

3M CO  
Form 10-Q  
October 29, 2007

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



# **FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2007**





Commission file number 1-3285



## 3M COMPANY

State of Incorporation: **Delaware**

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

Principal executive offices: **3M Center, St. Paul, Minnesota 55144**

Telephone number: **(651) 733-1110**

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 the filing requirements for the past 90 days. Yes  . No .

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Shares of common stock outstanding at September 30, 2007: **713,228,973**.

This document (excluding exhibits) contains 50 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 48.

3M COMPANY

Form 10-Q for **the Quarterly Period Ended September 30, 2007**

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**3M COMPANY**

**FORM 10-Q**

For the Quarterly Period Ended September 30, 2007



**PART I. Financial Information**



**Item 1. Financial Statements.****Consolidated Statement of Income****(Unaudited)****3M Company and Subsidiaries**

| (Millions, except per share amounts)               | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |           |
|--|------------------------------------|----------|-----------------------------------|-----------|
|  | 2007                               | 2006     | 2007                              | 2006      |
| Net sales  | \$ 6,177                           | \$ 5,858 | \$ 18,256                         | \$ 17,141 |
| Operating expenses                                 |                                    |          |                                   |           |
| Cost of sales                                      | 3,240                              | 2,990    | 9,437                             | 8,551     |
| Selling, general and administrative expenses       | 1,174                              | 1,186    | 3,741                             | 3,691     |
| Research, development and related expenses         | 338                                | 340      | 1,009                             | 1,013     |
| Gain on sale of businesses                         |                                    |          | (854)                             |           |
| Total  | 4,752                              | 4,516    | 13,333                            | 13,255    |
| Operating income                                   | 1,425                              | 1,342    | 4,923                             | 3,886     |
| Interest expense and income                        |                                    |          |                                   |           |
| Interest expense                                   | 53                                 | 37       | 139                               | 84        |
| Interest income                                    | (37)                               | (13)     | (94)                              | (35)      |
| Total  | 16                                 | 24       | 45                                | 49        |
| Income before income taxes and minority interest   | 1,409                              | 1,318    | 4,878                             | 3,837     |
| Provision for income taxes                         | 433                                | 412      | 1,586                             | 1,127     |
| Minority interest                                  | 16                                 | 12       | 47                                | 35        |
| Net income   | \$ 960                             | \$ 894   | \$ 3,245                          | \$ 2,675  |
| Weighted average common shares outstanding basic   | 714.5                              | 745.2    | 720.7                             | 751.6     |
| Earnings per share basic                           | \$ 1.34                            | \$ 1.20  | \$ 4.50                           | \$ 3.56   |
| Weighted average common shares outstanding diluted | 729.9                              | 756.2    | 734.3                             | 765.1     |
| Earnings per share diluted                         | \$ 1.32                            | \$ 1.18  | \$ 4.42                           | \$ 3.50   |
| Cash dividends paid per common share               | \$ 0.48                            | \$ 0.46  | \$ 1.44                           | \$ 1.38   |

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

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

| <b>(Dollars in millions, except per share amounts)</b>   | <b>Sept. 30<br/>2007</b> | <b>Dec. 31<br/>2006</b> |
|--|--------------------------|-------------------------|
| <b>Assets</b>  |                          |                         |
| Current assets   |                          |                         |
| Cash and cash equivalents  | \$ 1,675                 | \$ 1,447                |
| Marketable securities - current  | 1,024                    | 471                     |
| Accounts receivable net  | 3,703                    | 3,102                   |
| Inventories  |                          |                         |
| Finished goods   | 1,324                    | 1,235                   |
| Work in process  | 879                      | 795                     |
| Raw materials and supplies   | 591                      | 571                     |
| Total inventories  | 2,794                    | 2,601                   |
| Other current assets   | 1,204                    | 1,325                   |
| Total current assets   | 10,400                   | 8,946                   |
| Marketable securities - non-current  | 556                      | 166                     |
| Investments  | 295                      | 314                     |
| Property, plant and equipment  | 18,012                   | 17,017                  |
| Less: Accumulated depreciation   | (11,672)                 | (11,110)                |
| Property, plant and equipment net  | 6,340                    | 5,907                   |
| Goodwill   | 4,387                    | 4,082                   |
| Intangible assets net  | 748                      | 708                     |
| Prepaid pension and postretirement benefits  | 682                      | 395                     |
| Other assets   | 947                      | 776                     |
| Total assets   | \$ 24,355                | \$ 21,294               |
| <b>Liabilities and Stockholders Equity</b>   |                          |                         |
| Current liabilities  |                          |                         |
| Short-term borrowings and current portion of long-term debt  | \$ 2,405                 | \$ 2,506                |
| Accounts payable   | 1,503                    | 1,402                   |
| Accrued payroll  | 610                      | 520                     |
| Accrued income taxes   | 711                      | 1,134                   |
| Other current liabilities  | 1,912                    | 1,761                   |
| Total current liabilities  | 7,141                    | 7,323                   |
| Long-term debt   | 2,824                    | 1,047                   |
| Other liabilities  | 3,420                    | 2,965                   |
| Total liabilities  | \$ 13,385                | \$ 11,335               |
| Commitments and contingencies (Note 11)  |                          |                         |
| Stockholders equity  |                          |                         |
| Common stock par value, \$.01 par value, 944,033,056 shares issued                                     | 9                        | 9                       |
| Additional paid-in capital   | 2,731                    | 2,484                   |
| Retained earnings  | 19,852                   | 17,933                  |
| Treasury stock, at cost; 230,804,083 shares at September 30, 2007; 209,670,254 shares at Dec. 31, 2006 | (10,173)                 | (8,456)                 |

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|   |    |                |    |         |
|---|----|----------------|----|---------|
| Unearned compensation                         |    | <b>(96)</b>    |    | (138)   |
| Accumulated other comprehensive income (loss) |    | <b>(1,353)</b> |    | (1,873) |
| Stockholders' equity, net                     |    | <b>10,970</b>  |    | 9,959   |
| Total liabilities and stockholders' equity    | \$ | <b>24,355</b>  | \$ | 21,294  |

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

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

| (Dollars in millions)  | Nine months ended<br>September 30 |          |
|--|-----------------------------------|----------|
|  | 2007                              | 2006     |
| <b>Cash Flows from Operating Activities</b>                                      |                                   |          |
| Net income   | \$ 3,245                          | \$ 2,675 |
| Adjustments to reconcile net income to net cash provided by operating activities |                                   |          |
| Depreciation and amortization  | 796                               | 728      |
| Company pension and postretirement contributions                                 | (373)                             | (339)    |
| Company pension and postretirement expense                                       | 188                               | 299      |
| Stock-based compensation expense   | 182                               | 162      |
| Gain from sale of businesses   | (854)                             |          |
| Deferred income tax provision  | (179)                             | (111)    |
| Excess tax benefits from stock-based compensation                                | (65)                              | (31)     |
| Changes in assets and liabilities  |                                   |          |
| Accounts receivable  | (458)                             | (384)    |
| Inventories  | (89)                              | (375)    |
| Accounts payable   | 60                                | 71       |
| Accrued income taxes (current and long-term)                                     | 85                                | (138)    |
| Product and other insurance receivables and claims                               | 145                               | 51       |
| Other net  | 36                                | (91)     |
| Net cash provided by operating activities  | 2,719                             | 2,517    |
| <b>Cash Flows from Investing Activities</b>                                      |                                   |          |
| Purchases of property, plant and equipment (PP&E)                                | (1,031)                           | (763)    |
| Proceeds from sale of PP&E and other assets                                      | 90                                | 53       |
| Acquisitions, net of cash acquired   | (255)                             | (468)    |
| Purchases of marketable securities and investments                               | (6,967)                           | (2,442)  |
| Proceeds from sale of marketable securities and investments                      | 5,541                             | 2,034    |
| Proceeds from maturities of marketable securities                                | 547                               | 157      |
| Proceeds from sale of businesses   | 897                               |          |
| Net cash used in investing activities  | (1,178)                           | (1,429)  |
| <b>Cash Flows from Financing Activities</b>                                      |                                   |          |
| Change in short-term debt net  | (144)                             | 1,293    |
| Repayment of debt (maturities greater than 90 days)                              | (1,071)                           | (151)    |
| Proceeds from debt (maturities greater than 90 days)                             | 2,843                             | 277      |
| Purchases of treasury stock  | (2,756)                           | (2,021)  |
| Reissuances of treasury stock  | 689                               | 426      |
| Dividends paid to stockholders   | (1,039)                           | (1,037)  |
| Distributions to minority interests  | (20)                              | (38)     |
| Excess tax benefits from stock-based compensation                                | 65                                | 31       |
| Other net  | (4)                               | (18)     |
| Net cash used in financing activities  | (1,437)                           | (1,238)  |
| Effect of exchange rate changes on cash and cash equivalents                     | 124                               | 77       |
| Net increase (decrease) in cash and cash equivalents                             | 228                               | (73)     |

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|  |    |       |    |       |
|--|----|-------|----|-------|
| Cash and cash equivalents at beginning of year |    | 1,447 |    | 1,072 |
| Cash and cash equivalents at end of period     | \$ | 1,675 | \$ | 999   |

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





**3M Company and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**



**NOTE 1. Basis of Presentation**

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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 25, 2007 (which updated 3M's 2006 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2007, during the first quarter of 2007 the Company reorganized its business segments (refer to Note 13). 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 25, 2007.

### Significant Accounting Policies

*Earnings per share:* The difference in the weighted average shares outstanding for calculating basic and diluted earnings per share is attributable to the dilution associated with the Company's stock-based compensation plans. Certain Management Stock Ownership Program (MSOP) options outstanding were not included in the computation of diluted earnings per share because they would not have had a dilutive effect (10.0 million average options for the three months ended September 30, 2007; 24.0 million average options for the nine months ended September 30, 2007; 36.0 million average options for the three months ended September 30, 2006; 30.2 million average options for the nine months ended September 30, 2006). The conditions for conversion related to the Company's Convertible Notes were not met (refer to 3M's Current Report on Form 8-K dated May 25, 2007, Note 10 to the Consolidated Financial Statements, for more detail); accordingly, there was no impact on 3M's diluted earnings per share. If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock; however, if this occurs, the Company has the intent and ability to settle this debt security in cash. The computations for basic and diluted earnings per share follow:

### Earnings Per Share Computations

| (Amounts in millions, except per share amounts)                       | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |          |
|---|------------------------------------|---------|-----------------------------------|----------|
|   | 2007                               | 2006    | 2007                              | 2006     |
| <b>Numerator:</b>   |                                    |         |                                   |          |
| Net income  | \$ 960                             | \$ 894  | \$ 3,245                          | \$ 2,675 |
| <b>Denominator:</b>   |                                    |         |                                   |          |
| Denominator for weighted average common shares outstanding - basic    | 714.5                              | 745.2   | 720.7                             | 751.6    |
| Dilution associated with the Company's stock-based compensation plans | 15.4                               | 11.0    | 13.6                              | 13.5     |
| Denominator for weighted average common shares outstanding - diluted  | 729.9                              | 756.2   | 734.3                             | 765.1    |
| Earnings per share - basic  | \$ 1.34                            | \$ 1.20 | \$ 4.50                           | \$ 3.56  |
| Earnings per share - diluted  | 1.32                               | 1.18    | 4.42                              | 3.50     |

**New Accounting Pronouncements**

In February 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 155, Hybrid Instruments. SFAS No. 155 amends SFAS No. 133 and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 also resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk

in the form of subordination are not embedded derivatives, and e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company adopted SFAS No. 155 effective January 1, 2007; however, there was no material impact.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109. This interpretation was effective as of January 1, 2007. Refer to Note 6 for additional information concerning this standard.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. SFAS No. 157 is effective for all fiscal years beginning after November 15, 2007 (January 1, 2008 for 3M) and is to be applied prospectively. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect SFAS No. 157 to have a material impact on 3M's consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for 3M) and interim periods within those fiscal years. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect SFAS No. 159 to have a material impact on 3M's consolidated results of operations or financial condition.

In June 2007, the FASB's Emerging Issues Task Force reached a consensus on EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* that would require nonrefundable advance payments made by the Company for future R&D activities to be capitalized and recognized as an expense as the goods or services are received by the Company. EITF Issue No. 07-3 is effective for 3M with respect to new arrangements entered into beginning January 1, 2008. The Company is currently evaluating the impacts and disclosures of this standard, but would not expect EITF Issue No. 07-3 to have a material impact on 3M's consolidated results of operations or financial condition.

## **NOTE 2. Acquisitions and Divestitures**

### *Divestitures:*

In January 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe to Meda AB. 3M received proceeds of \$817 million for this transaction and recognized, net of assets sold, a pre-tax gain of \$786 million (recorded in the Health Care segment) in the first quarter of 2007. In December 2006, 3M completed the sale of its global branded pharmaceuticals business in the United States, Canada, and Latin America region and the Asia Pacific region, including Australia and South Africa. In connection with all of these transactions, 3M's Drug Delivery Systems Division (DDSD) entered into agreements whereby it became a source of supply to the acquiring companies. Because of the extent of 3M cash flows from these agreements in relation to those of the disposed-of businesses, the operations of the branded pharmaceuticals business are not classified as discontinued operations.

## **NOTE 1. Basis of Presentation**

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In June 2007, 3M completed the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses to TorQuest Partners Inc., a Toronto-based investment firm. 3M received proceeds of \$80 million for this transaction and recognized, net of assets sold, transaction and other costs, a pre-tax gain of \$68 million (recorded in the Display and Graphics segment) in the second quarter of 2007.



*Acquisitions:*

During the nine months ended September 30, 2007, the purchase price paid for business combinations totaled \$255 million in cash, net of cash acquired, plus approximately 150 thousand shares of 3M common stock, which had a market value of approximately \$13 million.

The nine business combinations closed during the first nine months of 2007 are summarized as follows:

- 1) In February 2007, 3M (Industrial and Transportation Business) purchased certain assets of Accuspray Application Technologies Inc., a manufacturer of spray paint equipment with a wide array of spray guns for architectural, automotive refinishing, industrial and woodworking applications.
- 2) In February 2007, 3M (Industrial and Transportation Business) purchased Sealed Air Corporation's 50 percent interest in PolyMask Corporation, a joint venture between 3M and Sealed Air that produces protective films. The acquisition of Sealed Air's interest results in 100 percent ownership by 3M.
- 3) In February 2007, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Acolyte Biomedica Ltd., a Salisbury, U.K.-based provider of an automated microbial detection platform that aids in the rapid detection, diagnosis, and treatment of infectious diseases.
- 4) In May 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of E Wood Holdings PLC, a North Yorkshire, UK-based manufacturer of high performance protective coatings for oil, gas, water, rail and automotive industries.
- 5) In May 2007, 3M (Electro and Communications Business) purchased certain assets of Innovative Paper Technologies LLC, a manufacturer of inorganic-based technical papers, boards and laminates for a wide variety of high temperature applications and Powell LLC, a supplier of non-woven polyester mats for the electrical industry.
- 6) In May 2007, 3M (Health Care Business) purchased certain assets of Articulos de Papel DMS Chile, a Santiago, Chile-based manufacturer of disposable surgical packs, drapes, gowns and kits.
- 7) In June 2007, 3M (Industrial and Transportation Business) purchased certain assets of Diamond Productions Inc., a manufacturer of superabrasive diamond and cubic boron nitride wheels and tools for dimensioning and finishing hard-to-grind materials in metalworking, woodworking and stone fabrication markets in exchange for approximately 150 thousand shares of 3M common stock, which had a market value of \$13 million at the acquisition measurement date and was previously held as 3M treasury stock.
- 8) In July 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Rochford Thompson Equipment Ltd., a manufacturer of optical character recognition passport readers used by airlines and immigration authorities, headquartered in Newbury, U.K.
- 9) In August 2007, 3M (Health Care Business) purchased certain assets of Neoplast Co. Ltd., a manufacturer/distributor of surgical tapes and dressings and first aid bandages for both the professional and consumer markets across the Asia Pacific region.

Purchased identifiable intangible assets for the nine business combinations closed during the nine months ended September 30, 2007 totaled \$53 million and will be amortized on a straight-line basis over lives ranging from 2 to 10 years (weighted-average life of seven years). Pro forma information related to the above business combinations is not included because the impact on the Company's consolidated results of operations is not considered to be material. In-process research and development charges associated with these business combinations were not material.

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In addition to the business combinations above, 3M periodically acquires certain tangible and/or intangible assets and purchases interests in certain enterprises that do not otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

### **NOTE 3. Goodwill and Intangible Assets**



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Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. As discussed in Note 13, 3M made certain changes to its business segments effective in the first quarter of 2007, which are reflected in the goodwill balances presented below. For those changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact to reporting units. SFAS No. 142 requires that goodwill be tested for impairment at least annually and when reporting units are changed. During the first quarter of 2007, the Company completed its assessment of any potential goodwill impairment under this new structure and determined that no impairment existed.

