

MINNESOTA MINING & MANUFACTURING CO

Form 10-K405

March 11, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2001

Commission file number 1-3285

MINNESOTA MINING AND MANUFACTURING COMPANY

State of Incorporation: Delaware
I.R.S. Employer Identification No. 41-0417775
Executive offices: 3M Center, St. Paul, Minnesota 55144
Telephone number: (651) 733-1110

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of each class | Name of each exchange on which registered |
|-----------------------------------------|-----------------------------------------------------------------------|
| Common Stock, Par Value \$.01 Per Share | New York Stock Exchange Pacific Exchange Chicago Stock Exchange |

Note: The common stock of the registrant is also traded on the
Swiss stock exchange.

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that
the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days. Yes . No .

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of voting stock held by nonaffiliates of the
registrant, based on the closing price of \$111.00 per share as reported on
the New York Stock Exchange-Composite Index on January 31, 2002,
was \$43.3 billion.

Shares of common stock outstanding at January 31, 2002: 390,162,665.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the company's definitive proxy statement for its annual meeting
to be held on May 14, 2002, are incorporated by reference in this Form 10-K
in response to Part III, Items 10, 11, 12 and 13.

This document contains 76 pages.
The exhibit index is set forth on page 65.

MINNESOTA MINING AND MANUFACTURING COMPANY
FORM 10-K
For the Year Ended December 31, 2001
PART I

Item 1. Business.

Minnesota Mining and Manufacturing Company was incorporated in 1929 under the laws of the State of Delaware to continue operations, begun in 1902, of a Minnesota corporation of the same name. As used herein, the term "3M" or "company" includes Minnesota Mining and Manufacturing Company and subsidiaries unless the context otherwise indicates.

General

3M is an integrated enterprise characterized by substantial intercompany cooperation in research, manufacturing and marketing of products. 3M's business has developed from its research and technology in coating and bonding for coated abrasives, the company's original product. Coating and bonding is the process of applying one material to another, such as abrasive granules to paper or cloth (coated abrasives), adhesives to a backing (pressure-sensitive tapes), ceramic coating to granular mineral (roofing granules), glass beads to plastic backing (reflective sheeting), and low-tack adhesives to paper (repositionable notes).

3M is among the leading manufacturers of products for many of the markets it serves. In all cases, 3M products are subject to direct or indirect competition. Most 3M products involve expertise in product development, manufacturing and marketing, and are subject to competition from products manufactured and sold by other technically oriented companies.

At December 31, 2001, the company employed 71,669 people.

Business Segments

Financial information and other disclosures relating to 3M's business segments and operations in various geographic areas are provided in the Notes to Consolidated Financial Statements. 3M's six operating 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. Certain small businesses and staff-sponsored products, as well as various corporate assets and unallocated corporate expenses, are not assigned to the operating segments.

Industrial Markets: Industrial products include a wide variety of coated and nonwoven abrasives, adhesives, pressure-sensitive tapes, and specialty products. Industry-specialized organizations include distribution and key account management, converter channels, automotive aftermarkets, commercial vehicles, electronics, aerospace, marine and recreational vehicles.

Major product lines include vinyl, polyester, foil and specialty industrial tapes and adhesives; Scotch brand masking, filament and packaging tapes; packaging equipment; 3M brand VHB brand bonding tapes; conductive, low surface energy, hot melt, spray and structural adhesives; reclosable fasteners; label materials for durable goods; coated, nonwoven and microstructured surface finishing and grinding abrasives; and products for maintaining and repairing vehicles, boats, airplanes and other vehicles.

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Transportation, Graphics and Safety Markets: This segment provides reflective sheeting, high-performance graphics, respirators, automotive components, security products and optical films.

In transportation safety, 3M provides reflective sheetings used on highway signs, vehicle license plates, construction workzone devices, trucks and other vehicles. Major commercial graphic products include equipment, films, inks and related products used to produce graphics for vehicles and signs. The company also sells maintenance-free and reusable respirators. Major automotive products include body side-molding and trim; functional and decorative graphics; corrosion-resistant and abrasion-resistant films; tapes for attaching nameplates, trim and moldings; and fasteners for attaching interior panels and carpeting. Safety and security products include reflective materials that are widely used on apparel, footwear and accessories, enhancing visibility in low-light situations. Optical products include brightness enhancement films for electronic displays. Other products include spill-control sorbents, Thinsulate brand and Lite Loft brand insulations, traffic control devices, electronic surveillance products, and films that protect against counterfeiting. In 2000 and early 2001, 3M acquired two touch screen companies, which added product offerings to the Optical Systems business.

