growth was also strong in automotive OEM, aerospace and commercial transportation, advanced materials, and abrasive systems. Organic local-currency sales declined in personal care.

Geographically, organic local-currency sales increased 6 percent in both Asia Pacific and EMEA, 4 percent in the United States, and 3 percent in Latin America/Canada.

Operating income was \$1.2 billion in the first six months of 2014, an increase of 4.5 percent. Operating income margins increased by 0.1 percentage points to 22.1 percent. Operating income margins improved due to sales volume leverage, plus the combination of selling price increases and raw material cost decreases, partially offset by higher ERP implementation expenses as discussed in second quarter results.



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

	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
Sales (millions)	\$	<b>1,494</b>	\$	1,434	\$	<b>2,917</b>	\$	2,833
Sales change analysis:								
Organic local currency		<b>4.7%</b>		1.8%		<b>4.7%</b>		2.0%
Acquisitions				1.9				2.0
Translation		<b>(0.6)</b>		(1.6)		<b>(1.7)</b>		(1.9)
Total sales change		<b>4.1%</b>		2.1%		<b>3.0%</b>		2.1%
Operating income (millions)	\$	<b>353</b>	\$	328	\$	<b>671</b>	\$	660
Percent change		<b>7.4%</b>		(10.2)%		<b>1.6%</b>		(5.4)%
Percent of sales		<b>23.6%</b>		22.9%		<b>23.0%</b>		23.3%

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 solutions, including commercial graphics sheeting and systems, architectural surface and lighting solutions, and cleaning and protection products for commercial establishments; and roofing granules for asphalt shingles.

## Second quarter of 2014:

Sales in Safety and Graphics totaled \$1.5 billion, up 4.1 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, and foreign currency translation reduced sales by 0.6 percent. On an organic local-currency basis, sales growth was led by personal safety, commercial solutions, and traffic safety and security. Sales in the roofing granules business declined year-on-year.

Organic local-currency sales increased 7 percent in Europe, 5 percent in the United States, 4 percent in Latin America/Canada, and 1 percent in Asia Pacific.

Operating income in the second quarter of 2014 totaled \$353 million, up 7.4 percent. Operating income margins were 23.6 percent of sales, compared to 22.9 percent in the second quarter of 2013. Operating income margins benefited from organic volume leverage and selling price increases.

## First six months of 2014:

Sales in Safety and Graphics totaled \$2.9 billion, up 3.0 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, and foreign currency translation reduced sales by 1.7 percent. On an organic local-currency basis, sales growth was led by personal safety. 3M also saw

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

positive organic local-currency sales growth in commercial solutions, and sales were flat in traffic safety and security. Sales in the roofing granules business declined year-on-year.

Organic local-currency sales increased 6 percent in Europe, 5 percent in the Asia Pacific, and 4 percent in both Latin America/Canada and the United States.

Operating income in the first six months of 2014 totaled \$671 million, up 1.6 percent. Operating income margins were 23.0 percent of sales, compared to 23.3 percent in the first six months of 2013. Operating income margins were impacted by investments in business transformation and ERP, restructuring, and negative foreign currency effects, partially offset by organic volume leverage and selling price increases.

Table of Contents*Electronics and Energy Business:*

	Three months ended June 30,				Six months ended June 30,			
	2014	2013	2014	2013	2014	2013	2014	2013
Sales (millions)	\$ 1,422	\$ 1,340	\$ 2,733	\$ 2,617				
Sales change analysis:								
Organic local currency	6.4%	(2.1)%	5.3%	(2.1)%				
Translation	(0.2)	(1.1)	(0.8)	(1.1)				
Total sales change	6.2%	(3.2)%	4.5%	(3.2)%				
Operating income (millions)	\$ 293	\$ 237	\$ 520	\$ 433				
Percent change	23.4%	(16.0)%	20.1%	(16.1)%				
Percent of sales	20.6%	17.7%	19.0%	16.5%				

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

## Second quarter of 2014:

Electronics and Energy sales totaled \$1.4 billion, up 6.2 percent in U.S. dollars. Organic local-currency sales increased 6.4 percent, and foreign currency translation reduced sales by 0.2 percent.