In the first nine months of 2007, goodwill related to business combinations totaled \$170 million, \$18 million of which is deductible for tax purposes. Translation and other in the following table primarily includes the impact of changes in foreign currency exchange rates on goodwill balances. The goodwill balance by business segment as of December 31, 2006 and September 30, 2007, follow:

### Goodwill

| (Millions)                               | Dec. 31,<br>2006<br>Balance | Acquisition<br>activity | Translation<br>and other | Sept. 30,<br>2007<br>balance |
|--|-----------------------------|-------------------------|--------------------------|------------------------------|
| Industrial and Transportation            | \$ 1,302                    | \$ 40                   | \$ 47                    | \$ 1,389                     |
| Health Care                              | 713                         | 31                      | 37                       | 781                          |
| Display and Graphics                     | 886                         |                         | 5                        | 891                          |
| Consumer and Office                      | 89                          |                         | 3                        | 92                           |
| Safety, Security and Protection Services | 525                         | 73                      | 23                       | 621                          |
| Electro and Communications               | 567                         | 26                      | 20                       | 613                          |
| Total Company                            | \$ 4,082                    | \$ 170                  | \$ 135                   | \$ 4,387                     |

### Acquired Intangible Assets



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The carrying amount and accumulated amortization of acquired intangible assets as of September 30, 2007, and December 31, 2006, follow:

| (Millions)  | Sept. 30<br>2007 | Dec. 31<br>2006 |
|---|------------------|-----------------|
| Patents   | \$ 439           | \$ 419          |
| Other amortizable intangible assets (primarily tradenames and customer related intangibles) | 731              | 641             |
| Non-amortizable intangible assets (tradenames)  | 72               | 68              |
| Total gross carrying amount   | \$ 1,242         | \$ 1,128        |
| Accumulated amortization patents  | (295)            | (266)           |
| Accumulated amortization other  | (199)            | (154)           |
| Total accumulated amortization  | (494)            | (420)           |
| Total intangible assets net   | \$ 748           | \$ 708          |

Amortization expense for acquired intangible assets for the three-month and nine-month periods ended September 30, 2007 and 2006 follows:

| (Millions)           | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|----------------------|------------------------------------|-------|-----------------------------------|-------|
|                      | 2007                               | 2006  | 2007                              | 2006  |
| Amortization expense | \$ 22                              | \$ 21 | \$ 64                             | \$ 50 |

The table below shows expected amortization expense for acquired intangible assets recorded as of September 30, 2007:

| (Millions)           | Fourth<br>Quarter<br>2007 | 2008  | 2009  | 2010  | 2011  | After<br>2012 |
|----------------------|---------------------------|-------|-------|-------|-------|---------------|
| Amortization expense | \$ 23                     | \$ 82 | \$ 82 | \$ 76 | \$ 68 | \$ 345        |

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.

**NOTE 4. Restructuring Actions and Other Exit Activities***Restructuring Actions:*

During the fourth quarter of 2006 and the first six months of 2007, management approved and committed to undertake the following restructuring actions:

**Pharmaceuticals business actions** – employee-related, asset impairment and other costs pertaining to the Company's exit of its branded pharmaceuticals operations. These costs included severance and benefits for pharmaceuticals business employees who are not obtaining employment with the buyers as well as impairment charges associated with certain assets not transferred to the buyers.

**Overhead reduction actions** – employee-related costs for severance and benefits, costs associated with actions to reduce the Company's cost structure.

**Business-specific actions** – employee-related costs for severance and benefits, fixed and intangible asset impairments, certain contractual obligations, and expenses from the exit of certain product lines.

The Company adjusted the 2006 restructuring actions cost estimates in the first, second and third quarters of 2007. Components of these restructuring actions include:

**Restructuring Actions**

| (Millions)   | Employee-<br>Related Items<br>And Benefits | Contract<br>Terminations<br>and Other | Asset<br>Impairments | Total   |
|--|--|---------------------------------------|----------------------|---------|
| <b>Accrued liability balances as of December 31, 2006:</b> |  |                                       |                      |         |
| Pharmaceuticals business actions                           | \$ 78                                      | \$ 6                                  | \$                   | \$ 84   |
| Overhead reduction actions                                 | 100  |                                       |                      | 100     |
| Business-specific actions                                  | 30   | 8                                     |                      | 38      |
| Total accrued liability balance                            | \$ 208                                     | \$ 14                                 | \$                   | \$ 222  |
| <b>Expenses (credits) incurred in first half 2007:</b>     |  |                                       |                      |         |
| Pharmaceuticals business actions                           | \$ (10)                                    | \$ (4)                                | \$                   | \$ (14) |
| Overhead reduction actions                                 | 5  |                                       |                      | 5       |
| Business-specific actions                                  | 15   | 4                                     | 35                   | 54      |
| First six months 2007 expense                              | \$ 10                                      | \$                                    | \$ 35                | \$ 45   |
| <b>Non-cash (charges) credits in first half 2007:</b>      |  |                                       |                      |         |
| Pharmaceuticals business actions                           | \$ (21)                                    | \$ 4                                  | \$                   | \$ (17) |
| Overhead reduction actions                                 | (5)  |                                       |                      | (5)     |
| Business-specific actions                                  | (10)                                       | (4)                                   | (35)                 | (49)    |
| First six months 2007 non-cash                             | \$ (36)                                    | \$                                    | \$ (35)              | \$ (71) |
| <b>Cash payments in first half 2007:</b>                   |  |                                       |                      |         |
| Pharmaceuticals business actions                           | \$ (24)                                    | \$ (6)                                | \$                   | \$ (30) |



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|                                     |    |       |    |     |          |
|-------------------------------------|----|-------|----|-----|----------|
| Overhead reduction actions          |    | (71)  |    |     | (71)     |
| Business-specific actions           |    | (15)  |    |     | (15)     |
| First six months 2007 cash payments | \$ | (110) | \$ | (6) | \$ (116) |

**Accrued liability balances as of June 30, 2007:**

|                                  |    |    |    |   |       |
|----------------------------------|----|----|----|---|-------|
| Pharmaceuticals business actions | \$ | 23 | \$ |   | \$ 23 |
| Overhead reduction actions       |    | 29 |    |   | 29    |
| Business-specific actions        |    | 20 |    | 8 | 28    |
| Total accrued liability balance  | \$ | 72 | \$ | 8 | \$ 80 |

**Restructuring Actions**

| (Millions)  | Employee-<br>Related Items<br>and Benefits | Contract<br>Terminations<br>and Other | Asset<br>Impairments | Total |
|---|--|---------------------------------------|----------------------|-------|
| <b>Expenses (credits) incurred in Q3 2007:</b>              |  |                                       |                      |       |
| Pharmaceuticals business actions                            | \$   | \$                                    | \$                   | \$    |
| Overhead reduction actions                                  |  | (1)                                   |                      | (1)   |
| Business-specific actions                                   |  | (2)                                   |                      | (2)   |
| Q3 2007 expense   | \$   | (3)                                   | \$                   | \$    |
| <b>Cash payments in Q3 2007:</b>                            |  |                                       |                      |       |
| Pharmaceuticals business actions                            | \$   | (12)                                  | \$                   | \$    |
| Overhead reduction actions                                  |  | (14)                                  |                      | (14)  |
| Business-specific actions                                   |  | (9)                                   |                      | (9)   |
| Q3 2007 cash payments                                       | \$   | (35)                                  | \$                   | \$    |
| <b>Accrued liability balances as of September 30, 2007:</b> |  |                                       |                      |       |
| Pharmaceuticals business actions                            | \$   | 11                                    | \$                   | \$    |
| Overhead reduction actions                                  |  | 14                                    |                      | 14    |
| Business-specific actions                                   |  | 9                                     | 8                    | 17    |
| Total accrued liability balance                             | \$   | 34                                    | \$                   | 8     |
|   |  |                                       | \$                   | \$    |
|   |  |                                       |                      | 42    |

**Income statement line in which the preceding 2007 expenses (credits) are reflected:**

|  | Q3 2007 | YTD 2007 |
|--|---------|----------|
| Cost of sales                                | \$      | \$       |
| Selling, general and administrative expenses |         | (3)      |
| Research, development and related expenses   |         | (6)      |
| Total  | \$      | (3)      |
|  |         | \$       |
|  |         | 41       |
|  |         | 7        |
|  |         | (6)      |
|  |         | 42       |

**The amount of expenses (credits) incurred in 2007 associated with the preceding are reflected in the Company's business segments as follows:**

|  | Q3 2007 | YTD 2007 |
|--|---------|----------|
| Industrial and Transportation            | \$      | \$       |
| Health Care                              |         | (1)      |
| Electro and Communications               |         | 19       |
| Display and Graphics                     |         | (1)      |
| Safety, Security and Protection Services |         | (1)      |
| Total                                    | \$      | (3)      |
|  |         | \$       |
|  |         | 2        |
|  |         | (10)     |
|  |         | 19       |
|  |         | 3        |
|  |         | 28       |
|  |         | 42       |

Actions with respect to the above activities are expected to be substantially completed in 2007 and additional charges and adjustments are not expected to be material.

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In connection with this targeted restructuring plan, the Company eliminated a total of approximately 1,900 positions from various functions within the Company. Approximately 390 positions were pharmaceuticals business employees, approximately 960 positions related primarily to corporate staff overhead reductions, and approximately 550 positions were business-specific reduction actions. Of the 1,900 employment reductions, about 58% are in the United States, 21% in Europe, 12% in Latin America and Canada, and 9% in the Asia Pacific area. As a result of the second-quarter 2007 phase-out of operations at a New Jersey roofing granule facility and the sale of the Company's Opticom Priority Control Systems and Canoga Traffic Detection businesses, the Company eliminated approximately 100 additional positions.

Employee-related severance charges are largely based upon distributed employment policies and substantive severance plans and were reflected in the quarter in which management approved the restructuring actions. Severance amounts for which affected employees were required to render service in order to receive benefits at their termination dates were measured at the date such benefits were communicated to the applicable employees and recognized as expense over the employees' remaining service periods.

Non-cash employee-related charges in 2007 primarily relate to special termination pension and medical benefits granted to certain U.S. eligible employees. These pension and medical benefits were reflected as a component of the benefit obligation of the Company's pension and medical plans as of September 30, 2007.

Contract termination and other charges primarily reflect costs to terminate a contract before the end of its term (measured at fair value at the time the Company provided notice to the counterparty) or costs that will continue to be incurred under the contract for its remaining term without economic benefit to the Company.

First-quarter 2007 business-specific asset impairment charges primarily related to the Company's decision to close an Electro and Communications facility in Wisconsin. Asset impairment charges in the first quarter of 2007 associated with the business-specific actions included \$10 million related to property, plant and equipment and \$1 million related to intangible assets. Second-quarter 2007 business-specific asset impairment charges of \$24 million related to property, plant and equipment are associated with the Company's decision to phase-out operations at a New Jersey roofing granule facility (Safety, Security and Protection Services segment). Impairment charges related to intangible assets and property, plant and equipment reflect the excess of the assets' carrying values over their fair values.

*Other Exit Activities:*

During the third quarter of 2007, the Company recorded a net pre-tax charge of \$26 million related to the consolidation of certain flexible circuit manufacturing operations. This charge related to employee reductions (\$17 million) and fixed asset impairments (\$9 million) in the Electro and Communications business segment and was recorded in cost of sales and selling, general and administrative expenses.

**NOTE 5. Supplemental Comprehensive Income and Accumulated Other Comprehensive Income (AOCI) Information**

| (Millions)  | Comprehensive Income<br>Three-months ended Sept. 30, |        | AOCI<br>Balance at<br>Dec. 31, 2006 |
|---|--|--------|-------------------------------------|
|   | 2007   | 2006   |                                     |
| <b>Net income</b>   | \$ 960   | \$ 894 |                                     |
| Cumulative translation  | 245  | 59     |                                     |
| Tax effect  | 51   | (2)    |                                     |
| <b>Cumulative translation - net of tax</b>                                      | 296  | 57     | \$ 210                              |
| Defined benefit pension and postretirement plans adjustment                     | 50   |        |                                     |
| Tax effect  | (20)   |        |                                     |
| <b>Defined benefit pension and postretirement plans adjustment - net of tax</b> | 30   |        | (2,067)                             |
| Debt and equity securities, unrealized gain (loss)                              | (13)   |        |                                     |
| Tax effect  | 5  |        |                                     |
| <b>Debt and equity securities, unrealized gain (loss) - net of tax</b>          | (8)  |        | 2                                   |
| Cash flow hedging instruments, unrealized gain (loss)                           | (21)   | (14)   |                                     |
| Tax effect  | 8  | 6      |                                     |
| <b>Cash flow hedging instruments, unrealized gain (loss) - net of tax</b>       | (13)   | (8)    | (18)                                |
| <b>Total net of tax</b>   | \$ 1,265   | \$ 943 | \$ (1,873)                          |

|   | Nine-months ended Sept. 30, |          | Balance at<br>Sept. 30, 2007 |
|---|-----------------------------|----------|------------------------------|
|   | 2007                        | 2006     |                              |
| <b>Net income</b>   | \$ 3,245                    | \$ 2,675 |                              |
| Cumulative translation  | 390                         | 331      |                              |
| Tax effect  | 57                          | (9)      |                              |
| <b>Cumulative translation - net of tax</b>                                      | 447                         | 322      | \$ 657                       |
| Defined benefit pension and postretirement plans adjustment                     | 146                         |          |                              |
| Tax effect  | (52)                        |          |                              |
| <b>Defined benefit pension and postretirement plans adjustment - net of tax</b> | 94                          |          | (1,973)                      |
| Debt and equity securities, unrealized gain (loss)                              | (6)                         | (1)      |                              |
| Tax effect  | 2                           |          |                              |
| <b>Debt and equity securities, unrealized gain (loss) - net of tax</b>          | (4)                         | (1)      | (2)                          |
| Cash flow hedging instruments, unrealized gain (loss)                           | (28)                        | (76)     |                              |
| Tax effect  | 11                          | 28       |                              |
| <b>Cash flow hedging instruments, unrealized gain (loss) - net of tax</b>       | (17)                        | (48)     | (35)                         |
| <b>Total net of tax</b>   | \$ 3,765                    | \$ 2,948 | \$ (1,353)                   |

No income tax provision is required for the translation of foreign currency financial statements into U.S. dollars. Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassification adjustments for cash flow hedging instruments are discussed in Note 7 and reclassification adjustments for the defined benefit pension and postretirement plans adjustment are discussed in Note 10.

**NOTE 6. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1999. The Internal Revenue Service (IRS) closed its examination of the Company's U.S. income tax returns for the years 1999 through 2001 in the second quarter of 2006, and it is

anticipated that its examination for the Company's U.S. income tax returns for the years 2002 through 2004 will be completed by the end of 2007. As of September 30, 2007, the IRS has not proposed any significant adjustments to the Company's tax positions. 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 IRS audit. However, the Company does not anticipate any adjustments that would result in a material change to its financial position. Payments relating to any proposed assessments arising from the 2002 through 2004 audit 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.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized an immaterial increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. The total amount of unrecognized tax benefits as of January 1, 2007 and September 30, 2007, respectively, are \$261 million and \$322 million. These amounts at January 1, 2007 and September 30, 2007, respectively, include accrued interest and penalties of \$45 million and \$54 million, of which \$23 million and \$19 million are for interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The Company recognizes interest accrued related to unrecognized tax benefits in tax expense.

#### NOTE 7. Derivatives and Other Financial Instruments

The Company uses interest rate swaps, currency swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity price fluctuations. As circumstances warrant, the Company also uses cross currency swaps and forwards to hedge portions of the Company's net investments in foreign operations. For a more detailed discussion of the company's derivative instruments, refer to 3M's Current Report on Form 8-K dated May 25, 2007.

The Company enters into foreign exchange forward contracts, options and swaps 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. Based on exchange rates at September 30, 2007, the Company expects to reclassify to earnings over the next 12 months a majority of the cash flow hedging instruments after-tax loss of \$35 million (with the impact offset by cash flows from underlying hedged items). Amounts recorded in accumulated other comprehensive income (loss) related to cash flow hedging instruments follow:

| Cash Flow Hedging Instruments<br>Net of Tax<br>(Millions) | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|---|------------------------------------|---------|-----------------------------------|---------|
|   | 2007                               | 2006    | 2007                              | 2006    |
| Beginning balance   | \$ (22)                            | \$ (2)  | \$ (18)                           | \$ 38   |
| Changes in fair value of derivatives                      | (24)                               | (13)    | (35)                              | (42)    |
| Reclassifications to earnings from equity                 | 11                                 | 5       | 18                                | (6)     |
| Total activity  | (13)                               | (8)     | (17)                              | (48)    |
| Ending balance  | \$ (35)                            | \$ (10) | \$ (35)                           | \$ (10) |

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In June 2006, the Company entered into a \$330 million fixed-to-floating interest rate swap to hedge the 30-year bond due in 2028. The Company terminated the swap in March 2007 and the resulting gain will be recognized over the remaining life of the underlying debt. Accordingly, the termination of this swap did not have a material impact on 3M's consolidated results of operations or financial condition. Refer to Note 9 for discussion of hedges associated with the seven year Eurobond issued in July 2007.