Health Care Markets: Major product categories include medical and surgical supplies, infection prevention, microbiology, health information systems, pharmaceuticals, drug delivery systems, dental and orthodontic products, and mechanical and tape closures for disposable diapers.

In medical and surgical, 3M is a supplier of medical tapes, dressings and wound closures. In infection prevention, 3M markets a variety of surgical drapes, masks and preps, as well as sterilization assurance equipment. 3M also provides microbiology products, which make it faster and easier for food processors to test for microbiological quality of food. In health information systems, 3M develops and markets computer software for hospital coding and data classification, as well as related consulting services. The health care segment also provides other medical products, including orthopedic casting materials, electrodes and stethoscopes.

This segment also serves the pharmaceutical and dental markets, as well as manufacturers of disposable diapers. Pharmaceutical products include immune response modifiers, and respiratory and women's health products. Other products include drug-delivery systems, such as metered-dose inhalers, transdermal skin patches and related components. Dental products include restoratives, adhesives, finishing and polishing products, crowns, impression material, preventive sealants, professional tooth whiteners, prophylaxis and orthodontic appliances. Other products include tape closures for disposable diapers, and reclosable fastening systems and other diaper components that help diapers fit better. In early 2001, 3M combined its German dental business with ESPE Dental AG, a leading German supplier of crowns, bridges and other dental products. In the second quarter of 1999, the company sold the assets of its cardiovascular systems business.

Consumer and Office Markets: Major consumer and office products include Scotch brand tapes; Post-it brand Note products, such as flags, memo pads, labels, Pop-up notes and dispensers; home care products, including Scotch-Brite brand Scouring, Sponge and High Performance Products, O-Cel-O brand Sponges and Scotchgard brand Fabric Protectors; energy control products; nonwoven abrasive materials for floor maintenance and commercial cleaning; floor matting; and home improvement products, including surface-preparation and wood-finishing materials, and Filtrete brand Filters for furnaces and air conditioners. Visual communication products serve the world's office and education markets

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with overhead projectors and transparency films, plus equipment and materials for electronic and multimedia presentations.

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Electro and Communications Markets: This segment serves the electronics, telecommunications and electrical markets. Major electronic and electrical products include packaging and interconnection devices; insulating materials, including pressure-sensitive tapes and resins; and related items. These products are used extensively by manufacturers of electronic and electrical equipment, as well as in the construction and maintenance segments of the electric utility, telecommunications and other industries. 3M brand Microflex brand Circuits utilize electronic packaging and interconnection technology, providing more connections in less space, and are used in inkjet print cartridges, cell phones and other electronic devices. This segment serves the world's telecommunications companies with a wide array of products for fiber-optic and copper-based telecommunications systems. These include many innovative connecting, closure and splicing systems; maintenance products; and test equipment. In 2000, 3M acquired 91 percent (subsequently increased to 93 percent) of Quante AG, a telecommunications supplier, with annual sales of approximately \$350 million. In the fourth quarter of 2000, 3M also acquired the multi-layer integrated circuit packaging line of W.L. Gore and Associates, and in early 2001 completed the acquisition of Robinson Nugent, Inc., a manufacturer of electronic interconnects.

Specialty Material Markets: Major specialty materials include protective materials for furniture and fabrics; firefighting agents; fluoroelastomers for seals, tubes and gaskets in engines; engineering fluids; and high-performance fluids used in the manufacture of computer chips, and for electronic cooling and lubricating of computer hard disk drives. Other products include natural and color-coated mineral granules for asphalt shingles. In December 1999, 3M finalized the acquisition of the outstanding minority interest in Dyneon LLC.

In May 2000, 3M announced its intent to substantially phase-out production by the end of 2000 of the perfluorooctanyl chemistry used to produce certain repellents and surfactant products. These include many products previously sold under the Scotchgard brand, such as soil, oil and water repellent products for carpet, upholstery and fabrics; coatings used for oil and grease resistance on paper packaging; fire-fighting foams; and specialty components for other products. The company has introduced alternatives for some applications and industry segments, including carpet protection.