Organic local-currency sales increased approximately 11 percent in 3M's electronics-related businesses, with strong growth in both display materials and systems and in electronics materials solutions. In 3M's energy-related businesses, organic local-currency sales increased approximately 1 percent, led by telecommunications.

On a geographic basis, organic local-currency sales increased 9 percent in Latin America/Canada, 8 percent in Asia Pacific, and 6 percent in EMEA. Organic local-currency sales were flat in the United States.

Operating income increased 23.4 percent to \$293 million in the second quarter of 2014. Operating income margins were 20.6 percent compared to 17.7 percent in the second quarter of 2013, helped by sales volume leverage and improving productivity.

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

First six months of 2014:

Electronics and Energy sales totaled \$2.7 billion, up 4.5 percent in U.S. dollars. Organic local-currency sales increased 5.3 percent, and foreign currency translation reduced sales by 0.8 percent.

Organic local-currency sales increased approximately 8 percent in 3M's electronics-related businesses, with strong growth in display materials and systems. In 3M's energy-related businesses, organic local-currency sales increased approximately 2 percent, led by telecommunications.

On a geographic basis, organic local-currency sales increased 9 percent in Latin America/Canada, 8 percent in Asia Pacific, and 2 percent in EMEA. Organic local-currency sales declined 2 percent in the United States.

Operating income increased 20.1 percent to \$520 million in the first six months of 2014. Operating income margins were 19.0 percent compared to 16.5 percent in the first six months of 2013, helped by sales volume leverage and improving productivity.

Table of Contents**Health Care Business:**

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Sales (millions)	\$ 1,416	\$ 1,336	\$ 2,790	\$ 2,647
Sales change analysis:				
Organic local currency	5.1%	5.7%	5.7%	4.8%
Acquisitions	0.4		0.2	0.2
Translation	0.4	(1.1)	(0.5)	(1.3)
Total sales change	5.9%	4.6%	5.4%	3.7%
Operating income (millions)	\$ 434	\$ 417	\$ 861	\$ 821
Percent change	4.1%	1.2%	4.9%	1.0%
Percent of sales	30.7%	31.2%	30.9%	31.0%

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 2014:

Health Care sales totaled \$1.4 billion, an increase of 5.9 percent in U.S. dollars. Organic local-currency sales increased 5.1 percent, acquisitions added 0.4 percent, and foreign currency translation reduced sales by 0.4 percent. Organic local-currency sales grew in all businesses, with the strongest growth in health information systems, critical and chronic care, and infection prevention.

Acquisition sales growth related to the April 2014 purchase of Treo Solutions LLC, headquartered in Troy, New York. Treo Solutions LLC is a provider of data analytics and business intelligence to healthcare payers and providers.

On a geographic basis, organic local-currency sales increased 7 percent in both Latin America/Canada and Asia Pacific, 6 percent in the United States, and 3 percent in EMEA. Health Care organic local-currency sales grew 12 percent in developing markets.

Operating income increased 4.1 percent to \$434 million. Operating income margins were 30.7 percent in the second quarter of 2014, compared to 31.2 percent in the second quarter of 2013, with acquisition impacts reducing operating income margins by 0.4 percentage points.

## First six months of 2014:

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

Health Care sales totaled \$2.8 billion, an increase of 5.4 percent in U.S. dollars. Organic local-currency sales increased 5.7 percent, acquisitions added 0.2 percent, and foreign currency translation reduced sales by 0.5 percent. Organic local-currency sales grew in all businesses, with the strongest growth in health information systems, drug delivery systems, critical and chronic care, food safety, and infection prevention.

On a geographic basis, organic local-currency sales increased 9 percent in Latin America/Canada, 8 percent in Asia Pacific, 7 percent in the United States, and 2 percent in EMEA. Health Care organic local-currency sales grew 11 percent in developing markets.

Operating income increased 4.9 percent to \$861 million. Operating income margins were 30.9 percent in the first six months of 2014, compared to 31.0 percent in the first six months of 2013, with acquisition impacts reducing operating income margins by 0.2 percentage points.