**NOTE 8. Marketable Securities**

The Company invests in auction rate securities, asset-backed securities, and other securities. The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current) at September 30, 2007.

| (Millions)                             | Sept. 30,<br>2007 |
|--|-------------------|
| Auction rate securities                | \$ 462            |
| Asset-backed securities                | 230               |
| Agency securities                      | 207               |
| Other securities                       | 125               |
| Current marketable securities          | 1,024             |
| Asset-backed securities                | 400               |
| Corporate medium-term notes securities | 92                |
| Agency securities                      | 64                |
| Non-current marketable securities      | 556               |
| Total marketable securities            | \$ 1,580          |

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. Unrealized gains and losses were not material in the first nine months of 2007 and 2006. Gross realized gains and gross realized losses on sales of marketable securities were also not material. There were no impairment losses recognized on marketable securities in the first nine months of 2007 and 2006. The fair value of marketable securities approximates cost, except for certain auction rate securities discussed in the next paragraph. Cost of securities sold or reclassified 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.

In the third quarter of 2007, certain auction rate securities failed auction due to sell orders exceeding buy orders. Of 3M's \$1.6 billion marketable securities portfolio at September 30, 2007, \$34 million (at cost) is currently associated with failed auctions, all of which have been in a loss position for less than 12 months. 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. These securities are rated AAA. Based on third party valuation models and an analysis of other-than-temporary impairment factors, 3M recorded a temporary impairment within Accumulated Other Comprehensive Income of approximately \$8 million pre-tax at September 30, 2007 related to these auction rate securities. These securities are being analyzed each reporting period for other-than-temporary impairment factors.

The balance at September 30, 2007 for marketable securities and short-term investments 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.

Sept. 30,

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| (Millions)                               | 2007     |
|--|----------|
| Due in one year or less                  | \$ 226   |
| Due after one year through three years   | 622      |
| Due after three years through five years | 201      |
| Due after five years                     | 531      |
| Total marketable securities              | \$ 1,580 |

**NOTE 9. Long-Term Debt and Short-Term Borrowings**

The Company has a well-known seasoned issuer shelf registration statement, effective February 24, 2006, to register an indeterminate amount of debt or equity securities for future sales. As of September 30, 2007, no debt securities have been issued off this shelf, but 150,718 shares of the Company's common stock were registered on June 15, 2007 under this shelf on behalf of and for the sole benefit of the selling stockholders in connection with the Company's acquisition of assets of Diamond Productions, Inc. The Company intends to use the proceeds from future securities sales off this shelf for general corporate purposes. In connection with this shelf registration, in June 2007 the Company established a medium-term notes program through which up to \$3 billion of medium-term notes may be offered.

In March 2007, the Company issued a 30-year, \$750 million, fixed rate note with a coupon rate of 5.70%. This debt security was issued under the \$1.5 billion shelf registration and medium-term notes program established in late 2003.

On April 30, 2007, the Company replaced its \$565 million credit facility with a new \$1.5 billion five year credit facility, which has provisions for the Company to request an increase of the facility up to \$2 billion (at the lenders' discretion), and providing for up to \$150 million in letters of credit. As of September 30, 2007, there are \$110 million in letters of credit drawn against the facility. Under the new credit agreement, 3M is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At September 30, 2007, this ratio was approximately 4.5 to 1.

In the second quarter of 2007, 3M repurchased \$42 million in floating rate notes due in 2037 at par as the bondholder exercised put provisions associated with this debt instrument.

In July 2007, 3M issued a seven year 5.0% fixed rate Eurobond for an amount of 750 million Euros (approximately \$1.063 billion in U.S. Dollars at September 30, 2007). In June 2007, 3M executed a pre-issuance cash flow hedge on a notional amount of 350 million Euros by entering into a floating-to-fixed interest rate swap relating to the anticipated issuance of the Eurobond. Upon debt issuance in July 2007, 3M 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 and simultaneously terminated the floating-to-fixed swap. The termination of the swap resulted in an immaterial gain, which will be amortized over the seven year life of the Eurobond. 3M also designated the 750 million Eurobond as a hedging instrument of the Company's net investment in its European subsidiaries.



**NOTE 10. Pension and Postretirement Benefit Plans**



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

**Benefit Plan Information**

| (Millions)   | Three months ended September 30              |       |               |       |                         |       |       |       |
|--|--|-------|---------------|-------|-------------------------|-------|-------|-------|
|  | Qualified and Non-qualified Pension Benefits |       |               |       | Postretirement Benefits |       |       |       |
|  | United States                                |       | International |       | 2007                    |       | 2006  |       |
|  | 2007   | 2006  | 2007          | 2006  | 2007                    | 2006  | 2007  | 2006  |
| Service cost   | \$ 48  | \$ 49 | \$ 29         | \$ 30 | \$ 14                   | \$ 14 | \$ 14 | \$ 14 |
| Interest cost  | 142  | 135   | 55            | 43    | 26                      | 26    | 26    | 26    |
| Expected return on plan assets   | (210)  | (192) | (70)          | (59)  | (28)                    | (27)  | (28)  | (27)  |
| Amortization of transition (asset) obligation  |  |       | 2             | 1     |                         |       |       |       |
| Amortization of prior service cost (benefit)   | 3  | 3     | (1)           | (1)   | (17)                    | (12)  | (17)  | (12)  |
| Recognized net actuarial (gain) loss   | 32   | 51    | 12            | 19    | 19                      | 21    | 19    | 21    |
| Net periodic benefit cost  | \$ 15  | \$ 46 | \$ 27         | \$ 33 | \$ 14                   | \$ 22 | \$ 14 | \$ 22 |
| Settlements, curtailments and special termination benefits                                 | 4  |       |               |       |                         |       |       |       |
| Net periodic benefit cost after settlements, curtailments and special termination benefits | \$ 19  | \$ 46 | \$ 27         | \$ 33 | \$ 14                   | \$ 22 | \$ 14 | \$ 22 |

**Benefit Plan Information**

| (Millions)   | Nine months ended September 30               |        |               |       |                         |       |       |       |
|--|--|--------|---------------|-------|-------------------------|-------|-------|-------|
|  | Qualified and Non-qualified Pension Benefits |        |               |       | Postretirement Benefits |       |       |       |
|  | United States                                |        | International |       | 2007                    |       | 2006  |       |
|  | 2007   | 2006   | 2007          | 2006  | 2007                    | 2006  | 2007  | 2006  |
| Service cost   | \$ 144                                       | \$ 147 | \$ 89         | \$ 88 | \$ 42                   | \$ 42 | \$ 42 | \$ 42 |
| Interest cost  | 426  | 405    | 165           | 129   | 78                      | 78    | 78    | 78    |
| Expected return on plan assets   | (630)  | (574)  | (210)         | (173) | (80)                    | (79)  | (80)  | (79)  |
| Amortization of transition (asset) obligation  |  |        | 4             | 3     |                         |       |       |       |
| Amortization of prior service cost (benefit)   | 10   | 9      | (3)           | (3)   | (53)                    | (38)  | (53)  | (38)  |
| Recognized net actuarial (gain) loss   | 95   | 153    | 38            | 49    | 55                      | 63    | 55    | 63    |
| Net periodic benefit cost  | \$ 45  | \$ 140 | \$ 83         | \$ 93 | \$ 42                   | \$ 66 | \$ 42 | \$ 66 |
| Settlements, curtailments and special termination benefits                                 | 5  |        |               |       | 13                      |       | 13    |       |
| Net periodic benefit cost after settlements, curtailments and special termination benefits | \$ 50  | \$ 140 | \$ 83         | \$ 93 | \$ 55                   | \$ 66 | \$ 55 | \$ 66 |

For the nine months ended September 30, 2007, contributions totaling \$371 million were made to the Company's U.S. and international pension plans and \$2 million to its post-retirement plans. In 2007, the Company expects to contribute up to \$420 million to its U.S. and international pension plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2007. Therefore, the

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amount of the anticipated discretionary pension contribution could vary significantly depending on the U.S plans' funding status as of the 2007 measurement date and the anticipated tax deductibility of the contribution.

As a result of the Company's December 31, 2006 adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", the Company recognized the transition obligation, prior service costs, and net actuarial losses on the balance sheet as accumulated other comprehensive income, which is a component of stockholders' equity. As disclosed in Note 5, for the three and nine-months ended September 30, 2007, \$30 million after tax (\$20 million tax benefit) and \$94 million after tax (\$52 million tax benefit), respectively, were reclassified to earnings from accumulated other comprehensive income to pension and postretirement expense in the income statement. These pension and postretirement expense amounts are shown in the table above as amortization of transition (asset) obligation, amortization of prior service cost (benefit) and recognized net actuarial (gain) loss.



**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. 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. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information can be found in Note 13 "Commitments and Contingencies" in the Company's Current Report on Form 8-K dated May 25, 2007, including information about the Company's process for establishing and disclosing accruals and insurance receivables.

Shareholder Derivative Litigation

As previously reported, in July 2007, a shareholder derivative lawsuit was filed in the U.S. District Court for the District of Delaware against the Company as nominal defendant and against each then current member of the Board of Directors and the officers named in the Summary Compensation Table of the 2007 Proxy Statement. The suit alleges that the Company's 2007 Proxy Statement contained false and misleading statements concerning the tax deductibility of compensation payable under the Annual Incentive Plan ( "Plan" ) and the standards for determining the amounts payable under the Plan. The lawsuit seeks a declaration voiding shareholder approval of the Plan, termination of the Plan, voiding the elections of directors, equitable accounting, and awarding costs, including attorneys' fees.

Breast Implant Litigation



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The Company and certain other companies were named as defendants in past years in numerous claims and lawsuits alleging damages for personal injuries of various types resulting from breast implants formerly manufactured by the Company or a related company. The vast majority of claims against the Company have been resolved. The Company does not consider its remaining probable liability to be material. Information concerning the associated insurance receivable is in the table in the paragraph entitled *Accrued Liabilities and Insurance Receivables Related to Legal Proceedings*.

### **Respirator Mask/Asbestos Litigation**



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As of September 30, 2007, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 12,600 individual claimants, a decrease from the approximately 28,800 individual claimants with actions pending at September 30, 2006. 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, or other occupational dusts found in products manufactured by other defendants or generally in the workplace. The remaining claimants generally allege personal injury from occupational exposure to asbestos from products previously manufactured by the Company, which are often unspecified, and by other defendants, or occasionally at Company premises.

Many of the resolved lawsuits and claims involved unimpaired claimants who were recruited by plaintiffs' lawyers through mass chest x-ray screenings. The Company experienced a significant decline in the number of claims filed in 2006 and through the third quarter of 2007 from prior years by apparently unimpaired claimants. The Company attributes this decline to several factors, including certain changes enacted in several states in recent years of the law governing asbestos-and silica-related claims, and the highly-publicized decision in mid-2005 of the United States District Court for the Southern District of Texas that identified and criticized abuses by certain attorneys, doctors, and x-ray screening companies on behalf of claimants. The Company expects the filing of claims by unimpaired claimants in the future to continue at much lower levels than in the past. The Company believes that due to this change in the type and volume of incoming claims, it is likely that going forward the number of claims alleging more serious injuries, including mesothelioma and other malignancies, while remaining relatively constant, will represent a greater percentage of total claims than in the past. The Company has demonstrated in 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 condition, even if significant, is attributable to the Company's respiratory protection products. Nonetheless, the Company's litigation experience indicates that claims by persons alleging serious injuries are costlier to resolve than the claims of unimpaired persons, and it therefore anticipates an increase in the average cost of resolving pending and future claims on a per-claim basis than it experienced in prior periods when the vast majority of claims were asserted by the unimpaired.

On July 13, 2007, the Company won a defense verdict from a jury in the federal court in the Eastern District of Missouri. The jury found the Company had no liability whatever to a plaintiff who claimed he had silicosis and a

related cancer and sought to recover damages from the Company arising from his alleged illness, which he claimed to have contracted from occupational exposure to silica despite his purported use of the Company's respirator mask equipment at various times. The jury rejected each of the plaintiff's theories of liability against the Company. With this victory, the Company has prevailed in seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2003, 2004, and 2007), and an appellate reversal in 2005 of the one jury verdict, in 2001, adverse to the Company.

#### Employment Litigation

As previously reported, one current and one former employee of the Company filed a purported class action in the District Court of Ramsey County, Minnesota, in December 2004, seeking to represent a class of all current and certain former salaried employees employed by 3M in Minnesota below a certain salary grade who were age 46 or older at any time during the applicable period to be determined by the Court. The complaint alleges the plaintiffs suffered various forms of employment discrimination on the basis of age in violation of the Minnesota Human Rights Act and seeks injunctive relief, unspecified compensatory damages (which they seek to treble under the statute), including back and front pay, punitive damages (limited by statute to \$8,500 per claimant) and attorneys' fees. In January 2006, the plaintiffs filed a motion to join four additional named plaintiffs. This motion was unopposed by the Company and the four plaintiffs were joined in the case, although one claim has been dismissed following an individual settlement. The class certification hearing is scheduled for November 28, 2007.

A similar age discrimination purported class action was filed against the Company in November 2005 in the Superior Court of Essex County, New Jersey, on behalf of a class of New Jersey-based employees of the Company. The Company removed this case to the United States District Court for the District of New Jersey. On June 29, 2007, the attorneys for the plaintiff amended their complaint and dropped the class action allegations.

In addition, three former employees filed age discrimination charges against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agencies in Minnesota and California during 2005; two of these charges were amended in 2006. Such filings include allegations that the release of claims signed by certain former employees in the purported class defined in the charges is invalid for various reasons and assert age discrimination claims on behalf of certain current and former salaried employees in states other than Minnesota and New Jersey. In 2006, one current employee filed an age discrimination charge against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in Missouri, asserting claims on behalf of a class of all current and certain former salaried employees who worked in Missouri and other states other than Minnesota and New Jersey. The same law firm represents the plaintiffs and claimants in each of these proceedings.

#### 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 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.

*Remediation:* 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 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 following section, *Accrued Liabilities and Insurance Receivables Related to Legal Proceedings* for more information on this subject.

*Regulatory Activities:* As previously reported, the Company has been voluntarily cooperating with ongoing reviews by local, state, national (primarily the U.S. Environmental Protection Agency (EPA)), and international agencies of possible environmental and health effects of perfluorooctanyl compounds (perfluorooctanoic acid or PFOA and perfluorooctane sulfonate or PFOS) and related compounds. As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds, except that a subsidiary recovers and recycles PFOA in Gendorf, Germany, for internal use in production processes and has agreed to a product stewardship initiative with the EPA to end its use of PFOA by 2010.

The EPA signed a Memorandum of Understanding with the Company and Dyneon LLC, a subsidiary of the Company, in October 2004, under which the Company is assessing the potential presence of PFOA at and around the



Company's manufacturing facility in Decatur, Alabama. Activities are in progress pursuant to this Memorandum of Understanding.

Regulatory activities concerning PFOA and/or PFOS continue in Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. In December 2006, the European Union adopted an amendment to the Marketing and Use Directive to limit use of PFOS. Member States must enact the Directive into national law by December 27, 2007.

As previously reported, the Company and state agencies tested soil and groundwater beneath three former waste disposal sites in Washington County, Minnesota, used many years ago by the Company to dispose lawfully of waste containing perfluorinated compounds. The test results show that water from certain municipal wells in Oakdale, Minnesota, near two of the former disposal sites and some private wells in that vicinity in Lake Elmo, Minnesota, contains low levels of PFOS and PFOA that, in some cases, are slightly above guidelines established by the Minnesota Department of Health ( MDH ). In March 2007 the MDH lowered these advisory health-based values (HBV) (i.e., the amount of a chemical in drinking water considered by the MDH staff to be safe for people to drink for a lifetime) for PFOA from 7 parts per billion (ppb) to 0.5 ppb and for PFOS from 1 ppb to 0.3 ppb. Additional testing by the MDH has shown that water from the municipal wells in Oakdale, Minnesota, and some private wells in Lake Elmo, Minnesota, also contain low levels of other perfluorinated compounds. As previously reported, the Company on its own initiative agreed with the City of Oakdale to construct, operate, and maintain for at least five years a granular activated carbon water treatment system to treat one or more of Oakdale's municipal wells. The Company also donated several acres of land to the City of Lake Elmo, Minnesota, for a water tower and granted the City approximately \$5.6 million that the City used to expand municipal water service to neighborhoods that included a small number of private wells in which levels of PFOS and PFOA had been detected.

As previously reported, the MDH has also detected low levels of a perfluorinated compound called perfluorobutanoic acid (PFBA) in municipal wells (and in private wells as announced by the MDH in June 2007) in six nearby communities (Woodbury, Cottage Grove, Newport, St. Paul Park, South St. Paul, and Hastings, all communities located southeast of St. Paul), some of which slightly exceed the MDH's interim advisory level for PFBA, currently at 1 ppb. The Company is working with the MDH and the Minnesota Pollution Control Agency (MPCA) in assessing the source of PFBA in these wells and is supplying data that could be used in determining an appropriate guideline level. The MDH has not issued any HBV for PFBA. The Company has advised the affected communities that it will assist them in assuring their drinking water falls below the legally permissible level for PFBA when such value is finally determined.

The Company is also working with the MPCA to determine whether low levels of PFOA, PFOS and other perfluorinated compounds in the soil at the Company's former perfluorinated compound production facility at Cottage Grove, Minnesota, in the groundwater under the former plant and disposal sites, and in river sediments near the former plant, are continuing sources of such compounds in the Mississippi River, its fish and wildlife.