Distribution

3M products are sold through numerous distribution channels. Products are sold directly to users and through numerous wholesalers, retailers, jobbers, distributors and dealers in a wide variety of trades in many countries around the world. Management believes that the confidence of wholesalers, retailers, jobbers, distributors and dealers in 3M and its products, developed through long association with skilled marketing and sales representatives, has contributed significantly to 3M's position in the marketplace and to its growth. 3M has 211 sales offices worldwide, including nine major branch offices located in principal cities throughout the United States. 3M operates 18 sales offices in the United States. Internationally, 3M has 193 sales offices.

Research, Patents and Raw Materials

Research and product development constitute an important part of 3M's activities. Products resulting from research and development have been a major driver of 3M's growth. Research, development and related expenses totaled \$1.084 billion, \$1.101 billion and \$1.056 billion in 2001, 2000 and 1999, respectively. Research and development, covering basic scientific research and the application of scientific advances to the development of new and improved products and their uses, totaled \$745 million, \$727 million and \$688 million

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in 2001, 2000 and 1999, respectively. Related expenses primarily include technical support provided by the laboratories for existing products.

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Corporate research laboratories support research efforts of division and market laboratories. These corporate laboratories also engage in research not directly related to existing 3M product lines. Most major operating divisions have their own laboratories to improve existing products and develop new products. Research staff groups provide specialized services in instrumentation, engineering and process development. 3M also maintains an organization for technological development not sponsored by other units of the company.

3M is the owner of many domestic and foreign patents derived primarily from its research activities. 3M's business as a whole is not materially dependent upon any one patent, license or trade secret, or upon any group of related patents, licenses or trade secrets.

The company experienced no significant or unusual problems in the purchase of raw materials during 2001. It is impossible to predict future shortages of raw materials or the impact any such shortages would have.

Executive Officers

Following is a list of the executive officers of 3M, their ages, present positions, the years elected to their present positions and other positions held during the past five years. No family relationships exist among any of the executive officers named, nor is there any arrangement or understanding pursuant to which any person was selected as an officer.

| Name | Age | Present Position | Year Elected to Present Position | Other Positions Held During 1997-2000 |
|------------------------|-----|--------------------------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| W. James McNerney, Jr. | 52 | Chairman of the Board and Chief Executive Officer | 2001 | President and CEO, General Electric Aircraft Engines, Cincinnati, Ohio, 1997-2000 President and CEO, General Electric Lighting, Cleveland, Ohio, 1995-1997 |
| Ronald R. Belschner | 62 | Vice President, Engineering, Manufacturing and Logistics | 2000 | Division Vice President, Industrial Tape and Specialties Division, 1995-2000 |
| John W. Benson | 57 | Executive Vice President, Health Care Markets | 1998 | Group Vice President, Industrial Markets Group, 1996-1997 |
| Robert J. Burgstahler | 57 | Senior Vice President, Business Development and Corporate Services | 2002 | Vice President, Finance and Administrative Services, 2000-2001 President and General Manager 3M Canada, 1998-2000 Staff Vice President, Taxes, 1995-1997 |
| Patrick D. Campbell | 49 | Senior Vice President and Chief Financial Officer | 2002 | Vice President, Finance, General Motors Europe, Zurich, Switzerland, 2001-2002 Executive Director, Investor Relations and Worldwide Benchmarking, General Motors, Detroit, Michigan, 2000-2001 Chief Financial Officer, General Motors, 1997-2000 |

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Motors International, Zurich,
Switzerland, 1994-1999

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Executive Officers (continued)