Table of Contents**Consumer Business:**

	Three months ended June 30,			Six months ended June 30,		
	2014	2013		2014	2013	
Sales (millions)	\$ 1,139	\$ 1,098	\$	\$ 2,218	\$ 2,179	\$
Sales change analysis:						
Organic local currency	4.2%	2.9%		3.4%	3.2%	
Divestitures	(0.2)	(0.1)		(0.2)		
Translation	(0.3)	(1.4)		(1.4)	(1.5)	
Total sales change	3.7%	1.4%		1.8%	1.7%	
Operating income (millions)	\$ 241	\$ 235	\$	\$ 469	\$ 472	\$
Percent change	2.3%	3.5%		(0.6)%	1.7%	
Percent of sales	21.1%	21.4%		21.1%	21.7%	

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 2014:

Sales in Consumer totaled \$1.1 billion, up 3.7 percent in U.S. dollars. Organic local-currency sales increased 4.2 percent, divestitures reduced sales by 0.2 percent, and foreign currency translation reduced sales by 0.3 percent. On an organic local-currency basis, sales growth was led by construction and home improvement. 3M also posted positive sales growth in its consumer health care and home care businesses. Sales in the stationery and office supplies business were flat year-on-year.

On a geographic basis, organic local-currency sales increased 4 percent in the United States, which was up from the first quarter year-on-year growth rate. Back-to-school activity began late in the second quarter, reflecting a good start. Elsewhere, organic local-currency growth was 8 percent in Asia Pacific, and 4 percent in EMEA. Organic local-currency sales declined 1 percent in Latin America/Canada.

Consumer operating income was \$241 million, up 2.3 percent from the second quarter last year. Operating income margins were 21.1 percent, compared to 21.4 percent in the same period last year, impacted by softness in the stationery and office supplies business.

## First six months of 2014:

Sales in Consumer totaled \$2.2 billion, up 1.8 percent in U.S. dollars. Organic local-currency sales increased 3.4 percent, divestitures reduced sales by 0.2 percent, and foreign currency translation reduced sales by 1.4 percent. On an organic local-currency basis, sales growth was led by

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

construction and home improvement. 3M also posted positive growth in its consumer health care and home care businesses. Sales in the stationery and office supplies business were flat year-on-year, as foot traffic in the U.S. office retail channel was soft during the first quarter, due in part to harsh winter weather conditions along with continued store consolidations.

On a geographic basis, organic local-currency sales increased 7 percent in Asia Pacific, and 2 percent in the remaining regions, which includes the United States, Latin America/Canada and EMEA. Organic local-currency growth was 7 percent in developing markets.

Consumer operating income was \$469 million, down 0.6 percent from the first six months last year. Operating income margins were 21.1 percent, compared to 21.7 percent in the same period last year, impacted by softness in stationery and office supplies.



Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

3M continues to manage towards a more optimized capital structure, financed with additional low-cost debt. The strength and stability of 3M's business model and strong free cash flow capability, together with proven capital markets access, enables 3M to implement this strategy while continuing to invest in its businesses. Organic growth remains the first priority, thus 3M will continue to invest in research and development, capital expenditures, and commercialization capability. In 2013, as a first step towards increasing capital deployment, 3M drew down its U.S. cash position to a minimum level and also reactivated its \$3 billion commercial paper program. In 2014, 3M filed a new well-known seasoned issuer shelf registration statement, and recommenced the Series F medium term notes program for future debt issuances.

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 defines net debt as total debt less the total of cash, cash equivalents and current and long-term marketable securities. The following table provides net debt as of June 30, 2014 and December 31, 2013.

(Millions)	June 30, 2014	December 31, 2013
Total Debt	\$ 6,973	\$ 6,009
Less: Cash and cash equivalents and marketable securities	4,213	4,790
Net Debt	\$ 2,760	\$ 1,219

In the first six months of 2014, 3M continued to make progress towards increasing capital deployment with a net debt increase of \$1.5 billion at June 30, 2014 when compared to December 31, 2013. Activities in the first half of 2014 that contributed to the net debt increase included the June 2014 issuance of \$625 million of five-year notes due 2019 and \$325 million of thirty-year notes due 2044 under the Series F medium term notes program, along with lower cash balances in the U.S. and international. 3M will continue to implement changes to its capital structure over time. For 2014 in particular, 3M expects added leverage of \$2 billion to \$4 billion when compared to December 31, 2013. Subsequent to quarter-end, in July 2014, 3M repaid 1.025 billion Euros of maturing Eurobond notes funded primarily through the issuances of commercial paper.