On May 22, 2007, the MPCA Citizen's Board approved the Settlement Agreement and Consent Order to address the presence of perfluorinated compounds in the soil and groundwater at former disposal sites in Washington County Minnesota and at the Company's manufacturing facility at Cottage Grove Minnesota. Under this agreement, the Company agreed to (i) evaluate releases of perfluorinated compounds from these sites and propose response actions; (ii) provide alternative drinking water if and when an HBV or Health Risk Limit ( HRL ) (i.e., the amount of a chemical in drinking water determined by the MDH to be safe for people to drink for a lifetime) is exceeded for any perfluorinated compounds as a result of contamination from these sites; (iii) remediate any source of PFBA and provide alternative drinking water if and when levels are found above an HBV or HRL; (iv) share information with the MPCA about perfluorinated compounds; (v) reimburse the MPCA future costs of research that are connected to releases from the Company's operations in Minnesota (the Company agreed to reimburse the MPCA for past research costs and provided a grant up to \$5 million over the next four years for the purpose of investigating and assessing the presence and effects of perfluorinated compounds in the environment and biota); and (vi) pay the MPCA up to \$8 million for the purpose of implementing remedial actions at the Washington County Landfill.

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

*Litigation:* As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama, involving perfluorooctanyl chemistry, alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to perfluorooctanyl chemistry at or near the Company's Decatur, Alabama, manufacturing facility. The Circuit Court in 2005 granted the Company's motion to dismiss the named plaintiff's personal injury-related claims on the basis that such claims are barred by the exclusivity provisions of the state's Workers Compensation Act. The plaintiffs' counsel filed an amended complaint in November 2006, limiting the case to property damage claims on behalf of a purported class of residents and

property owners in the vicinity of the Decatur plant. Also in 2005, the judge in a second purported class action lawsuit (filed by three residents of Morgan County, Alabama, seeking unstated compensatory and punitive damages involving alleged damage to their property from emissions of perfluorooctanyl 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 action described above filed in the same court in 2002. Despite the stay, plaintiffs recently 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.

As previously reported, two residents of Washington County, Minnesota, filed in October 2004 a purported class action in the District Court of Washington County on behalf of Washington county residents who have allegedly suffered personal injuries and property damage from alleged emissions from the former perfluorooctanyl production facility at Cottage Grove, Minnesota, and from historic waste disposal sites in the vicinity of that facility. After the District Court granted the Company's motion to dismiss the claims for medical monitoring and public nuisance in April 2005, the plaintiffs filed an amended complaint adding additional allegations involving other perfluorinated compounds manufactured by the Company, alleging additional legal theories in support of their claims, adding four plaintiffs, and seeking relief based on alleged contamination of the City of Oakdale municipal water supply and certain private wells in the vicinity of Lake Elmo, Minnesota. In April 2006, the plaintiffs filed a second amended complaint adding two additional plaintiffs. The two original plaintiffs thereafter dismissed their claims against the Company. After a hearing on the plaintiffs' motion to certify the case as a class action at the end of March 2007, the Court on June 19, 2007 denied the plaintiffs' motion to certify the litigation as a class action. The deadline for the plaintiffs to file an appeal has passed. The trial of the individual cases is scheduled for the fall of 2008.

In the second quarter of 2006, the New Jersey Department of Environmental Protection served a lawsuit that was filed in New Jersey state court against the Company and several other companies seeking cleanup and removal costs and damages to natural resources allegedly caused by the discharge of hazardous substances from two former waste disposal sites in New Jersey. The defendants removed the case to federal court, which was recently granted that state's motion to remand the case to state court.

#### Accrued Liabilities and Insurance Receivables Related to Legal Proceedings

The following table shows the major categories of on-going litigation, environmental remediation and other environmental liabilities (as defined below) for which the Company has been able to estimate its probable liability and for which the Company has taken reserves and the related insurance receivables:

#### **LIABILITY AND RECEIVABLE BALANCES**

| (Millions)                                      | Sept. 30<br>2007 | Dec. 31<br>2006 |
|---|------------------|-----------------|
| Breast implant liabilities                      | \$ 2             | \$ 4            |
| Breast implant insurance receivables            | 70               | 93              |
| Respirator mask/asbestos liabilities            | 130              | 181             |
| Respirator mask/asbestos insurance receivables  | 332              | 380             |
| Environmental remediation liabilities           | 37               | 44              |
| Environmental remediation insurance receivables | 15               | 15              |

|                                 |    |     |    |    |
|---------------------------------|----|-----|----|----|
| Other environmental liabilities | \$ | 149 | \$ | 14 |
|---------------------------------|----|-----|----|----|

For those significant pending legal proceedings that do not appear in the table and that are not the subject of pending settlement agreements, the Company has determined that liability is not probable or the amount of the liability is not estimable, or both, and the Company is unable to estimate the possible loss or range of loss at this time. The amounts in the preceding table with respect to breast implant and environmental remediation represent the Company's best estimate of the respective liabilities. The Company does not believe that there is any single best estimate of the respirator/mask/asbestos liability or the other environmental liabilities shown above, nor that it can reliably estimate the amount or range of amounts by which those liabilities may exceed the reserves the Company has established.

As previously reported, the Company increased its other environmental liabilities by \$121 million in the first quarter of 2007 as a result of regulatory developments in Minnesota and the completion of a comprehensive review with environmental consultants regarding its other environmental liabilities which include the estimated costs of addressing trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale and Lake

Elmo, 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 Minnesota. The Company expects that most of the spending will occur over the next three to seven years. While the Company is not able to estimate the total costs of implementing the Settlement Agreement and Consent Order with the MPCA (described above under *Environmental Matters and Litigation - Regulatory Matters*) at this time, the Company increased its other environmental liabilities by an additional \$13 million in the second quarter of 2007 to reflect its best estimate of the specific payment obligations under that agreement.

In the breast implant insurance coverage litigation, the District Court in Ramsey County Minnesota entered an order in September 2007 dismissing from the suit the last of the insurers that were still contesting the extent of their coverage for the Company's breast implant product liability claims. The dismissal was pursuant to a settlement the Company reached with those insurers during the third quarter of 2007. As of September 30, 2007, the Company's receivable for insurance recoveries related to breast implant matter was \$70 million. The Company collected \$23 million in the third quarter of 2007 from four insurers, reducing this receivable by that amount. The Company also entered into a settlement agreement with three insurers for additional payments of approximately \$53 million to be paid in 2008 which will be credited against this receivable when paid. The Company continues to pursue recovery against its remaining insurers and expects to collect the remaining receivable.

#### NOTE 12. Management Stock Ownership Program (MSOP) and General Employees' Stock Purchase Plan (GESPP)

Effective with the May 2005 MSOP annual grant, the Company changed its vesting period from one to three years with the expiration date remaining at 10 years from date of grant. Beginning in 2007, the Company reduced the number of traditional stock options granted under the MSOP plan by reducing the number of employees eligible to receive annual grants and by shifting a portion of the annual grant away from traditional stock options primarily to restricted stock units. However, associated with the reduction in the number of eligible employees, the Company provided a one-time buyout grant of restricted stock units to the impacted employees. Capitalized stock-based compensation amounts were not material at September 30, 2007. The income tax benefits can fluctuate by period due to the amount of Incentive Stock Options (ISO) exercised since the Company receives the ISO tax benefit upon exercise. The Company last granted ISO's in 2002. Amounts recognized in the financial statements with respect to both the MSOP and GESPP (refer to Notes 15 and 16 in 3M's Current Report on Form 8-K dated May 25, 2007) are as follows:

| (Millions, except per share amounts)         | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |           |
|--|------------------------------------|-----------|-----------------------------------|-----------|
|  | 2007                               | 2006      | 2007                              | 2006      |
| Cost of sales                                | \$ 11                              | \$ 10     | \$ 37                             | \$ 33     |
| Selling, general and administrative expenses | 31                                 | 25        | 110                               | 98        |
| Research, development and related expenses   | 11                                 | 9         | 35                                | 31        |
| Operating Income (Loss)                      | \$ (53)                            | \$ (44)   | \$ (182)                          | \$ (162)  |
| Income tax benefits                          | \$ 21                              | \$ 15     | \$ 78                             | \$ 60     |
| Net Income (Loss)                            | \$ (32)                            | \$ (29)   | \$ (104)                          | \$ (102)  |
| Earnings per share impact - diluted          | \$ (0.04)                          | \$ (0.04) | \$ (0.14)                         | \$ (0.13) |
| Earnings per share - diluted                 | \$ 1.32                            | \$ 1.18   | \$ 4.42                           | \$ 3.50   |

The following table summarizes MSOP stock option activity during the nine months ended September 30, 2007:

### Stock Options

|  | Number of<br>Options | Exercise<br>Price* | Remaining<br>Contractual<br>Life* (months) | Aggregate<br>Intrinsic Value<br>(millions) |
|--|----------------------|--------------------|--|--|
| <b>Under option</b>                          |                      |                    |  |  |
| As of January 1, 2007                        | 82,867,903           | \$ 67.41           |  |  |
| <b>Granted</b>                               |                      |                    |  |  |
| Annual                                       | 4,434,583            | 84.81              |  |  |
| Progressive (Reload)                         | 451,951              | 87.07              |  |  |
| Other  | 41,888               | 83.07              |  |  |
| <b>Exercised</b>                             |                      |                    |  |  |
|  | (11,332,025)         | 54.92              |  |  |
| <b>Canceled</b>                              |                      |                    |  |  |
|  | (644,235)            | 77.06              |  |  |
| September 30                                 | 75,820,065           | \$ 70.33           | 69   | \$ 1,763                                   |
| Options exercisable as of September 30, 2007 | 59,676,236           | \$ 66.61           | 59   | \$ 1,610                                   |

\*Weighted average

As of September 30, 2007, there was \$163 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 vesting period with a weighted-average life of 1.7 years. The total intrinsic values of stock options exercised during the nine-month periods ended September 30, 2007 and 2006, was \$334 million and \$253 million, respectively. Cash received from options exercised was \$622 million and \$345 million for the nine months ended September 30, 2007 and 2006, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$95 million and \$72 million for the nine months ended September 30, 2007 and 2006, respectively.

For annual stock options, 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

|                          | 2007     | Annual<br>2006 | 2005     |
|--------------------------|----------|----------------|----------|
| Exercise price           | \$ 84.81 | \$ 87.23       | \$ 76.87 |
| Risk-free interest rate  | 4.6%     | 5.0%           | 4.0%     |
| Dividend yield           | 2.1%     | 2.0%           | 2.0%     |
| Volatility               | 20.0%    | 20.0%          | 23.5%    |
| Expected life (months)   | 69       | 69             | 69       |
| Black-Scholes fair value | \$ 18.12 | \$ 19.81       | \$ 18.28 |

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In connection with the adoption of SFAS No. 123R, in 2005 the Company reviewed and updated, among other things, its volatility and expected term assumptions. Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2007, 2006 and 2005 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 and assuming that options outstanding are exercised at the midpoint of the future remaining term.

As previously mentioned, the Company expanded its utilization of restricted stock units in conjunction with the May 2007 MSOP Annual Grant. The May 2007 restricted stock unit grant does not accrue dividends during the vesting period and vests over three years. The one-time buyout restricted stock unit grant vests over five years.

The following table summarizes MSOP restricted stock and restricted stock unit activity during the nine months ended September 30, 2007:

### Restricted Stock and Restricted Stock Units

|                          | Number of<br>Awards | Grant Date<br>Fair Value* |
|--------------------------|---------------------|---------------------------|
| Nonvested balance        |                     |                           |
| As of January 1, 2007    | 411,562             | \$ 78.11                  |
| Granted                  |                     |                           |
| Annual                   | 1,695,701           | 77.88                     |
| Other                    | 5,889               | 82.81                     |
| Vested                   | (41,967)            | 77.21                     |
| Forfeited                | (21,825)            | 77.91                     |
| As of September 30, 2007 | 2,049,360           | \$ 77.96                  |

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\*Weighted average

As of September 30, 2007, there was \$104 million of compensation expense that has yet to be recognized related to non-vested restricted stock and restricted stock units. This expense is expected to be recognized over the remaining vesting period with a weighted-average life of 3.4 years. The total fair value of restricted stock and restricted stock units that vested during the nine-month periods ended September 30, 2007 and 2006 was \$3 million and \$2 million, respectively.

In addition, 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.

The remaining total MSOP shares available for grant under the 2005 MSOP Program are 4,330,934. Restricted stock and restricted stock units, per the 2005 Plan, shall be counted against the total shares available as 2.45 shares for every one share issued in connection with that award.



**NOTE 13. Business Segments**

As described in 3M's Current Report on Form 8-K dated May 25, 2007, effective in the first quarter of 2007, 3M made certain changes to its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. The most significant of these changes are summarized as follows:

3M's new emerging business opportunity in its Track and Trace initiative resulted in the merging of a number of formerly separate efforts into one concerted effort for future growth. Track and Trace has a growing array of applications from tracking packages to managing medical and legal records. The establishment of this new initiative within 3M's Safety, Security and Protection Services segment resulted in the transfer of certain businesses to this segment from other segments, including the transfer of HighJump Software Inc., a 3M U.S.-based subsidiary that provides supply chain execution software and solutions (Industrial and Transportation segment) and the transfer of certain Track and Trace products from the Electro and Communications segment.

3M's Visual Systems business (Consumer and Office segment), which offers analog overhead and electronic projectors and film, was transferred to the Electro and Communications segment. This transfer is intended to leverage common markets, customers, suppliers and technologies.

3M's Industrial and Transportation segment (Energy and Advanced Materials business) transferred the 3M Aluminum Conductor Composite Reinforced (ACCR) electrical power cable to the Electro and Communications segment (Electrical Markets business). With an aluminum-based metal matrix at its core, the ACCR product increases transmission capacity for existing power lines. The Electrical Markets business sells insulating, testing and connecting products to various markets, including the electric utility markets.

Certain adhesives and tapes in the Industrial and Transportation segment (Industrial Adhesives and Tapes business) were transferred to the Consumer and Office segment (primarily related to the Construction and Home Improvement business and the Stationery Products business) and to the Electro and Communications segment (Electronics Markets Materials business). Certain maintenance-free respirator products for the consumer market in 3M's Safety, Security and Protection Services segment were transferred to the Consumer and Office segment (Construction and Home Improvement business).

3M transferred Film Manufacturing and Supply Chain Operations, a resource for the manufacturing and development of films and materials, to the Display and Graphics Business from Corporate and Unallocated.

3M's businesses are organized, managed and internally grouped into segments based on differences in products, technologies and services. 3M continues to manage its operations in six operating business segments: Industrial and Transportation segment, Health Care segment, Display and Graphics segment, Consumer and Office segment, Safety, Security and Protection Services segment, and the Electro and Communications segment. 3M's six business segments bring together common or related 3M technologies, enhancing the development of innovative products and services and providing for efficient sharing of business resources. These segments have worldwide responsibility for virtually all 3M product lines. 3M is not dependent on any single product 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.

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

**Business Segment Information**

| (Millions)                               | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |          |
|--|------------------------------------|---------|-----------------------------------|----------|
|  | 2007                               | 2006    | 2007                              | 2006     |
| <b>NET SALES</b>                         |                                    |         |                                   |          |
| Industrial and Transportation            | <b>\$1,807</b>                     | \$1,654 | <b>\$5,396</b>                    | \$4,988  |
| Health Care                              | <b>961</b>                         | 998     | <b>2,911</b>                      | 2,964    |
| Display and Graphics                     | <b>1,012</b>                       | 992     | <b>2,939</b>                      | 2,824    |
| Consumer and Office                      | <b>898</b>                         | 848     | <b>2,544</b>                      | 2,358    |
| Safety, Security and Protection Services | <b>766</b>                         | 691     | <b>2,323</b>                      | 1,992    |
| Electro and Communications               | <b>714</b>                         | 664     | <b>2,075</b>                      | 1,979    |
| Corporate and Unallocated                | <b>19</b>                          | 11      | <b>68</b>                         | 36       |
| Total Company                            | <b>\$6,177</b>                     | \$5,858 | <b>\$18,256</b>                   | \$17,141 |
| <b>OPERATING INCOME</b>                  |                                    |         |                                   |          |
| Industrial and Transportation            | <b>\$378</b>                       | \$339   | <b>\$1,148</b>                    | \$1,039  |
| Health Care                              | <b>259</b>                         | 287     | <b>1,600</b>                      | 846      |
| Display and Graphics                     | <b>288</b>                         | 293     | <b>935</b>                        | 822      |
| Consumer and Office                      | <b>192</b>                         | 190     | <b>533</b>                        | 475      |
| Safety, Security and Protection Services | <b>157</b>                         | 141     | <b>478</b>                        | 438      |
| Electro and Communications               | <b>114</b>                         | 121     | <b>357</b>                        | 355      |
| Corporate and Unallocated                | <b>37</b>                          | (29)    | <b>(128)</b>                      | (89)     |
| Total Company                            | <b>\$1,425</b>                     | \$1,342 | <b>\$4,923</b>                    | \$3,886  |

The following items are included in the reported operating income results presented in the preceding table.