| Name | Age | Present Position | Year Elected to Present Position | Other Positions Held During 1997- |
|-----------------------|-----|-------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Joseph A. Giordano | 53 | Executive Vice President, International Operations | 2002 | Vice President, Europe and Middle East, 2001 Vice President, Asia Pacific, 1999-2001 Regional Vice President, South and Southeast Asia, 1999 Division Vice President, Electronic Products Division, 1995-1998 |
| M. Kay Grenz | 55 | Vice President, Human Resources | 1998 | Staff Vice President, Human Resources Consulting and Resource Services 1996-1998 |
| Paul F. Guehler | 63 | Vice President, Research and Development | 2000 | Vice President, Corporate Enterprise Development and Optical Technology 1999-2000 Optical Markets and Technologies President, 1998-1999 Division Vice President, Safety and Security Systems Division, 1992- |
| Moe S. Nozari | 59 | Executive Vice President, Consumer and Office Markets | 1999 | Group Vice President, Consumer and Office Markets Group, 1996-1999 |
| Frederick J. Palensky | 52 | Executive Vice President, Specialty Material Markets and Corporate Services | 2001 | Vice President and General Manager 3M ESPE, 2001 Division Vice President, Dental Products Division, 1997-2001 Division Vice President, Medical Products Technology Division, 1994-1997 |
| David W. Powell | 60 | Vice President, Marketing | 1999 | Division Vice President, Stationery and Office Supplies Division, 1996-1999 |
| Charles Reich | 59 | Executive Vice President, Electro and Communications Markets and Corporate Services | 2001 | Executive Vice President, Specialty Material Markets and Corporate Services 1999-2001 Group Vice President, Specialty Material Markets Group, 1999 Group Vice President, Chemical Materials Group, 1998 |

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| | | | | |
|-----------------|----|-----------------------------------------------------------------------|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | Division Vice President, Occupational Health and Environmental Safety Division, 1997-1998 |
| | | | | Division Vice President, Dental Products Division, 1990-1997 |
| John J. Ursu | 62 | Senior Vice President, Legal Affairs and General Counsel | 1997 | |
| Ronald A. Weber | 60 | Executive Vice President, Transportation, Graphics and Safety Markets | 2000 | Division Vice President, Automotive Division, 1996-2000 |
| Harold J. Wiens | 55 | Executive Vice President, Industrial Markets | 1999 | Executive Vice President, Industrial and Electro Markets, 1999 Executive Vice President, Industrial and Consumer Markets, 1998-1999 Executive Vice President, Sumitomo 3M Limited, 1995-1997 |

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Item 2. Properties.

3M's general offices, corporate research laboratories, and certain division laboratories are located in St. Paul, Minnesota. In the United States, 3M has 18 sales offices in 14 states and operates 59 manufacturing facilities in 22 states. Internationally, 3M has 193 sales offices. The company operates 89 manufacturing and converting facilities in 37 countries outside the United States.

3M owns substantially all of its physical properties. 3M's physical facilities are highly suitable for the purposes for which they were designed. Properties are often used by multiple business segments since 3M is an integrated enterprise characterized by substantial intersegment cooperation with allocations resulting from the shared utilization of assets.

Item 3. Legal Proceedings.

General

The company and some of its subsidiaries are named as defendants in a number of actions, governmental proceedings and claims, including environmental proceedings and products liability claims involving products now or formerly manufactured and sold by the company. In some actions, the claimants seek damages as well as other relief, which, if granted, would require substantial expenditures. The company has recorded liabilities, which represent reasonable estimates of its probable liabilities for these matters. The company also has recorded receivables for the probable amount of insurance recoverable with respect to these matters.

Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular action, the jurisdiction and forum in which each action is proceeding and differences in applicable law.

While the company believes that the ultimate outcome of all of its proceedings and claims, individually and in the aggregate, will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows, there can be no certainty that the company may not ultimately

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incur charges, whether for breast implant litigation, respirator/mask/asbestos litigation, environmental matters or other actions, in excess of presently recorded liabilities.

The company cannot always definitively determine possible liabilities that exceed recorded amounts related to its legal proceedings and claims. However, the company believes it unlikely, based upon the nature of its legal proceedings and claims and its current knowledge of relevant facts and circumstances, that the possible liabilities exceeding recorded amounts would be material to its consolidated financial position, results of operations or cash flows. With respect to products liability claims, such a conclusion about possible liabilities considers insurance coverage available for such liabilities.

While the company believes that a material adverse impact on its consolidated financial position, results of operations or cash flows from any such future charges is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact on the company. The current estimates of the potential impact on the company's consolidated financial position, results of operations and cash flows for its legal proceedings and claims could change in the future.

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Breast Implant Litigation

The company and certain other companies have been named as defendants in a number of 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 company entered the business of manufacturing breast implants in 1977 by purchasing McGhan Medical Corporation. In 1984, the company sold the business to a corporation that also was named McGhan Medical Corporation.