3M's primary short-term liquidity needs are met through cash on hand and U.S. commercial paper issuances. 3M resumed commercial paper funding in July 2013 for the first time since late 2008. 3M expects to maintain a consistent presence in the market and believes it will have continuous access to the commercial paper market. 3M's commercial paper program permits the Company to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of issuance. 3M's outstanding commercial paper balance was zero at both June 30, 2014 and December 31, 2013.

The Company has significant liquidity and generates ongoing cash flow, which have been used, in part, to repurchase shares and to pay dividends on 3M common stock. In addition, 3M's liquidity and cash flow enable it to meet currently anticipated growth plans, including funds for research and development, capital expenditures, working capital investments and acquisitions.

At June 30, 2014, cash, cash equivalents and marketable securities held by the Company's foreign subsidiaries and in the United States totaled approximately \$3.9 billion and \$300 million, respectively. Of the Company's foreign subsidiaries cash, cash equivalents and marketable

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

securities, \$2.6 billion (65 percent) was invested in money market funds, asset-backed securities, agency securities, corporate medium-term note securities and other investment-grade fixed income securities. At December 31, 2013, cash, cash equivalents and marketable securities held by the Company's foreign subsidiaries and in the United States totaled approximately \$4.3 billion and \$0.5 billion, respectively. The Company's total balance of cash, cash equivalents and marketable securities was \$0.6 billion lower at June 30, 2014 when compared to December 31, 2013. 3M is able to manage the business with lower cash levels, particularly in the U.S., due to significant ongoing cash flow generation and proven access to capital markets funding throughout business cycles.

3M's net debt at June 30, 2014 was \$2.8 billion, up from \$1.2 billion at December 31, 2013. 3M is planning for added leverage of \$2 billion to \$4 billion in 2014 as it continues to improve the efficiency of its capital structure. At June 30, 2014, 3M had \$4.2 billion of cash, cash equivalents, and marketable securities and \$7.0 billion of debt. Debt included \$5.3 billion of long-term debt and \$1.7 billion related to the current portion of long-term debt and other borrowings. The current portion

Table of Contents

of long-term debt includes a Eurobond due in July 2014 totaling 1.025 billion Euros (\$1.4 billion carrying value at June 30, 2014). In August 2013, 3M repaid \$850 million (principal amount) of medium-term notes. In November 2013, 3M issued an eight-year Eurobond for an amount of 600 million Euros (approximately \$815 million carrying value at December 31, 2013). In June 2014, 3M issued \$625 million aggregate principal amount of five-year fixed rate medium-term notes due 2019 and also issued \$325 million aggregate principal amount of thirty-year fixed rate medium-term notes due 2044. The strength of 3M's capital structure and significant ongoing cash flows provide 3M proven 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. 3M's transition to a more optimized capital structure, financed with additional low-cost debt, could impact 3M's credit rating in the future.

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, 2014. In August 2013, 3M entered into a \$150 million, one-year committed letter of credit facility, which replaced the one-year \$150 million committed credit facility that was entered into in August 2012. As of June 30, 2014, 3M letters of credit issued under this \$150 million committed facility totaled \$125 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, which was fully drawn as of December 31, 2012. 3M repaid 36 million British Pounds in the first quarter of 2014, leaving a remaining balance due of 30 million British Pounds as of June 30, 2014. Apart from the committed facilities, an additional \$95 million in stand-alone letters of credit and \$19 million in bank guarantees were also issued and outstanding at June 30, 2014. These lines 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, 2014, this ratio was approximately 56 to 1. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective May 16, 2014, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated August 5, 2011. In June 2014, in connection with the May 16, 2014 shelf registration, 3M re-commenced its medium-term notes program (Series F) under which 3M may issue, from time to time, up to \$9 billion aggregate principal amount of notes. Included in this \$9 billion are \$2.25 billion of notes previously issued in 2011 and 2012 as part of Series F. In June 2014, 3M issued \$625 million aggregate principal amount of five-year fixed rate medium-term notes due 2019 with a coupon rate of 1.625%. Upon debt issuance, \$600 million of this amount was converted to an interest rate based on a floating LIBOR index. In addition, in June 2014, 3M issued \$325 million aggregate principal amount of thirty-year fixed rate medium-term notes due 2044 with a coupon rate of 3.875%. Both June 2014 debt issuances were from the medium-term notes program (Series F).