Third quarter 2007 operating income included net benefits from a gain on sale of real estate (\$52 million gain recorded in Corporate and Unallocated), partially offset by exit activities (\$26 million expense recorded in Electro and Communications). Exit activities are discussed in more detail in Note 4 (Restructuring Actions and Other Exit Activities).

First nine months 2007 operating income included net gains of \$701 million, with a \$795 million net gain recorded in Health Care and a \$64 million net gain recorded in Display and Graphics partially offset by expenses recorded in Corporate and Unallocated (\$82 million), Electro and Communications (\$45 million), Safety, Security and Protection Services (\$29 million) and Industrial and Transportation (\$2 million). Items impacting first nine months 2007 operating income included net benefits from gains related to the sale of businesses (\$854 million gain with \$786 million recorded in Health Care and \$68 million recorded in Display and Graphics), a gain on sale of real estate (\$52 million gain recorded in Corporate and Unallocated), which were partially offset by increases in environmental liabilities (\$134 million expense recorded in Corporate and Unallocated), restructuring actions (\$45 million total restructuring expense for the first six months of 2007, with \$29 million expense recorded in Safety, Security and Protection Services, \$19 million expense recorded in Electro and Communications, \$4 million expense recorded in Display and Graphics, \$2 million expense recorded in Industrial and Transportation, and a \$9 million gain recorded in Health Care) and other exit activities (\$26 million expense recorded in Electro and Communications). These items, except the gain on sale of real estate, are discussed in more detail in Note 2 (Acquisitions and Divestitures), Note 4 (Restructuring Actions and Other Exit Activities) and Note 11 (Commitments and Contingencies).

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Third quarter 2006 operating income included costs related to seeking strategic alternatives for pharmaceuticals (\$13 million expense recorded in Health Care). First nine months 2006 operating income included costs related to seeking strategic alternatives for pharmaceuticals (\$22 million expense recorded in Health Care) and settlement costs related to an antitrust class action (\$40 million expense recorded in Corporate and Unallocated).

Corporate and unallocated operating income includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, insurance-related gains and losses, certain litigation and environmental expenses, and corporate restructuring program charges. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

**NOTE 14. Review Report of Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has performed reviews of the unaudited interim consolidated financial statements included herein, and their review report thereon accompanies this filing. Pursuant to Rule 436(c) of the Securities Act of 1933 ( " Act ") their report on these reviews 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.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**



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

We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of September 30, 2007 and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2007 and 2006, and of cash flows for the nine-month periods ended September 30, 2007 and 2006. 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, 2006, and the related consolidated statements of income, of changes in stockholders' equity and comprehensive income, and of cash flows for the year then ended (not presented herein), and in our report dated February 12, 2007, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of the change in the segments discussed in Notes 3 and 17, as to which the date is May 25, 2007, 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, 2006, 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

October 26, 2007



**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 six sections:

Overview

Results of Operations

Critical Accounting Estimates

Performance by Business Segment

Financial Condition and Liquidity

Forward-Looking Statements

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products and services. 3M manages its operations in six operating business segments: Industrial and Transportation, Health Care, Display and Graphics, Consumer and Office, Safety, Security and Protection Services, and Electro and Communications.

As discussed in Note 13 to the Consolidated Financial Statements, effective in the first quarter of 2007, 3M made certain changes to its business segments. The financial information presented herein reflects the impact of these business segment changes for all periods presented.

3M reported net sales of \$6.177 billion and net income of \$960 million, or \$1.32 per diluted share, for the three months ended September 30, 2007, compared with net sales of \$5.858 billion and net income of \$894 million, or \$1.18 per diluted share, for the three months ended September 30, 2006. Third quarter 2007 included items which on a net basis benefited earnings by \$0.03 per diluted share, while third quarter 2006 included net gains which benefited earnings by \$0.01 per diluted share. Refer to Note A at the end of this overview section for more detail on these 2007 and 2006 items.

The following table summarizes sales and operating income results by business segment.

|     |       | Three months ended September 30 |       |      |       | % change |  |
|-----|-------|---------------------------------|-------|------|-------|----------|--|
|     |       | 2007                            |       | 2006 |       |          |  |
| Net | Oper. | Net                             | Oper. | Net  | Oper. |          |  |

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| (Millions)                               | Sales          | Income         | Sales   | Income  | Sales         | Income        |
|--|----------------|----------------|---------|---------|---------------|---------------|
| Industrial and Transportation            | <b>\$1,807</b> | <b>\$378</b>   | \$1,654 | \$339   | <b>9.3%</b>   | <b>11.4%</b>  |
| Health Care                              | <b>961</b>     | <b>259</b>     | 998     | 287     | <b>(3.7)%</b> | <b>(9.9)%</b> |
| Display and Graphics                     | <b>1,012</b>   | <b>288</b>     | 992     | 293     | <b>2.0%</b>   | <b>(1.7)%</b> |
| Consumer and Office                      | <b>898</b>     | <b>192</b>     | 848     | 190     | <b>5.9%</b>   | <b>0.6%</b>   |
| Safety, Security and Protection Services | <b>766</b>     | <b>157</b>     | 691     | 141     | <b>10.9%</b>  | <b>10.8%</b>  |
| Electro and Communications               | <b>714</b>     | <b>114</b>     | 664     | 121     | <b>7.6%</b>   | <b>(5.1)%</b> |
| Corporate and Unallocated                | <b>19</b>      | <b>37</b>      | 11      | (29)    |               |               |
| Total Company                            | <b>\$6,177</b> | <b>\$1,425</b> | \$5,858 | \$1,342 | <b>5.5%</b>   | <b>6.2%</b>   |

Third quarter 2007 worldwide total sales growth was 5.5%. Local-currency sales growth (which includes volume, selling price and acquisition impacts, but excludes divestiture and translation impacts) was 6.3%, with organic local-currency growth of 4.2% and acquisitions adding 2.1%. Divestitures, primarily the sale of the global branded pharmaceuticals business (Health Care segment), decreased worldwide sales growth by 3.9%. The sale of the pharmaceuticals business is not presented as a discontinued operation due to the extent of the projected continuing cash flows from 3M's contractual supply relationship with the buyers in relation to those of the business that was sold.

The breadth of 3M's product lines was evident, as 3M experienced solid sales growth across the portfolio in the third quarter of 2007. Health Care led all segments with local-currency sales growth of 16.6%. This includes a 4.6% benefit from acquisitions and 4.5% benefit due to the aforementioned supply agreements. The sale of 3M's global branded pharmaceuticals business reduced Health Care sales growth by 24.3%. Local-currency sales increased 6.7% in Safety, Security and Protection Services, including 5.8% from numerous acquisitions. Local-currency sales increased 5.4% in Industrial and Transportation, 4.3% in Electro and Communications, 3.5% in Consumer and Office and 1.0% in Display and Graphics. While 3M experienced broad-based sales growth, there was softness in

certain markets in the third quarter of 2007. Within Display and Graphics, optical film sales increased slightly both year-on-year and sequentially, but 3M experienced an attachment rate loss in LCD desktop monitors and LCD TV segments in the third quarter of 2007 as competition continues to intensify in this market. 3M also experienced weakness in its industrial minerals business for residential asphalt shingles and in its electronic interconnects solutions business due to softness in certain segments of the consumer electronics market. Refer to the Performance by Business Segment section for a more detailed discussion of the results of the respective segments.

Geographically, the European region (which includes Europe, Middle East and Africa) led local-currency sales growth in the third quarter of 2007, with an increase of 11.8%, 8.1% of which was organic (excluding acquisitions). Sales growth in Europe was led by the Safety, Security and Protection Services, Health Care (without Pharmaceuticals) and Consumer and Office segments. The combined Latin America and Canada area local-currency sales increased 11.0%, of which 10.3% was organic. Asia Pacific local-currency sales increased 4.1%, of which 3.6% was organic. United States local-currency sales increased 3.6%, of which 1.2% was organic. Organic volume growth in the U.S. was up slightly as strong growth in Health Care (without Pharmaceuticals) and Electro and Communications was offset by weakness in a few businesses that are impacted by the slowdown in the U.S. housing, road construction and mass retail markets, primarily the industrial minerals, protective materials, traffic safety and office supply businesses. Divestitures, primarily the sale of the global branded pharmaceuticals business, reduced sales in Europe by 6.6%, in the United States sales by 4.2%, in the combined Latin America and Canada area by 2.9%, and in Asia Pacific by 1.6%. Currency effects increased total international sales by 5.1%, with Europe positively impacted by 7.8%, the combined Latin America and Canada area by 6.2%, and Asia Pacific by 2.4%, as the U.S. dollar weakened in aggregate against the multitude of currencies in these geographic areas.

Operating income for the three months ended September 30, 2007 increased 6.2% year-on-year, including a net 2.9% benefit from the impact of items discussed in Note A below. Operating income margins were approximately 23% in both the third quarter of 2007 and 2006.

3M generated \$2.719 billion of operating cash flows for the nine months ended September 30, 2007, an increase of \$202 million compared to the nine months ended September 30, 2006. For the nine months ended September 30, 2007, the Company utilized \$3.795 billion of cash to repurchase 3M common stock and pay dividends, compared to \$3.058 billion in the same period last year. In February 2007, 3M's Board of Directors approved a \$7.0 billion two-year share repurchase authorization for the period from February 12, 2007 to February 28, 2009. As of September 30, 2007, approximately \$4.6 billion remained available for repurchase. In February 2007, 3M's Board also authorized a dividend increase of 4.3% for 2007, marking the 49<sup>th</sup> consecutive year of dividend increases for 3M. 3M's debt to total capital ratio (total capital defined as debt plus equity) as of September 30, 2007 was 32%. 3M has an AA credit rating from Standard & Poor's, with a stable outlook, and an Aa1 credit rating from Moody's Investors Service, with a negative outlook. The Company has sufficient access to capital markets to meet currently anticipated growth and acquisition investment funding needs.

As discussed at year-end 2006, beginning in 2007, the Company modified elements of its long-term incentive compensation programs. With the May 2007 Management Stock Ownership Program (MSOP) Annual Grant, the Company reduced the number of traditional stock options granted by reducing the number of employees eligible to receive annual grants and by shifting a portion of the annual grant away from traditional stock options primarily to restricted stock units. These changes will reduce the annual dilution impact from approximately 1.5% of total outstanding common stock to approximately 1%. However, associated with the reduction in the number of eligible employees, the Company provided a one-time buyout grant of restricted stock units to the impacted employees, which will result in increased stock-based compensation expense in 2007. Stock-based compensation expense is expected to total \$0.18 per diluted share in 2007, compared with \$0.17 per diluted share in 2006. The Company's MSOP, including restricted stock units, are discussed further in Note 12.

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(Note A). Third quarter 2007 included net benefits from a gain on sale of real estate (\$52 million pre-tax, \$37 million after-tax), partially offset by exit activities (\$26 million pre-tax, \$17 million after-tax). Concerning the real estate sale, 3M sold its current lab facility located in Suwon, Korea and is currently building a new state-of-the-art customer-oriented R&D facility closer to Seoul and many of 3M's major customers. Exit activities related to the consolidation of certain flexible circuit manufacturing operations are discussed further in the Electro and Communications portion of the Performance by Business Segment section. In the second quarter of 2007, 3M completed and recorded gains from the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses, and in the first quarter of 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe. Both of these gains on sale of businesses were partially offset by restructuring expenses and increases in environmental liabilities. In summary, first nine months 2007 included net benefits from gains related to the sale of businesses (\$854 million pre-tax, \$553 million after-tax) and a gain on sale of real estate (\$52 million pre-tax, \$37 million after-tax),

which were partially offset by increases in environmental liabilities (\$134 million pre-tax, \$83 million after-tax), restructuring actions (\$45 million pre-tax, \$30 million after-tax), and other exit activities (\$26 million pre-tax, \$17 million after-tax). These items, except the gain on sale of real estate, are discussed in more detail in Note 2 (Acquisitions and Divestitures), Note 4 (Restructuring Actions and Other Exit Activities) and Note 11 (Commitments and Contingencies). Third quarter 2006 included gains due to a net benefit from certain income tax adjustments (\$19 million after-tax) and costs related to seeking strategic alternatives for pharmaceuticals (\$13 million pre-tax, \$9 million after-tax). Second quarter and first six months 2006 included gains due to a net benefit from certain income tax adjustments (\$105 million after-tax), settlement costs related to an antitrust class action (\$40 million pre-tax, \$25 million after-tax) and costs related to the Company's efforts to seek strategic alternatives for its branded pharmaceuticals business (\$9 million pre-tax, \$6 million after-tax). In summary, first nine months of 2006 for these items penalized operating income by \$62 million, but due to the benefit from certain income tax adjustments, benefited net income by \$84 million. For further discussion of these 2006 items, refer to 3M's Current Report on Form 8-K dated May 25, 2007, which updated 3M's 2006 Annual Report on Form 10-K.

## RESULTS OF OPERATIONS

Percent change information compares the third quarter and first nine months of 2007 with the same period last year, unless otherwise indicated.

### Net Sales:

|   | Three months ended<br>September 30, 2007 |          |           | Nine months ended<br>September 30, 2007 |           |           |
|---|--|----------|-----------|---|-----------|-----------|
|   | U.S.                                     | Intl.    | Worldwide | U.S.                                    | Intl.     | Worldwide |
| Net sales (millions)                          | \$ 2,318                                 | \$ 3,859 | \$ 6,177  | \$ 6,795                                | \$ 11,461 | \$ 18,256 |
| % of worldwide sales                          | 37.5%                                    | 62.5%    |           | 37.2%                                   | 62.8%     |           |
| Components of net sales change:               |  |          |           |   |           |           |
| Volume organic                                | 0.1%                                     | 7.1%     | 4.2%      | 1.5%                                    | 8.3%      | 5.6%      |
| Volume acquisitions                           | 2.4                                      | 1.7      | 2.1       | 2.7                                     | 2.3       | 2.5       |
| Price   | 1.1                                      | (0.8)    |           | 1.1                                     | (1.4)     | (0.4)     |
| Local-currency sales (including acquisitions) | 3.6                                      | 8.0      | 6.3       | 5.3                                     | 9.2       | 7.7       |
| Divestitures                                  | (4.2)                                    | (3.6)    | (3.9)     | (4.1)                                   | (3.7)     | (3.9)     |
| Translation                                   |  | 5.1      | 3.1       |   | 4.4       | 2.7       |
| Total sales change                            | (0.6)%                                   | 9.5%     | 5.5%      | 1.2%                                    | 9.9%      | 6.5%      |

In the third quarter of 2007, worldwide local-currency sales growth increased 6.3%, with 8.0% growth from international operations and 3.6% growth from the U.S. The biggest driver was organic local currency sales growth, with worldwide organic volume up 4.2%, led by a 7.1% increase in international. Acquisitions within the past 12 months, such as Security Printing and Systems Limited, Softmed Systems Inc. and Biotrace International PLC, contributed 2.1% to worldwide sales growth. Selling prices in the U.S. rose 1.1% and international selling prices were down 0.8%, continuing to be negatively impacted by businesses that serve the consumer electronics industry. Divestitures, primarily the sale of the global branded pharmaceuticals business, reduced reported sales growth by 3.9%, while foreign currency translation added 3.1% to third-quarter 2007 sales growth. Local currency sales growth was led by the Health Care (without pharmaceuticals) and Safety, Security and Protection Services businesses.

For the first nine months of 2007, sales increased 6.5% to \$18.3 billion, driven by a 7.7% increase in local-currency sales, including acquisitions. The company's divestiture of its branded pharmaceuticals business reduced reported sales growth by 3.9%, while foreign currency

translation added 2.7% to sales in the first nine months of 2007.

Refer to the **Performance by Business Segment** section for additional discussion of sales change by segment and the preceding **Overview** section for discussion of sales growth by geographic area.

*Operating Expenses:*

| (Percent of net sales)                       | Three months ended<br>September 30 |       |        | Nine months ended<br>September 30 |       |        |
|--|------------------------------------|-------|--------|-----------------------------------|-------|--------|
|  | 2007                               | 2006  | Change | 2007                              | 2006  | Change |
| Cost of sales                                | 52.4%                              | 51.1% | 1.3%   | 51.7%                             | 49.9% | 1.8%   |
| Selling, general and administrative expenses | 19.0                               | 20.2  | (1.2)  | 20.5                              | 21.5  | (1.0)  |
| Research, development and related expenses   | 5.5                                | 5.8   | (0.3)  | 5.5                               | 5.9   | (0.4)  |
| Gain on sale of businesses                   |                                    |       |        | (4.7)                             |       | (4.7)  |
| Operating income                             | 23.1%                              | 22.9% | 0.2%   | 27.0%                             | 22.7% | 4.3%   |

Cost of sales as a percent of net sales increased 1.3 percentage points in the third quarter and 1.8 percentage points in the first nine months of 2007 compared to the same periods in 2006, with approximately one percentage point of this increase in both the third quarter and first nine months due to the sale of the branded pharmaceuticals business, which had lower than average cost of sales. Restructuring and other exit costs in 2007, primarily related to the consolidation of certain flexible circuit manufacturing operations in the third quarter, the phase-out of operations at the Company's New Jersey roofing granule facility in the second quarter and charges related to the Company's decision to close a facility in Wisconsin in the first quarter, penalized cost of sales as a percent of net sales by approximately 0.2 percentage points in the third quarter of 2007 and 0.3 percentage points for the first nine months of 2007.