As of December 31, 2001, the company is named as a defendant, often with multiple co-defendants, in 302 lawsuits in various courts and 5 claims, all seeking damages for personal injuries from allegedly defective breast implants. These lawsuits and claims purport to represent 899 individual claimants.

3M has confirmed that approximately 19 of the 899 claimants have opted out of the revised class action settlement program approved by the United States District Court for the Northern District of Alabama (the "Revised Settlement Program") and have 3M implants. Most of the claimants in these confirmed cases have alleged an unspecified amount of damages above the jurisdictional limit of the courts in which the cases were filed. The company does not consider its remaining probable liability for these confirmed cases to be material.

The company believes that most of the remaining 880 claimants will be dismissed either because the claimants did not have 3M implants or the claimants accepted benefits under the Revised Settlement Program. Most of these claimants have filed lawsuits that either do not allege a specific amount of damages or allege an unspecified amount of damages above the jurisdictional limit of the court. The rest of these claimants allege damages, including both actual and punitive damages, aggregating approximately \$100 million in their lawsuits. Approximately 150 claimants have filed lawsuits in state and federal courts in New York alleging damages in excess of \$20 million each. 3M expects that virtually all of these New York cases will be dismissed without payment for the reasons stated above. The company continues to work to clarify the status of these lawsuits and claims.

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Based on 3M's experience in resolving thousands of these lawsuits, 3M believes that the amount of damages alleged in complaints is not a reliable or meaningful measure of the potential liability that 3M may incur in the breast implant litigation. Investors should place no reliance on the amount of damages alleged in breast implant lawsuits against 3M.

The company's insurers initiated a declaratory judgment action in Ramsey County Minnesota against the company seeking adjudication of certain coverage and allocation issues. The jury trial phase of this action finished on February 24, 2000. The jury returned a verdict favorable to the company by rejecting all of the insurers' remaining defenses to coverage for breast implant liabilities and costs.

The court's rulings in post verdict motions are considered to be generally favorable to the company. The court awarded the company prejudgment interest on amounts owing by insurers including reasonable attorney fees. However, the court has yet to determine the amount of attorneys' fees recoverable by the company. The court has indicated a formula to be used for this calculation that would result in the company being reimbursed for less than all of its fees. Exact amounts cannot yet be determined. The court filed the judgment on April 16, 2001 and entered judgment on May 16, 2001, thus substantially concluding this matter in the trial court. The company and several insurers appealed the judgment to the Minnesota Court of Appeals. The company has also initiated an arbitration proceeding in London, England to recover insurance coverage for breast implant liability and costs from claims-made insurance carriers. The arbitration hearing is currently scheduled for January 2003.

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As of December 31, 2001, the company had receivables for insurance recoveries related to the breast implant matter of \$406 million, representing settled but yet to be received amounts (\$82 million) as well as amounts contested by the insurance carriers (\$324 million). During the fourth quarter of 2001, the company received payments of \$80 million from its occurrence carriers. Various factors could affect the timing and amount of proceeds to be received under the company's various insurance policies, including (i) the timing of payments made in settlement of claims; (ii) the outcome of occurrence insurance litigation in the courts of Minnesota (as discussed above); (iii) the outcome of the arbitration with claims-made insurers; (iv) delays in payment by insurers; and (v) the extent to which insurers may become insolvent in the future. There can be no absolute assurance that the company will collect all amounts recorded as being probable of recovery from its insurers.

Respirator/Mask/Asbestos Litigation

During October 2001, the company defended a case in the Circuit Court of Holmes County, Mississippi, against plaintiffs claiming that a 3M respirator and mask did not protect them against contracting claimed asbestos-related diseases allegedly caused by exposure to products containing asbestos which were manufactured by other defendants. The case against the company initially involved six plaintiffs whose claims were consolidated for trial. The court dismissed one plaintiff's case just before trial, and a second plaintiff abandoned his case before it was submitted to the jury. On October 26, the jury returned a verdict against all defendants in favor of the plaintiffs, four of whom had claims against the company. The jury awarded the plaintiffs \$25 million each in compensatory damages. The jury denied plaintiffs' request for punitive damages. Based on the jury's findings of percentage of fault attributable to each defendant, the company's share of the total verdict is \$22.5 million. The company can provide no assurance at this time about the ability of any co-defendant to pay its share of any ultimate judgment or whether a co-defendant's inability to pay will cause a reallocation of liability for damages among the remaining solvent defendants under state law.