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 \$1.0 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).

Sources for cash availability in the United States, such as ongoing cash flow from operations and 3M's proven access to capital markets, have 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.

In 2014, the Company plans to contribute an amount in the range of \$100 million to \$200 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 2014. Therefore, the amount of the anticipated discretionary contribution could vary significantly depending on the U.S. qualified plans' funded status as of the 2014 measurement date and the anticipated tax deductibility of the

Table of Contents

contribution. 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.

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. In December 2013, 3M's Board of Directors declared a dividend of 85.5 cents per share for the first-quarter of 2014, an increase of 35 percent. This is equivalent to an annual dividend of \$3.42 per share and marked the 56th consecutive year of dividend increases for 3M. In February 2014, 3M's Board of Directors also authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This authorization has no pre-established end date. As of June 30, 2014, approximately \$9.2 billion remained available under the February 2014 repurchase authorization.

Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$6.153 billion at June 30, 2014, compared with \$5.235 billion at December 31, 2013, an increase of \$918 million. Current asset balance changes increased working capital by \$460 million, with increases in accounts receivable and other items largely offset by a decrease in cash and cash equivalents. Current liability balance changes increased working capital by \$458 million, largely due to decreases in other current liabilities. The other current liabilities decrease largely related to the dividend declared in December 2013 that was not paid until March 2014 (discussed in Note 4).

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, inventories and accounts payable. This combined index (defined as quarterly net sales fourth quarter at year-end multiplied by four, divided by ending net accounts receivable plus inventories less accounts payable) was 4.6 at June 30, 2014 compared to 4.8 at December 31, 2013. Receivables increased \$506 million, or 11.9 percent, compared with December 31, 2013, with higher June 2014 sales compared to December 2013 sales contributing to this increase. Currency translation impacts increased accounts receivable by \$13 million. Inventories increased \$229 million, or 5.9 percent, compared with December 31, 2013, with the increases primarily attributable to an increase in demand in the first six months of 2014, partially offset by currency translation, which decreased inventories by \$13 million. Accounts payable increased \$45 million compared with December 31, 2013, primarily related to changes in business activity.

Cash flows from operating, investing and financing activities are provided in the tables that follow. Individual amounts in the Consolidated Statement of Cash Flows exclude the effects of acquisitions, divestitures and exchange rate impacts on cash and cash equivalents, 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	
	2014	June 30, 2013
Net income including noncontrolling interest	\$ 2,508	\$ 2,360
Depreciation and amortization	708	671

Edgar Filing: 3M CO - Form 10-Q

Company pension contributions	(74)	(168)
Company postretirement contributions	(3)	(3)
Company pension expense	155	221
Company postretirement expense	41	54
Stock-based compensation expense	174	150
Income taxes (deferred and accrued income taxes)	(20)	203
Excess tax benefits from stock-based compensation	(97)	(51)
Accounts receivable	(484)	(628)
Inventories	(242)	(167)
Accounts payable	57	199
Product and other insurance receivables and claims	13	19
Other net	(4)	(187)
Net cash provided by operating activities	\$ 2,732	\$ 2,673

Table of Contents

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 2014, cash flows provided by operating activities increased \$59 million compared to the same period last year, driven by increases in net income including noncontrolling interest. The combination of accounts receivable, inventories and accounts payable increased working capital by \$669 million in the first six months of 2014, compared to increases of \$596 million in the first six months of 2013, primarily driven by year-on-year increases in working capital requirements due to increasing sales. 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 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, 2014 and 2013.

(Millions)	2014	Six months ended June 30,	2013
Net cash provided by operating activities	\$ 2,732	\$	2,673
Purchases of property, plant and equipment (PP&E)	(634)	\$	(718)
Free Cash Flow	\$ 2,098	\$	1,955

**Cash Flows from Investing Activities:**

(Millions)	2014	Six months ended June 30,	2013
Purchases of property, plant and equipment (PP&E)	\$ (634)	\$	(718)
Proceeds from sale of PP&E and other assets	38	\$	18
Acquisitions, net of cash acquired	(94)	\$	(718)
Purchases and proceeds from sale or maturities of marketable securities and investments, net	133	\$	(52)
Other investing	(22)	\$	12
Net cash used in investing activities	\$ (579)	\$	(740)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was \$634 million in the first six months of 2014, compared to \$718 million in the first six months of