Selling, general and administrative (SG&A) expenses as a percent of net sales decreased 1.2 percentage points in the third quarter when compared to the same period in 2006, as expenses incurred in 2006 in the Company's now-divested global branded Pharmaceuticals business did not repeat in 2007. Non-pharmaceutical ongoing SG&A expenses, after adjusting for the following items, were up approximately 9% in dollars, reflecting the Company's continued investment in sales and marketing to support growth markets. The Company continues to constrain administrative costs. In the third quarter of 2007, the gain on sale of real estate and certain employee related costs related to the consolidation of certain flexible circuit manufacturing operations (\$43 million combined net benefit) reduced SG&A as a percent of sales by 0.7 percentage points. Third quarter 2006 included costs related to the Company's efforts to seek strategic alternatives for its branded pharmaceuticals business (\$13 million), which increased third quarter 2006 SG&A as a percent of sales by 0.2 percentage points.

SG&A expenses as a percent of net sales decreased 1.0 percentage points for the first nine months when compared to the same period in 2006, as expenses incurred in 2006 in the Company's now-divested global branded Pharmaceuticals business did not repeat in 2007. In addition to the third quarter 2007 items discussed in the preceding paragraph (\$43 million combined benefit), first nine months 2007 SG&A also includes an increase in environmental liabilities (\$134 million) and SG&A restructuring expenses (\$10 million for the first six months of 2007). Combined, these 2007 items increased first nine months 2007 SG&A by \$101 million or 0.6 percentage points as a percent of net sales (refer to Notes 11 and 4 for more detail). First nine months 2006 includes settlement costs related to an antitrust class action (\$40 million) and costs related to the Company's efforts to seek strategic alternatives for its branded pharmaceuticals business (\$22 million), which combined increased SG&A by \$62 million or 0.3 percentage points as a percent of net sales.

Research, development and related expenses (R&D) as a percent of net sales decreased 0.3 percentage points in the third quarter of 2007 and 0.4 percentage points in the first nine months of 2007 when compared to the same periods in 2006, as expenses incurred in 2006 in the Company's now-divested R&D-intensive Pharmaceuticals business did not repeat in 2007. Non-pharmaceutical ongoing R&D and related costs increased approximately 10% in the third quarter of and first nine months of 2007 as the Company continued to aggressively invest in future technologies and growth opportunities.

*Operating Income:*

3M uses operating income as one of its primary business segment performance measurement tools. Operating income has steadily improved the past few years, helped by solid sales growth and an ongoing strong commitment to maintaining operational discipline throughout 3M's global operations. Operating income margins of 27.0% in the first nine months of 2007 were positively impacted by 3.9 percentage points from the gain on sale of businesses and real estate, net of environmental liabilities, restructuring and other exit activities. Operating income margins of 22.7% for the first nine months of 2006 were negatively impacted by 0.3 percentage points from antitrust settlement costs and pharmaceuticals costs discussed as part of SG&A.



*Interest Expense and Income:*

| (Millions)       | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|------------------|------------------------------------|-------|-----------------------------------|-------|
|                  | 2007                               | 2006  | 2007                              | 2006  |
| Interest expense | \$ 53                              | \$ 37 | \$ 139                            | \$ 84 |
| Interest income  | (37)                               | (13)  | (94)                              | (35)  |
| Total            | \$ 16                              | \$ 24 | \$ 45                             | \$ 49 |

Interest expense increased for the third quarter and first nine months of 2007 when compared to the same period in 2006, primarily related to increased debt levels supporting share repurchases, along with higher borrowing rates in the U.S. Interest income was higher in the third quarter and first nine months of 2007, predominately due to higher average levels of cash, cash equivalents and marketable securities.

*Provision for Income Taxes:*

| (Percent of pre-tax income) | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|-----------------------------|------------------------------------|-------|-----------------------------------|-------|
|                             | 2007                               | 2006  | 2007                              | 2006  |
| Effective tax rate          | 30.7%                              | 31.3% | 32.5%                             | 29.4% |

The tax rate for the third quarter of 2007 was 30.7%, compared to 31.3% in the third quarter of 2006. The lower tax rate in the third quarter of 2007 was principally due to a one-time cumulative impact of tax rate changes for several of 3M's European subsidiaries. The tax rate for the first nine months of 2006 included a net benefit of \$124 million from discrete tax reserve releases and other income tax adjustments (both positive and negative), which reduced 3M's tax rate for the first nine months of 2006 by approximately 3.2%.

During the third quarter of 2007, the Company completed the preparation and filing of its 2006 U.S. federal income tax return. As anticipated, the finalization of this return did not result in any material changes to the Company's financial position.

*Minority Interest:*

| (Millions)        | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|-------------------|------------------------------------|-------|-----------------------------------|-------|
|                   | 2007                               | 2006  | 2007                              | 2006  |
| Minority Interest | \$ 16                              | \$ 12 | \$ 47                             | \$ 35 |

Minority interest expense eliminates the income or loss attributable to non-3M ownership interests in 3M consolidated entities. 3M's most significant consolidated entity with non-3M ownership interests is Sumitomo 3M Limited (3M owns 75% of Sumitomo 3M Limited). The increase for the third quarter and first nine months of 2007 is primarily related to Sumitomo 3M Limited.

*Currency Effects:*

3M estimates that year-on-year currency effects, including hedging impacts, increased net income by approximately \$35 million for the three months ended September 30, 2007, and increased net income by approximately \$50 million for the nine months ended September 30, 2007. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks. 3M estimates that year-on-year derivative and other transaction gains had an immaterial impact on net income for the three months ended September 30, 2007 and decreased net income by approximately \$35 million for the nine months ended September 30, 2007.

**CRITICAL ACCOUNTING ESTIMATES**



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Information regarding significant accounting policies is included in Note 1 to 3M's Current Report on Form 8-K dated May 25, 2007. As stated in Note 1, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company believes its most critical accounting estimates relate to legal proceedings, the Company's pension and postretirement obligations, potential asset impairment issues and income taxes. Senior management has discussed the development, selection and disclosure of its critical accounting estimates with the Audit Committee of 3M's Board of Directors. In addition to the critical accounting estimates detailed in 3M's Current Report on Form 8-K dated May 25, 2007, the Company added income taxes in the first quarter of 2007 (with the January 1, 2007 adoption of FIN 48) as a critical accounting estimate.

### *Income Taxes:*

The extent of 3M's operations involves dealing with uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The Company recognizes potential liabilities and records tax liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. As of January 1, 2007, the Company follows FIN 48 guidance to record these liabilities (refer to Note 6 for additional information). The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the tax liabilities. If the Company's estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary.

### *New Accounting Pronouncements:*

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

## **PERFORMANCE BY BUSINESS SEGMENT**

As discussed in Note 13 to the Consolidated Financial Statements, effective in the first quarter of 2007, 3M made certain changes to its business segments. Segment information for all periods presented has been reclassified to reflect the new segment structure.

Information related to 3M's business segments for the third quarter and first nine months of both 2007 and 2006 is presented in the tables that follow. Local-currency sales (which includes both organic and acquisition volume impacts plus price impacts) are provided for each segment. The translation impact and total sales change are also provided for each segment.

### *Industrial and Transportation Business:*

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|                                   | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                   | 2007                               | 2006     | 2007                              | 2006     |
| Sales (millions)                  | \$ 1,807                           | \$ 1,654 | \$ 5,396                          | \$ 4,988 |
| Sales change analysis:            |                                    |          |                                   |          |
| Local currency (volume and price) | 5.4%                               | 7.1%     | 5.0%                              | 10.5%    |
| Translation                       | 3.9                                | 1.8      | 3.2                               |          |
| Total sales change                | 9.3%                               | 8.9%     | 8.2%                              | 10.5%    |
| Operating income (millions)       | \$ 378                             | \$ 339   | \$ 1,148                          | \$ 1,039 |
| Percent change                    | 11.4%                              | 16.8%    | 10.4%                             | 13.9%    |
| Percent of sales                  | 20.9%                              | 20.5%    | 21.3%                             | 20.8%    |

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The Industrial and Transportation segment serves a broad range of markets, such as appliance, paper and packaging, food and beverage, and automotive. Industrial and Transportation products include tapes, a wide variety of coated and non-woven abrasives, adhesives, specialty materials, filtration products, closures for disposable diapers, and components and products that are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

### Third quarter of 2007:

Driven by broad-based growth across the portfolio, sales increased 9.3% to \$1.8 billion. Local-currency sales grew 5.4%, including 1.2% from complimentary acquisitions in the adhesives, tapes and abrasives area that have helped fill gaps in product lines. Organic sales growth in the third quarter of 2007 was led by the industrial adhesives and tapes, automotive, automotive aftermarket and abrasives businesses. Some of the products driving growth in the third quarter were specialty chemicals for the oil and gas markets; paint preparation systems that deliver productivity in paint booths for body shops; laminating adhesives providing attachment solutions in industrial applications; and packaging tapes. Local-currency sales were down slightly in the diaper components business.

Geographically, strong market penetration in emerging markets, particularly the BRICP countries (Brazil, Russia, India, China and Poland) continued in the third quarter. Sales growth was led by the Europe and Latin America/Canada regions. Solid operational performance resulted in an operating income increase of 11.4% and operating income margins of 20.9%.

### First nine months of 2007:

Year-to-date sales were up 8.2% over the first nine months of last year while operating income increased 10.4% as this business continues to drive strong productivity programs. Like the third quarter, first nine months sales growth was led by industrial adhesives and tapes, automotive, automotive aftermarket and abrasives businesses. Through the first nine months of the year, Industrial and Transportation's operating income margins were 21.3%, up 0.5 percentage points versus the same time period last year, as this business continues to drive strong productivity programs.

In September 2007, 3M announced the acquisition of Venture Tape Corporation, a global provider of pressure sensitive adhesive tapes based in Rockland, Massachusetts. Venture Tape Corporation manufactures a broad range of tapes used in construction, oil and gas, HVAC, electronics, aerospace, marine and appliance markets. This acquisition broadens 3M's pressure sensitive adhesive tape platform, bringing new channels to 3M, and allows 3M to expand into adjacent markets such as the global construction market.

The Industrial and Transportation business continues to invest in R & D to strengthen its core technologies while adding strategic complementary acquisitions to boost its core adhesives, tapes and abrasives platforms and to expand into adjacent markets.

In March 2005, 3M's automotive business completed the purchase of 19% of TI&M Beteiligungsgesellschaft mbH (TI&M) for approximately \$55 million. TI&M is the parent company of I&T Innovation Technology Entwicklungs- und Holding Aktiengesellschaft (I&T), an Austrian maker of flat flexible cable and circuitry. Pursuant to a Shareholders Agreement, 3M marketed the firm's flat flexible wiring systems for automotive interior applications to the global automotive market. I&T filed a petition for bankruptcy protection in August 2006. As part of its agreement to purchase the shares of TI&M, the Company was granted a put option, which gave the Company the right to sell back its entire ownership interest in TI&M to the other investors from whom 3M acquired its 19% interest. The put option became exercisable January 1, 2007. The Company exercised the put option and recovered approximately \$25 million of its investment from one of the investors based in Belgium in February 2007. The other two TI&M investors have filed a bankruptcy petition in Austria. The Company is pursuing recovery of the balance of its investment both through the Austrian bankruptcy proceedings and pursuant to the terms of the Share Purchase Agreement. The Company believes collection of its remaining investment is probable and, as a result, no impairment reserve has been recorded.





**Health Care Business:**

|                                   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2007                               | 2006   | 2007                              | 2006     |
| Sales (millions)                  | \$ 961                             | \$ 998 | \$ 2,911                          | \$ 2,964 |
| Sales change analysis:            |                                    |        |                                   |          |
| Local currency (volume and price) | 16.6%                              | 6.0%   | 18.8%                             | 5.0%     |
| Divestitures                      | (24.3)                             |        | (24.5)                            |          |
| Translation                       | 4.0                                | 1.9    | 3.9                               | (0.3)    |
| Total sales change                | (3.7)%                             | 7.9%   | (1.8)%                            | 4.7%     |
| Operating income (millions)       | \$ 259                             | \$ 287 | \$ 1,600                          | \$ 846   |
| Percent change                    | (9.9)%                             | 5.1%   | N/A                               | 2.0%     |
| Percent of sales                  | 26.9%                              | 28.8%  | N/A                               | 28.6%    |

The Health Care segment serves markets that include medical, clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, and health information systems. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, drug delivery systems, dental and orthodontic products, health information systems and microbiology solutions. As discussed in Note 2, the global branded pharmaceuticals business was sold in December 2006 and January 2007.

The combination of the following items positively impacted first nine months 2007 Health Care operating income by \$795 million. As discussed in Note 2, in January 2007 the Company sold its branded pharmaceuticals business in the Europe region. The operating income gain related to this sale, which is included in Health Care, totaled \$786 million. In addition, as discussed in Note 4, a net operating income gain of \$9 million was recorded in the first six months of 2007, which primarily related to adjustments to restructuring costs incurred in the fourth quarter of 2006. In the third quarter and first nine months of 2006, respectively, expenses of \$13 million and \$22 million were recorded related to the Company's efforts to seek strategic alternatives for its branded pharmaceuticals business.

The sale of the branded pharmaceuticals business will impact both sales growth and operating income margins in Health Care and the total company throughout 2007. Sales growth in 2007 will be negatively impacted as significant pharmaceuticals sales are in the base 2006 period. In addition, Health Care operating income margins are expected to decline in 2007 year-on-year as a result of this sale. The sale of the pharmaceuticals business reduced Health Care sales growth by 24.3% for the third quarter and 24.5% for the first nine months of 2007. 3M believes the disaggregated information that follows for 3M Health Care's remaining businesses (without pharmaceuticals) and for pharmaceuticals on a stand-alone basis provides useful information.

**Health Care Business without Pharmaceuticals:**

|                                   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2007                               | 2006   | 2007                              | 2006     |
| Sales (millions)                  | \$ 961                             | \$ 797 | \$ 2,911                          | \$ 2,373 |
| Sales change analysis:            |                                    |        |                                   |          |
| Local currency (volume and price) | 16.6%                              | 7.8%   | 18.8%                             | 7.6%     |
| Translation                       | 4.0                                | 1.9    | 3.9                               | (0.3)    |
| Total sales change                | 20.6%                              | 9.7%   | 22.7%                             | 7.3%     |

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|                             |    |              |    |       |    |              |    |       |
|-----------------------------|----|--------------|----|-------|----|--------------|----|-------|
| Operating income (millions) | \$ | <b>259</b>   | \$ | 227   | \$ | <b>800</b>   | \$ | 675   |
| Percent change              |    | <b>13.7%</b> |    | 3.7%  |    | <b>18.3%</b> |    | 3.5%  |
| Percent of sales            |    | <b>26.9%</b> |    | 28.6% |    | <b>27.5%</b> |    | 28.5% |

The following discussion provides information on 3M Health Care's remaining businesses (without pharmaceuticals).

Third quarter of 2007:

In the third quarter of 2007, sales were up 20.6%, with operating income increasing 26.9% to \$259 million. Local-currency sales growth increased 16.6% in the third quarter, with acquisitions contributing 4.6% of this growth. A large part of the acquisition-driven local currency sales came from two acquisitions: Biotrace International, PLC, a UK-based provider of microbiology products, and SoftMed Systems Inc., a Maryland-based provider of health information software solutions. 3M also acquired Neoplast, a Bangkok-based manufacturer and distributor of consumer and professional skin and wound care products. Supply agreements related to the sale of the branded pharmaceutical business, in which the Drug Delivery Systems Division (DDSD) became a source of supply to the acquiring companies, added 4.5% to sales growth.

Health Care sales growth was broad-based, led by drug delivery systems, where 3M is a leading provider of inhalation and transdermal drug delivery solutions. 3M also saw strong growth in its medical, health information systems and dental businesses. 3M saw strong growth in its health information systems business, where 3M is a provider of advanced software and services that help health care organizations capture, classify and manage health care data. In dental, 3M continues to deliver a steady stream of new products. 3M recently launched a new product in dental which is a new-to-the-world technology that creates the lowest shrinking composite filling material available along with two new state of the art adhesives for better bonding and patient comfort. In orthodontics, where self-ligating brackets are the fastest growing segment in that market, 3M's exclusive SmartClip braces system is leading the way with solid growth again this quarter. Geographically, sales growth was led by Europe and Latin America. Operating income was up 13.7%, with operating income margins for the third quarter of 2007 at 26.9%.

First nine months of 2007:

For the first nine months of 2007, sales were up 22.7%, with operating income up 18.3%. Like the third quarter, first nine months sales growth was broad-based across drug delivery, medical, health information systems and dental. Operating income for the first nine months of 2007 includes \$5 million in restructuring expenses, primarily severance and related benefits.