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Judgment was entered on January 30, 2002. Because the company is vigorously challenging the judgment in post-trial motions, will plan to appeal if necessary, and believes that the judgment ultimately will be overturned, no liability has been recorded related to this matter as of December 31, 2001. If any damages are ultimately assessed against the company, a substantial portion of such damages would be covered by the company's product liability insurance.

For more than twenty years, the company has successfully defended and resolved the claims of approximately 200,000 individual claimants similar to the ones brought in Holmes County. The company's vigorous defense of this litigation has resulted in: (i) jury verdicts for the company in the only other two cases tried to verdict (these two successful verdicts involved allegations virtually indistinguishable from those of the Holmes County case); (ii) frequent dismissals of lawsuits without any payment by the company; and (iii) average settlement values of less than \$1,000 for the claims and lawsuits that the company has resolved. In many of these lawsuits and claims, the company is named as a defendant with multiple co-defendants where no product the company manufactured is involved or where the company is ultimately determined not to have manufactured the products the plaintiffs identified. As noted above, many of these lawsuits and claims have been dismissed without payment.

As of December 31, 2001, the company is a named defendant, with multiple co-defendants, in approximately 21,000 lawsuits and claims in various courts. (The number of lawsuits is not a good indicator of claims and litigation activity because one lawsuit may represent the claims of one plaintiff or many. The number of plaintiffs named in any one lawsuit varies by plaintiffs' counsel and jurisdiction. For this reason, the number of claimants is a better indicator of claims and litigation activity.) These lawsuits and claims purport to represent approximately 80,000 individual claimants. A majority of

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these current claimants have not identified specific products manufactured by the company.

Based on the company's experience, the vast majority of these lawsuits and claims purportedly relate to the alleged use of company's mask and respirator products and seek damages from the company and other defendants for alleged personal injury from occupational exposure to asbestos or, less frequently, silica found in products manufactured by other defendants. The remaining lawsuits and claims generally allege personal injury from occupational exposure to asbestos from unspecified products claimed to have been manufactured by the company or other defendants and/or from specialty products containing asbestos allegedly manufactured by the company and/or other defendants many years ago.

Based on the company's experience in defending and resolving these lawsuits and claims to date and the substantial product liability insurance provided by the company's insurers, the company believes these lawsuits and claims will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As of December 31, 2001, the company had estimated accrued liabilities of approximately \$156 million for these claims. This amount represents the company's best estimate of the amount to cover the cost and expense of resolving current and probable future claims. The company also had receivables for expected insurance recoveries of approximately \$223 million. The difference between the accrued liability and insurance receivable represents the time delay between payment of claims and receipt of insurance reimbursements.

The company's current estimate of its probable liabilities and associated expenses for respirator/mask/asbestos litigation is based on facts and

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circumstances existing at this time and reasonably anticipated trends. New developments may occur that could affect the company's estimate of probable liabilities and associated expenses. These developments include, but are not limited to, (i) changes in the number of future claims, (ii) changes in the average cost of resolving claims, (iii) change in the nature of claims received, (iv) changes in the law and procedure applicable to these claims, or (v) financial viability of other co-defendants and insurers and other unknown variables. The company cannot determine the impact of these potential developments on the current estimate of its probable liabilities and associated expenses.

Environmental Matters

The company's operations are subject to environmental laws and regulations enforceable by foreign, federal, state, and local authorities and private parties in the United States and abroad, including those pertaining to air emissions, wastewater discharges, toxic substances, and the handling and disposal of solid and hazardous wastes. These laws and regulations provide under certain circumstances a basis for the remediation of contamination, as well as 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 potential personal injury and property damage claims, and modifying its business operations in light of its environmental responsibilities. In its effort to satisfy its environmental responsibilities and comply with environmental laws and regulations, the company has established, and periodically updates, policies relating to environmental standards of performance for its operations worldwide.

Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the company may be jointly and severally liable for the costs of environmental contamination at current or former facilities and at off-site

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locations. The company has identified numerous locations, most of which are in the United States, at which it may have some liability for remediating contamination. Amounts expended for environmental remediation activities were not material at these locations nor have there been material changes in the recorded liabilities for environmental matters.