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

2013. The Company expects 2014 capital spending to be approximately \$1.5 billion to \$1.6 billion, as 3M continues to invest in its businesses. This has been reduced from a previous estimate of \$1.7 billion to \$1.8 billion as 3M's portfolio management efforts are providing greater clarity regarding business unit capital needs. 3M's long-term view is that capital spending will continue to be in line with historical averages (when measured as a percent of sales). In 2013, 3M continued its expansion of manufacturing capacity in key markets, including investments in the U.S., China, Germany, and Brazil. This included significant investments across 3M's many businesses, such as abrasives, industrial adhesives and tapes, advanced materials, electronics-related, infection prevention, and other businesses. 3M continued its investments in IT systems and infrastructure, including ongoing phased implementation of an ERP system on a worldwide basis over the next several years. In addition, 3M is sustaining existing facilities through general maintenance, cost reduction, and compliance efforts.

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, Brazil, Poland and India, including plans to establish and begin



Table of Contents

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.

Proceeds from sale of PP&E and other assets totaled \$38 million in the first six months of 2014 compared to \$18 million in the same period last year. Apart from the normal periodic sales of PP&E, the second quarter and first six months of 2014 included proceeds of \$31 million related to the sale of real estate.

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 maturities and sale of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 6 for more details about 3M's diversified marketable securities portfolio, which totaled \$2.088 billion as of June 30, 2014. Purchases of investments include additional survivor benefit insurance, plus cost method and equity investments.

*Cash Flows from Financing Activities:*

(Millions)	2014	Six months ended June 30,	2013
Change in short-term debt net	\$	62	\$ (12)
Repayment of debt (maturities greater than 90 days)		(119)	(12)
Proceeds from debt (maturities greater than 90 days)		1,078	11
Total cash change in debt	\$	1,021	\$ (13)
Purchases of treasury stock		(3,134)	(1,995)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans		585	1,103
Dividends paid to stockholders		(1,122)	(876)
Excess tax benefits from stock-based compensation		97	51
Other net		(31)	3
Net cash used in financing activities	\$	(2,584)	\$ (1,727)

Total debt at June 30, 2014 was \$7.0 billion, up from \$6.0 billion at year-end 2013. Total debt was 28 percent of total capital (total capital is defined as debt plus equity) at June 30, 2014, compared to 25 percent of total capital at year-end 2013. Changes in short-term debt for the six months ended June 30, 2014 primarily related to bank borrowings by international subsidiaries. Repayment of debt for the six months ended

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

June 30, 2014 primarily includes repayment of 36 million British Pound related to the three-year 66 million British Pound committed credit facility agreement entered into in December 2012, and repayment of other international debt. Proceeds from debt for the six months ended June 30, 2014 primarily related to the June 2014 issuance of \$625 million aggregate principal amount of five-year fixed rate medium-term notes due 2019 and \$325 million aggregate principal amount of thirty-year fixed rate medium-term notes due 2044 (refer to Note 7 for more detail). In addition, proceeds from debt for the six months ended June 30, 2014 also include bank borrowings by international subsidiaries and parent company debt.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This authorization has no pre-established end date. In the first six months of 2014, the Company purchased \$3.134 billion of stock, compared to \$1.995 billion in the first six months of 2013. The Company expects full-year 2014 gross share repurchases

Table of Contents

will be in the range of \$4.5 billion to \$5.0 billion. 3M's significant share purchases are enabled by its continued business growth and consistently strong cash flow, the well-funded status of its pension plans, and the strength of the Company's capital structure. For more information, refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 5. The Company does not utilize derivative instruments linked to the Company's stock.

Cash dividends paid to shareholders totaled \$1.122 billion in the first six months of 2014, compared to \$876 million in the first six months of 2013. 3M has paid dividends each year since 1916. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share, an increase of 35 percent. This is equivalent to an annual dividend of \$3.42 per share and marked the 56th consecutive year of dividend increases.

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

In 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.

In April 2014, 3M purchased the remaining noncontrolling interest in a consolidated 3M subsidiary for an immaterial amount, which was classified as other financing activity in the consolidated statement of cash flows.