**Pharmaceuticals Business:**

|                                   | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |      |        |
|-----------------------------------|------------------------------------|------|-----------------------------------|------|--------|
|                                   | 2007                               | 2006 | 2007                              | 2006 |        |
| Sales (millions)                  | \$                                 | \$   | 201                               | \$   | 591    |
| Sales change analysis:            |                                    |      |                                   |      |        |
| Local currency (volume and price) |                                    |      | (0.7)%                            |      | (4.1)% |
| Translation                       |                                    |      | 2.0                               |      | (0.4)  |
| Total sales change                |                                    |      | 1.3%                              |      | (4.5)% |
| Operating income (millions)       | \$                                 | \$   | 60                                | \$   | 800    |
| Percent change                    |                                    |      | 10.8%                             |      | (3.3)% |
| Percent of sales                  |                                    |      | 29.7%                             |      | 28.8%  |

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The combination of the following items positively impacted first nine months 2007 Health Care operating income by \$800 million. As discussed in Note 2, in January 2007 the Company sold its branded pharmaceuticals business in the Europe region. The operating income gain related to this sale, which is included in Health Care, totaled \$786 million. In addition, as discussed in Note 4, a net operating income gain of \$14 million was recorded in the first six months of 2007, which primarily related to adjustments to restructuring costs incurred in the fourth quarter of 2006. In the third quarter and first nine months of 2006, respectively, expenses of \$13 million and \$22 million were recorded related to the Company's efforts to seek strategic alternatives for its branded pharmaceuticals business.

DDSD, which is a source of supply to the acquiring companies, records sales and operating income related to the pharmaceuticals supply agreements. Remaining pharmaceutical sales and operating results in the first nine months of 2007 were not significant and were recorded in Corporate and Unallocated.

*Display and Graphics Business:*

|                                   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2007                               | 2006   | 2007                              | 2006     |
| Sales (millions)                  | \$ 1,012                           | \$ 992 | \$ 2,939                          | \$ 2,824 |
| Sales change analysis:            |                                    |        |                                   |          |
| Local currency (volume and price) | 1.0%                               | 7.4%   | 2.9%                              | 7.2%     |
| Divestitures                      | (0.8)                              |        | (0.2)                             |          |
| Translation                       | 1.8                                | 0.7    | 1.4                               | (0.1)    |
| Total sales change                | 2.0%                               | 8.1%   | 4.1%                              | 7.1%     |
| Operating income (millions)       | \$ 288                             | \$ 293 | \$ 935                            | \$ 822   |
| Percent change                    | (1.7)%                             | (6.3)% | 13.7%                             | (5.2)%   |
| Percent of sales                  | 28.5%                              | 29.5%  | 31.8%                             | 29.1%    |

The Display and Graphics segment serves markets that include electronic display, touch screen, traffic safety and commercial graphics. This segment includes optical film and lens solutions for electronic displays; touch screens and touch monitors; reflective sheeting for transportation safety; and commercial graphics systems. The optical film business provides films that serve numerous market segments of the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors 2) LCD televisions 3) handheld devices such as cellular phones 4) notebook PCs and 5) automotive displays.

## Third quarter of 2007:

For the third quarter, Display and Graphics sales were up 2.0% to more than \$1 billion. Sales growth was negatively impacted by over 2% due to the divestiture of the Opticom and Canoga loop business along with product rationalizations in a couple of other businesses. Local currency sales growth was 1.0%. Geographically, the strongest growth was in Latin America. Optical film sales increased slightly both year-on-year and sequentially. Commercial graphics saw an uplift in the vehicle wrapping market where it provides films, inks and other products for this rolling billboard industry. Likewise, traffic safety systems posted continued seasonal growth internationally, driven largely by the road construction season. The U.S. highway construction market work slowed in the third quarter sequentially from the first half of the year as the industry is facing substantial material inflation for cement and asphalt which is driving more of their spending into construction materials for road surfacing versus other spending such as sign sheeting. Operating income decreased 1.7%, driven by decreases in optical systems, but overall this segment maintained a strong operating income margin of 28.5%.

Optical systems continues to focus on market segmentation, with strong penetration in handhelds, computer displays and LCD televisions. 3M experienced an attachment rate loss in LCD desktop monitors and LCD TV segments in the third quarter of 2007 as competition continues to intensify in this market. 3M also noted a slowing in the mix shift from 720p to 1080p LCD TV's which impacts 3M business as 3M films are used more heavily in the 1080p sets. 3M will continue to compete aggressively, balancing product innovations, price and volumes across the entire brightness enhancement film product pyramid. This means continued price down to meet 3M's customers cost down requirements. 3M's continued commitment to invest in this business has led to a solid stream of new products. 3M's brightness enhancement films provide an environmental solution through reduced energy consumption a rapidly increasing requirement from retail

customers and government units. 3M also is on schedule in scaling up and improving the productivity of its optical film manufacturing facilities.

First nine months of 2007:

For the first nine months, Display and Graphics sales increased 4.1%, with operating income up 13.7%. In June 2007, 3M completed the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses. 3M received proceeds of \$80 million from this transaction and recognized an operating income gain of \$68 million in the Display and Graphics segment in the second quarter of 2007. In addition, Display and Graphics recorded restructuring-related expenses of \$4 million in the second quarter of 2007. First nine months 2007 operating income was \$935 million, including this aggregate net operating income benefit of \$64 million, which contributed 7.8 percentage points of the reported 13.7% operating income growth and contributed 2.1 percentage points of the 31.8% operating income margin.

*Consumer and Office Business:*

|                                   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2007                               | 2006   | 2007                              | 2006     |
| Sales (millions)                  | \$ 898                             | \$ 848 | \$ 2,544                          | \$ 2,358 |
| Sales change analysis:            |                                    |        |                                   |          |
| Local currency (volume and price) | 3.5%                               | 6.6%   | 5.8%                              | 7.7%     |
| Translation                       | 2.4                                | 1.1    | 2.1                               | 0.2      |
| Total sales change                | 5.9%                               | 7.7%   | 7.9%                              | 7.9%     |
| Operating income (millions)       | \$ 192                             | \$ 190 | \$ 533                            | \$ 475   |
| Percent change                    | 0.6%                               | 5.2%   | 12.0%                             | 4.7%     |
| Percent of sales                  | 21.3%                              | 22.5%  | 20.9%                             | 20.2%    |

The Consumer and Office segment serves markets that include consumer retail, office retail, home improvement, building maintenance and other markets. Products in this segment include office supply products, stationery products, construction and home improvement products, home care products, protective material products and consumer health care products.

## Third quarter of 2007:

Consumer and Office sales increased 5.9% to \$898 million in the third quarter. Local-currency sales increased 3.5%, including 1.1% of growth from acquisitions, primarily due to the October 2006 acquisition of Nylonge, a global provider of household cleaning products, including cellulose sponges. Sales growth was led by the home care and construction and home improvement businesses. Sales growth in the home care business came from Scotchbrite scouring products. In construction and home improvement, sales growth came from Filtrete air filtration for the U.S. residential HVAC systems along with Command mounting and fastening products. Sales growth was tempered by weakness in the protective materials business and the office mass retail channel in the U.S. Geographically, 3M's international subsidiaries continued to drive growth again this quarter, with growth in all regions led by Europe.

Operating income rose 0.6% to \$192 million and operating income margins were 21.3%, a decrease of 1.2 percentage points compared to the third quarter last year. During the third quarter, 3M stepped up investment in advertising and merchandising to drive growth in the back-to-school season.

## First nine months of 2007:

Year-to-date, sales are up 7.9% and operating income was up 12.0%. First nine months 2007 sales growth was led by home care and the construction and home improvement businesses, with the office supplies business also showing good growth. 3M will continue to invest in advertising during the fourth quarter to accelerate growth during the holiday season.





*Safety, Security and Protection Services Business:*

|                                   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2007                               | 2006   | 2007                              | 2006     |
| Sales (millions)                  | \$ 766                             | \$ 691 | \$ 2,323                          | \$ 1,992 |
| Sales change analysis:            |                                    |        |                                   |          |
| Local currency (volume and price) | 6.7%                               | 16.6%  | 12.6%                             | 13.6%    |
| Translation                       | 4.2                                | 2.1    | 4.0                               | 0.2      |
| Total sales change                | 10.9%                              | 18.7%  | 16.6%                             | 13.8%    |
| Operating income (millions)       | \$ 157                             | \$ 141 | \$ 478                            | \$ 438   |
| Percent change                    | 10.8%                              | 6.5%   | 9.1%                              | 11.6%    |
| Percent of sales                  | 20.5%                              | 20.5%  | 20.6%                             | 22.0%    |

The Safety, Security and Protection Services segment serves a broad range of markets that increase the safety, security and productivity of workers, facilities and systems. Major product offerings include personal protection products, safety and security products, energy control products, cleaning and protection products for commercial establishments, roofing granules for asphalt shingles, and supply chain execution software solutions. 3M's new emerging business opportunity in its Track and Trace initiative within 3M's Safety, Security and Protection Services segment resulted in the merging of a number of formerly separate efforts into one concerted effort for future growth. Track and Trace has a growing array of applications from tracking packages to managing medical and legal records.

## Third quarter of 2007:

Safety, Security and Protection Services delivered solid growth in the third quarter, with sales up 10.9% over last year's third quarter. Sales growth in local currency was up 6.7%, including 5.8% from acquisitions. Acquired growth was primarily from Security Printing Systems, Ltd, a leading provider of finished, personalized passports and secure cards and E Wood Holdings PLC, a manufacturer of high-performance protective coatings for the oil, gas, water, rail and automotive industries, both based in the UK.

Sales growth was led by respiratory protection, corrosion protection and building and commercial services. Overall segment year-on-year sales growth was held back by almost 2% due to the industrial minerals business which supplies mineral used on asphalt shingles for the U.S. residential housing market. Housing in the U.S. remains very sluggish, and 3M's industrial minerals business is a U.S. centric business. Geographically, sales growth was led by strong growth in Europe, followed by Latin America and Asia Pacific. Operating income increased 10.8% as the business continued to maintain consistent operating margins in excess of 20%.

3M's Security business recently acquired Rochford Thompson Equipment Limited (Rochford Thompson). Rochford Thompson is a manufacturer of optical character recognition passport readers used by airlines and immigration authorities, headquartered in Newbury, U.K. The addition of Rochford Thompson enhances 3M's secure document scanning solutions portfolio and allows expansion into transportation markets such as international airlines.

## First nine months of 2007:

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Safety, Security and Protection Services recorded a restructuring charge of \$29 million in the second quarter of 2007 related to the phase-out of operations at its New Jersey roofing granule facility. This included fixed asset impairments and employee-related restructuring liabilities.

Year-to-date sales have increased 16.6%, with operating income up 9.1%. The \$29 million restructuring charge recorded in the second quarter of 2007 negatively impacted first nine months operating income growth by 6.6%. Including this charge, operating income margins are still in excess of 20% for the first nine months of 2007. The year-on year decline in industrial minerals reduced Safety, Security and Protection Services first nine months sales growth by approximately 2%.

*Electro and Communications Business:*

|                                   | Three months ended<br>September 30 |               |      |       | Nine months ended<br>September 30 |              |      |       |
|-----------------------------------|------------------------------------|---------------|------|-------|-----------------------------------|--------------|------|-------|
|                                   | 2007                               |               | 2006 |       | 2007                              |              | 2006 |       |
| Sales (millions)                  | \$                                 | <b>714</b>    | \$   | 664   | \$                                | <b>2,075</b> | \$   | 1,979 |
| Sales change analysis:            |                                    |               |      |       |                                   |              |      |       |
| Local currency (volume and price) |                                    | <b>4.3%</b>   |      | 2.6%  |                                   | <b>2.3%</b>  |      | 5.2%  |
| Translation                       |                                    | <b>3.3</b>    |      | 1.7   |                                   | <b>2.6</b>   |      |       |
| Total sales change                |                                    | <b>7.6%</b>   |      | 4.3%  |                                   | <b>4.9%</b>  |      | 5.2%  |
| Operating income (millions)       | \$                                 | <b>114</b>    | \$   | 121   | \$                                | <b>357</b>   | \$   | 355   |
| Percent change                    |                                    | <b>(5.1)%</b> |      | 2.6%  |                                   | <b>0.8%</b>  |      | 12.8% |
| Percent of sales                  |                                    | <b>16.0%</b>  |      | 18.1% |                                   | <b>17.2%</b> |      | 17.9% |

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

## Third quarter of 2007:

Sales were up 7.6% over the third quarter last year, with local currency growth of 4.3%, including 1.1% from acquisitions. The results in this business continue to be mixed. 3M continues to experience strong growth in electrical markets and communication businesses, especially in Europe and the U.S., which has been somewhat offset by declining sales growth in some of the products 3M supplies into the consumer electronics market which are in devices that have come to end of life, adversely impacting sales in 3M's electronic solutions business. The electronics markets materials business started to see some recovery in the third quarter in consumer electronic applications, fueled by demand for fluids.

Overall, the Electro and Communications business has taken the necessary corrective actions to respond to the slowing consumer electronics market. The electronic solution business announced a consolidation of manufacturing operations and reductions in structure in the third quarter to allow the business to strengthen its competitive position. 3M consolidated its global flexible circuits manufacturing operations from two plants, one in Missouri, the other in Singapore, into the Singapore plant, to better serve customers who are primarily in Asia. As a result, a charge of \$26 million was recorded related to employee reductions and fixed asset impairments. The electrical markets and communications businesses delivered strong operating income growth, offsetting the weakness in the consumer electronics markets. Strong cost discipline continues to help operating income results. Third quarter 2007 operating income growth was negatively impacted by the preceding \$26 million charge, which negatively impacted third quarter operating income growth by 21.5% and operating income margins by 3.6 percentage points.

## First nine months of 2007:

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Sales increased 4.9% in the first nine months, with strong sales growth in the electrical markets and communications markets partially offset by the sluggish consumer electronics market. Operating income increased 0.8% compared to the first nine months of 2006. Operating income for the first nine months of 2007 included the \$26 million third quarter charge discussed above and \$19 million in first quarter 2007 restructuring expenses, primarily for asset impairment charges related to the Company's decision to close a facility in Wisconsin. Combined, these two items negatively impacted first nine months operating income growth by 12.7% and operating income margins by 2.2 percentage points.

**FINANCIAL CONDITION AND LIQUIDITY**

The Company's net debt position is as follows:

| (Millions)   | Sept. 30<br>2007 | Dec. 31<br>2006 |
|--|------------------|-----------------|
| Total Debt   | \$ 5,229         | \$ 3,553        |
| Less: Cash and cash equivalents<br>and marketable securities | 3,255            | 2,084           |
| Net Debt   | \$ 1,974         | \$ 1,469        |

Total debt to total capital (total capital is defined as debt plus book value of equity) was approximately 32% at September 30, 2007, compared with approximately 26% at December 31, 2006. In 2007, the July 2007 Eurobond issuance for 750 million Euros (approximately \$1.063 billion in U.S. Dollars at September 30, 2007) and the March 2007 long-term debt issuance of \$750 million, have been used, in part, to fund share repurchase activities. 3M believes its ongoing cash flows provide ample cash to fund expected investments and capital expenditures. The Company has an AA credit rating, with a stable outlook, from Standard & Poor's and an Aa1 credit rating, with a negative outlook, from Moody's Investors Service. The Company has sufficient access to capital markets to meet currently anticipated growth and acquisition investment funding needs.

While the Company does not utilize derivative instruments linked to its stock, it does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M Company stock (refer to Note 1 in this document and Note 10 in 3M's Current Report on Form 8-K dated May 25, 2007). The book value of this debt was approximately \$544 million at September 30, 2007. Holders of this debt have the option to require 3M to purchase their notes at accreted value on November 21, 2007 (and at five year intervals thereafter). On October 19, 2007, 3M notified investors of its intent to settle any redemptions in connection with this option in cash.

The Company has investments in auction rate securities, asset-backed securities and other marketable securities, which are classified as available-for-sale. In the third quarter of 2007, certain auction rate securities failed auction due to sell orders exceeding buy orders. Of 3M's \$1.6 billion marketable securities portfolio at September 30, 2007, \$34 million (at cost) is currently associated with failed auctions. 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. These securities are rated AAA. Based on third party valuation models and an analysis of other-than temporary impairment factors, 3M recorded a temporary impairment within Accumulated Other Comprehensive Income of approximately \$8 million pre-tax at September 30, 2007 related to auction rate securities. These securities will be analyzed each reporting period for other-than-temporary impairment factors.

The Company's financial condition and liquidity remain strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month-to-month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$3.259 billion at September 30, 2007, increasing \$1.636 billion from December 31, 2006, with this increase driven by higher cash, cash equivalents, marketable securities and accounts receivable. Primary short-term liquidity needs are provided through U.S. commercial paper and Euro commercial paper issuances. Credit support for outstanding commercial paper is provided by a five-year \$1.5 billion multi-currency credit facility. This facility was established in April 2007 and replaced the Company's previous \$565 million credit facility. This new credit agreement has a sub-limit of \$150 million for letters of credit and includes a provision under which the Company may request an increase of the total facility up to \$2 billion, with the grant of such request at the lenders' discretion. There were \$110 million in letters of credit drawn against the facility as of September 30, 2007. Under the new credit agreement, 3M is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At September 30, 2007, this ratio was approximately 4.5 to 1. To benefit from the SEC Securities Offering Reform rules applicable to well-known seasoned issuers, the Company filed a shelf registration statement on Form S-3 with the SEC on February 24, 2006, which became effective automatically, to register an indeterminate amount of debt or equity securities for future sales. As of September 30, 2007, no debt securities have been issued off this shelf.