Liabilities for estimated costs of environmental remediation are, depending on the site, based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. Recorded liabilities are adjusted as further information develops or circumstances change. The company expects that the amounts recorded will be paid out over the periods of remediation for the applicable sites, currently ranging up to 30 years. As of December 31, 2001, the company had recorded liabilities of \$38 million for estimated environmental investigatory and remediation costs based upon an evaluation of currently available facts with respect to each individual site.

It is often difficult to estimate the cost of environmental compliance and remediation and potential claims given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternate cleanup methods. The company's current assessment of the probable liabilities and associated expenses related to environmental matters is based on the facts and circumstances known at this time. New developments may occur that could affect the company's assessment. These developments include, but are not limited to, (i) changes in the information available regarding the environmental impact of the company's operations and products; (ii) changes in

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environmental regulations or enforcement policies; (iii) new and evolving analytical and remediation techniques; (iv) success in allocating liability to other potentially responsible parties; and (v) financial viability of other potentially responsible parties and third-party indemnitors. The company cannot determine the impact of these potential developments on the current estimate of its probable liabilities and associated expenses.

In June 1999, the company entered into a voluntary agreement with the Environmental Protection Agency (EPA) under both an "Agreement for TSCA Compliance" and the EPA's Incentives for Self Policing Policy to conduct an audit of the company's facilities and business units under the Toxic Substances Control Act (TSCA). The company also later agreed to conduct a separate TSCA section 8(e) Compliance Audit for materials which under current EPA guidelines potentially would be subject to notification under section 8(e) of TSCA and agreed to pay stipulated penalties for each report submitted under this audit. The company recently agreed to pay \$240,000 in penalties under a proposed settlement agreement with the EPA for phase I and II of the TSCA 8(e) audit and the parties are negotiating further penalties.

In December 2001, the company has resolved its involvement in a lawsuit that was filed by the United States on behalf of the Department of the Interior to recover costs resulting from the alleged disposal of wastes at the Krejci site in Ohio, by paying \$15.5 million into an escrow account under the terms of a consent decree, subject to court approval, entered into by the company and the Department of the Interior. If the consent decree is approved by the court, the money in the escrow account will be paid to the Department of the Interior and the company will be protected from additional claims, including claims for contribution by other settling defendants, arising from planned remediation activities and known natural resource damages at the site. The consent decree also includes reopener provisions, which are standard in consent decrees including those signed by the other settling defendants. Given the thorough site investigation and the extensive future remediation work being undertaken by other settling defendants, the company believes that its future liability exposure under the reopener provisions is remote.

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Item 4. Submission of Matters to a Vote of Security Holders.

None in the quarter ended December 31, 2001.

Part II

Item 5. Market Price of 3M's Common Stock and Related Security Holder Matters.

At January 31, 2002, there were approximately 127,196 shareholders of record. 3M's stock is listed on the New York, Pacific, Chicago and Swiss stock exchanges. Stock price comparisons are provided in the Quarterly Data section in the Notes to Consolidated Financial Statements.

Item 6. Selected Financial Data.

(Dollars in millions, except per-share amounts)

| Years ended December 31: | 2001 | 2000 | 1999 | 1998 | 1997 |
|--------------------------------------|----------|----------|----------|----------|----------|
| Net sales..... | \$16,079 | \$16,724 | \$15,748 | \$15,094 | \$15,133 |
| Income from continuing operations... | 1,430* | 1,857* | 1,763* | 1,213** | 2,121** |
| Per share of common stock: | | | | | |
| Continuing operations - basic..... | 3.63* | 4.69* | 4.39* | 3.01** | 5.14** |
| Continuing operations - diluted... | 3.58* | 4.64* | 4.34* | 2.97** | 5.06** |

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| | | | | | |
|----------------------------------------------------------------|----------|----------|----------|----------|----------|
| Cash dividends declared and paid.. | \$ 2.40 | \$ 2.32 | \$ 2.24 | \$ 2.20 | \$ 2.12 |
| At December 31: | | | | | |
| Total assets | \$14,606 | \$14,522 | \$13,896 | \$14,153 | \$13,238 |
| Long-term debt (excluding portion due within one year)..... | 1,520 | 971 | 1,480 | 1,614 | 1,015 |