In July 2014, 3M announced that it will acquire (via Sumitomo 3M Limited) Sumitomo Electric Industries, Ltd.'s 25 percent interest in 3M's consolidated Sumitomo 3M Limited subsidiary for 90 billion Japanese Yen (approximately \$885 million at announcement date exchange rates). Upon completion of the transaction, 3M will own 100 percent of Sumitomo 3M Limited. The transaction is expected to close on September 1, 2014 and will be reflected as a financing activity in the consolidated statement of cash flows.

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

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

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 15, 2014 (which updated 3M's 2013 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, 2014. 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, 2014**

**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. 3M's transition to a more optimized capital structure, financed with additional low-cost debt, could impact 3M's credit rating in the future. 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



Table of Contents

various components, compounds, raw materials, and energy (including oil and natural gas and their derivatives) supplied by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due 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 certain data, including proprietary business information, and may have access to confidential or personal information in certain of our businesses that is subject to privacy and security laws, regulations and customer-imposed controls. Despite our cybersecurity measures (including employee and third-party training, monitoring of networks and systems, and maintenance of backup and protective systems) which are continuously reviewed and upgraded, the Company's information technology networks and infrastructure may still 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. While we have experienced, and expect to continue to experience, these types of threats to the Company's information technology networks and infrastructure, none of them to date has had a material impact to the Company. 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 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, with no pre-established end date. In February 2014, 3M's Board of Directors replaced the Company's February 2013 repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$12 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)**

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)
January 1-31, 2014	2,152,171	\$ 134.07	2,148,754	\$ 2,229
February 1-28, 2014	5,058,426	\$ 130.79	5,058,426	\$ 11,338
March 1-31, 2014	5,789,597	\$ 132.90	5,786,921	\$ 10,569
Total January 1-March 31, 2014	13,000,194	\$ 132.27	12,994,101	\$ 10,569
April 1-30, 2014	4,615,353	\$ 135.93	4,607,663	\$ 9,943
May 1-31, 2014	2,619,394	\$ 141.05	2,613,100	\$ 9,574
June 1-30, 2014	2,674,367	\$ 143.80	2,674,367	\$ 9,190
Total April 1-June 30, 2014	9,909,114	\$ 139.41	9,895,130	\$ 9,190
Total January 1-June 30, 2014	22,909,308	\$ 135.36	22,889,231	\$ 9,190

- 
- (1) The total number of shares purchased includes: (i) shares purchased under the Board's authorizations described above, and (ii) shares purchased in connection with the exercise of stock options.
- (2) The total number of shares purchased as part of publicly announced plans or programs includes shares purchased under the Board's authorizations described above.

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

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

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

Table of Contents

**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed herewith with this report. Exhibit numbers 10.1 through 10.39 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) Amendment of the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2013.
  - (10.3) 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.

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

- (10.4) 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.
- (10.5) 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.
- (10.6) 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.
- (10.7) 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.
- (10.8) 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.
- (10.9) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.10) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.11) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.12) Amendments of 3M 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.13) 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.
- (10.14) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 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.

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

### Table of Contents

- (10.16) 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.
- (10.17) 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.
- (10.18) 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.
- (10.19) 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.
- (10.20) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.21) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.22) 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.
- (10.23) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.24) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.25) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.26) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.27) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.28) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.29) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.30) 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.
- (10.31) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.32) Amendment of 3M Compensation Plan for Non-Employee Directors as of August 12, 2013, is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2013.
- (10.33) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.

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

- (10.34) 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.
- (10.35) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.36) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.37) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.38) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.39) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.40) 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.
- (10.41) Letter of credit agreement as of August 23, 2013 is incorporated by reference from our Form 8-K dated August 27, 2013.
- (10.42) 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, in addition to items specifically identified above:

- (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, 2014, filed with the SEC on July 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month and six-month periods ended June 30, 2014 and 2013, (ii) the Consolidated Statement of Comprehensive Income for the three-month and six-month periods ended June 30, 2014 and 2013 (iii) the Consolidated Balance Sheet at June 30, 2014 and December 31, 2013, (iv) the Consolidated Statement of Cash Flows for the six-month periods ended June 30, 2014 and 2013, 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: July 31, 2014

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