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but 150,718 shares of the Company's common stock were registered on June 15, 2007 under this shelf on behalf of and for the sole benefit of the selling stockholders in connection with the Company's acquisition of assets of Diamond Productions, Inc. In connection with this shelf registration, in June 2007 the Company established a medium-term notes program through which up to \$3 billion of medium-term notes may be offered.

In July 2007, 3M issued a seven year 5.0% fixed rate Eurobond for an amount of 750 million Euros (approximately \$1.063 billion in U.S. Dollars at September 30, 2007). In June 2007, 3M executed a pre-issuance cash flow hedge on a notional amount of 350 million Euros by entering into a floating-to-fixed interest rate swap relating to the anticipated issuance of the Eurobond. Upon debt issuance in July 2007, 3M 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 and simultaneously terminated the floating-to-fixed swap. The termination of the swap resulted in an immaterial gain, which will be amortized over the seven year life of the Eurobond. 3M also designated the 750 million Eurobond as a hedging instrument of the Company's net investment in its European subsidiaries.

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 in the same way as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventory and accounts payable. This combined index (defined as quarterly net sales fourth quarter at year-end multiplied by four, divided by ending net accounts receivable plus inventory less accounts payable) was 5.0 at September 30, 2007, down from 5.4 at December 31, 2006, and also a decrease from 5.1 at September 30, 2006. Receivables increased \$601 million, or 19.4%, compared with December 31, 2006, with higher September 2007 sales compared to December 2006 sales contributing to the increase. Inventories increased \$193 million, or 7.4%, compared with December 31, 2006. Accounts payable increased \$101 million compared with December 31, 2006.

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

| (Millions)   | Nine months ended |                      |
|--|-------------------|----------------------|
|  | 2007              | September 30<br>2006 |
| Net income   | \$ 3,245          | \$ 2,675             |
| Depreciation and amortization                      | 796               | 728                  |
| Company pension contributions                      | (371)             | (303)                |
| Company postretirement contributions               | (2)               | (36)                 |
| Company pension expense                            | 133               | 233                  |
| Company postretirement expense                     | 55                | 66                   |
| Stock-based compensation expense                   | 182               | 162                  |
| Gain from sale of businesses                       | (854)             |                      |
| Income taxes (deferred and accrued income taxes)   | (94)              | (249)                |
| Excess tax benefits from stock-based compensation  | (65)              | (31)                 |
| Accounts receivable                                | (458)             | (384)                |
| Inventories  | (89)              | (375)                |
| Accounts payable                                   | 60                | 71                   |
| Product and other insurance receivables and claims | 145               | 51                   |
| Other net  | 36                | (91)                 |
| Net cash provided by operating activities          | \$ 2,719          | \$ 2,517             |

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 both the first nine months of 2007 and 2006, the Company made discretionary contributions of \$200 million to its U.S. qualified pension plan. In the first nine months of 2007, cash flows provided by operating activities increased \$202 million. Net income increased \$570 million, with the combined after-tax impact of the gain on sale of the branded pharmaceuticals business in Europe, the sale of 3M's Opticom Priority Control Systems and Canoga Traffic Detection businesses and a gain on sale of real estate, net of an increase in environmental liabilities, restructuring expenses and other exit activities increasing net income by \$460 million. Since the gain from sale of businesses is included in and increases net income, the pre-tax gain from the sale of the businesses must be subtracted, as shown above, to properly reflect operating cash flows. The cash proceeds from sale of the pharmaceuticals business are shown as part of cash from investing activities, however, when the related taxes are paid they are required to be shown as part of cash provided by operating activities. Thus, operating cash flows for the first nine months of 2007 were penalized due to cash income tax payments of approximately \$540 million in the

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first nine months of 2007 that related to the sale of the global branded pharmaceuticals business. Non-pharmaceutical related cash income tax payments were



approximately \$240 million lower than the first nine months of 2006 due to normal timing differences in tax payments, benefiting cash flows.

**Cash Flows from Investing Activities:**

| (Millions)  | Nine months ended<br>September 30 |            |
|---|-----------------------------------|------------|
|   | 2007                              | 2006       |
| Purchases of property, plant and equipment (PP&E)   | \$ (1,031)                        | \$ (763)   |
| Proceeds from sale of PP&E and other assets   | 90                                | 53         |
| Acquisitions, net of cash acquired  | (255)                             | (468)      |
| Proceeds from sale of businesses  | 897                               |            |
| Purchases and proceeds from sale or maturities of marketable securities and investments - net | (879)                             | (251)      |
| Net cash used in investing activities   | \$ (1,178)                        | \$ (1,429) |

Investments in property, plant and equipment enable growth in diverse markets, helping to meet product demand and increasing manufacturing efficiency. In the third quarter of 2007, 3M opened a new respirator manufacturing facility in Korea, opened manufacturing plants in China (both personal care and optical businesses) and expanded manufacturing capabilities in the U.S. (both industrial adhesive and optical businesses). In the second quarter of 2007, 3M opened an optical film plant in Poland, an industrial tapes facility in China and completed a construction and home improvement plant expansion in Canada. 3M also exited several high-cost underutilized manufacturing facilities and streamlined several supply chains by relocating equipment from one facility to another. The streamlining work has primarily focused inside the U.S. and is in addition to the streamlining achieved through plant construction. As a result of this increased activity, capital expenditures were \$1.031 billion in the first nine months of 2007, an increase of \$268 million when compared to the first nine months of 2006. The Company expects capital expenditures to total approximately \$1.4 to \$1.5 billion for total year 2007, compared with \$1.168 billion in 2006.

Refer to Note 2 in this Quarterly Report on Form 10-Q for information on 2007 acquisitions and divestitures, including discussion of the \$897 million in proceeds received from the sale of businesses. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses.

In the Consolidated Statement of Cash Flows, purchases of marketable securities and investments, and proceeds from sale or maturities of marketable securities and investments are primarily attributable to auction rate securities, asset-backed securities and other marketable securities, which are classified as available-for-sale.

**Cash Flows from Financing Activities:**

| (Millions)                    | Nine months ended<br>September 30 |          |
|-------------------------------|-----------------------------------|----------|
|                               | 2007                              | 2006     |
| Change in short-term debt net | \$ (144)                          | \$ 1,293 |

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|  |            |            |
|--|------------|------------|
| Repayment of debt (maturities greater than 90 days)  | (1,071)    | (151)      |
| Proceeds from debt (maturities greater than 90 days) | 2,843      | 277        |
| Total change in debt                                 | \$ 1,628   | \$ 1,419   |
| Purchases of treasury stock                          | (2,756)    | (2,021)    |
| Reissuances of treasury stock                        | 689        | 426        |
| Dividends paid to stockholders                       | (1,039)    | (1,037)    |
| Distributions to minority interests and other net    | 41         | (25)       |
| Net cash used in financing activities                | \$ (1,437) | \$ (1,238) |

Total debt at September 30, 2007, was \$5.229 billion, up from \$3.553 billion at December 31, 2006. In 2007, the July 2007 Eurobond issuance for 750 million Euros (approximately \$1.063 billion in U.S. Dollars at September 30, 2007) and the March 2007 long-term debt issuance of \$750 million have been used, in part, to fund share repurchase activities. The Company accelerated the purchases of treasury stock when compared to the same period in 2006, buying back nearly \$2.8 billion in shares in the first nine months of 2007.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2007, 3M's Board of Directors approved a \$7.0 billion two-year share repurchase authorization for the period from February 12, 2007 to February 28, 2009. As of September 30, 2007, approximately \$4.6 billion remained available for repurchase. Refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 2, for more information.

In February 2007, the Board of Directors increased the quarterly dividend on 3M common stock by 4.3% to 48 cents per share, equivalent to an annual dividend of \$1.92 per share. This marked the 49th consecutive year of dividend increases. Other cash flows from financing activities include distributions to minority interests, excess tax benefits from stock-based compensation, changes in cash overdraft balances, and principal payments for capital leases.

***Contractual Obligations Update:***

As indicated in 3M's Current Report on Form 8-K dated May 25, 2007, which updated 3M's 2006 Annual Report on Form 10-K, total contractual cash obligations at December 31, 2006, which would not have included an estimated FIN 48 impact, were estimated at \$3.775 billion. The total liability for uncertain tax positions under FIN 48 at September 30, 2007 is \$322 million (refer to Note 6). The Company is not able to reasonably estimate the amount by which the liability will increase or decrease over time. Payments by the Company relating to any proposed assessments arising from the 2002 through 2004 Internal Revenue Service (IRS) audit may be made once 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. These payments may occur within the next 12 months.

**FORWARD-LOOKING STATEMENTS**

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 stockholders 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, typically identify such forward-looking statements. In particular, these include statements about: (1) worldwide economic conditions; (2) competitive conditions and customer preferences; (3) foreign currency exchange rates and fluctuations in those rates; (4) the timing and acceptance of new product offerings; (5) the availability and cost of purchased components, compounds, raw materials and energy (including oil and natural gas and their derivatives) due to shortages, increased demand or supply interruptions (including those caused by natural and other disasters and other events); (6) the impact of acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring; (7) expected productivity improvements; and (8) legal proceedings. 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. Discussion of these factors is incorporated by reference from Part II, Item 1A, "Risk Factors", of this document and from Part I, Item 1A, "Risk Factors", of 3M's Current Report on Form 8-K dated May 25, 2007, and should be considered an integral part of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations".



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

In the context of Item 3, market risk refers to the risk of loss arising from adverse changes in financial and derivative instrument market rates and prices, such as fluctuations in interest rates and currency exchange rates. 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 Annual Report on Form 10-K for the year ended December 31, 2006. The Company believes that there have been no material changes in these market risks since year-end 2006.

**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.

**3M COMPANY**

**FORM 10-Q**

For the Quarterly Period Ended September 30, 2007

**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.**

The most significant risk factors applicable to the Company are described in Part I, Item 1A Risk Factors of 3M's Current Report on Form 8-K dated May 25, 2007. There have been no material changes from the risk factors previously disclosed in 3M's Current Report on Form 8-K dated May 25, 2007.

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

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. On February 13, 2006, the Board of Directors authorized the purchase of \$2.0 billion of the Company's common stock between February 13, 2006 and February 28, 2007. In August 2006, 3M's Board of Directors authorized the repurchase of an additional \$1.0 billion in share repurchases, raising the total authorization to \$3.0 billion for the period from February 13, 2006 to February 28, 2007. In February 2007, 3M's Board of Directors approved a \$7.0 billion two-year share repurchase authorization for the period from February 12, 2007 to February 28, 2009.

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

| Period                           | Total<br>Number of<br>Shares<br>Purchased<br>(1) | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Approximate<br>Dollar Value<br>of Shares<br>that May Yet<br>Be<br>Purchased<br>under the<br>Plans or<br>Programs<br>(Millions) |
|----------------------------------|--|------------------------------------|---|---|
| January 1-31, 2007               | 1,311,268  | \$ 76.33                           | 1,277,200   | \$ 651  |
| February 1-28, 2007              | 6,542,591  | \$ 75.12                           | 6,522,500   | \$ 6,731  |
| March 1-31, 2007                 | 8,187,472  | \$ 75.59                           | 8,151,700   | \$ 6,115  |
| Total January 1 - March 31, 2007 | 16,041,331                                       | \$ 75.46                           | 15,951,400  | \$ 6,115  |
| April 1-30, 2007                 | 3,548,221  | \$ 77.55                           | 3,476,700   | \$ 5,846  |
| May 1-31, 2007                   | 4,428,219  | \$ 85.84                           | 4,202,800   | \$ 5,485  |
| June 1-30, 2007                  | 3,885,033  | \$ 86.58                           | 3,810,800   | \$ 5,155  |
| Total April 1-June 30, 2007      | 11,861,473                                       | \$ 83.60                           | 11,490,300  | \$ 5,155  |
| July 1-31, 2007                  | 1,646,251  | \$ 89.01                           | 1,510,300   | \$ 5,021  |

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|                                    |            |    |       |            |    |              |
|------------------------------------|------------|----|-------|------------|----|--------------|
| August 1-31, 2007                  | 2,329,478  | \$ | 87.05 | 2,247,300  | \$ | <b>4,825</b> |
| September 1-30, 2007               | 2,086,564  | \$ | 90.24 | 2,029,600  | \$ | <b>4,642</b> |
| Total July 1-September 30, 2007    | 6,062,293  | \$ | 88.68 | 5,787,200  | \$ | <b>4,642</b> |
| Total January 1-September 30, 2007 | 33,965,097 | \$ | 80.66 | 33,228,900 | \$ | <b>4,642</b> |

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(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 (which combined totaled 34,068 shares in January 2007, 20,091 shares in February 2007, 35,772 shares in March 2007, 71,521

shares in April 2007, 225,419 shares in May 2007, 74,233 shares in June 2007, 135,951 shares in July, 82,178 shares in August and 56,964 shares in September).

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

**Item 4. Submission of Matters to a Vote of Security Holders.** No matters require disclosure.

**Item 5. Other Information.**

As stated in our Form 8-K dated June 28, 2007, Margaret M. Smyth, Vice President and Chief Accounting Officer, has resigned from 3M effective August 2, 2007, to take a position with United Technologies Corporation as Vice President and Controller.

Effective March 31, 2007, 3M voluntarily delisted from NYSE Arca Inc., formerly the Pacific Exchange, to eliminate duplicative administrative requirements and costs inherent with dual listings as a result of the NYSE Group's recent merger with Archipelago Holdings, the parent company of NYSE Arca. 3M does not believe that withdrawing its listing from NYSE Arca Inc. will have any impact on the liquidity of its stock. NYSE Arca will continue to trade 3M stock on an unlisted trading privilege basis. 3M's common stock will continue to be listed on the New York Stock Exchange, the company's principal listing exchange.

**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed with this report as indicated below. Exhibit numbers 10.1 through 10.24 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 November 13, 2006, are incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2006.

(4) Instruments defining the rights of security holders, including indentures:

- (4.1)

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Indenture, dated as of November 17, 2000, between 3M and Citibank, N.A. with respect to 3M's senior debt securities, is incorporated by reference from the Form 8-K dated December 7, 2000.

- (4.2) Indenture, dated as of November 21, 2002, between 3M and Citibank, N.A. with respect to Liquid Yield Option Notes zero coupon senior debt securities, is incorporated by reference from Registration No. 333-103234 on Form S-3 filed on February 14, 2003.
- (4.3) First Supplemental Indenture, dated as of November 16, 2005, to Indenture between 3M and Citibank, N.A. with respect to Liquid Yield Option Notes zero coupon senior debt securities, is incorporated by reference from our 8-K dated November 17, 2005.
- (4.4) Except as set forth in the preceding Exhibits 4.1, 4.2 and 4.3, the instruments defining the rights of holders of long-term debt securities of 3M have been omitted. We agree to furnish to the SEC, upon request, a copy of such instruments with respect to issuances of long-term debt of 3M.

### (10) Material contracts and management compensation plans and arrangements:

- (10.1) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.2) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.3) 3M 1997 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 1997 Annual Meeting of Stockholders.
- (10.4) 3M 1992 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 1992 Annual Meeting of Stockholders.
- (10.5) 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.
- (10.6) 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.

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- (10.7) 3M 1997 General Employees Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.8) 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.
- (10.9) 3M Deferred Compensation Plan, as amended through November 2005, is incorporated by reference from our Registration Statement on Form S-8 filed on December 6, 2005.
- (10.10) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.11) 3M Performance Unit Plan, as amended through February 11, 2007 is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.12) Description of changes to Non-Employee Director Compensation and Stock Ownership Guidelines dated as of August 13, 2007, is filed electronically herewith.
- (10.13) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.14) 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.
- (10.15) 3M 1992 Directors Stock Ownership Program, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.16) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.17) 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.
- (10.18) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.19) Employment agreement dated as of December 6, 2005, between 3M and George W. Buckley is incorporated by reference from our Form 8-K dated December 9, 2005.
- (10.20) Amendment, dated August 14, 2006, to employment agreement between 3M and George W. Buckley is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2006.
- (10.21) Description of compensation plan for Robert S. Morrison is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.22) Employment agreement dated as of January 23, 2002, between 3M and Patrick D. Campbell is incorporated by reference from our Form 10-K for the year ended December 31, 2001.

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- (10.23) Employment agreement dated as of November 19, 2002, between 3M and Richard F. Ziegler is incorporated by reference from our Form 10-K for the year ended December 31, 2002.
- (10.24) Letter Agreement dated as of March 14, 2007, between 3M and Richard F. Ziegler is incorporated by reference from our Form 8-K dated March 19, 2007.
- (10.25) Five-year Credit Agreement as of April 30, 2007 is incorporated by reference from our Form 8-K dated May 3, 2007.

Filed electronically herewith:

- (10.12) Description of changes to Non-Employee Director Compensation and Stock Ownership Guidelines
- (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.

**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: October 29, 2007

By /s/ Patrick D. Campbell

Patrick D. Campbell,  
Senior Vice President and Chief Financial Officer

(Mr. Campbell is the Principal Financial Officer and has  
been duly authorized to sign on behalf of the Registrant.)