3M CO
Form 10-Q
July 31, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

Commission file number: **1-3285**

3M COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE	**41-0417775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3M Center, St. Paul, Minnesota	**55144**
(Address of principal executive offices)	(Zip Code)

(651) 733-1110

(Registrant s telephone number, including area code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	**Outstanding at June 30, 2009**
Common Stock, $0.01 par value per share	698,320,662 shares

This document (excluding exhibits) contains 65 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 62.

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3M COMPANY

FORM 10-Q

For the Quarterly Period Ended June 30, 2009

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended June 30 2009	Three months ended June 30 2008	Six months ended June 30 2009	Six months ended June 30 2008
Net sales	**$ 5,719**	$ 6,739	**$ 10,808**	13,202
Operating expenses				
Cost of sales	**2,977**	3,510	**5,749**	6,846
Selling, general and administrative expenses	**1,242**	1,394	**2,433**	2,669
Research, development and related expenses	**309**	363	**632**	714
(Gain)/loss from sale of businesses		23		23
Total operating expenses	**4,528**	5,290	**8,814**	10,252
Operating income	**1,191**	1,449	**1,994**	2,950
Interest expense and income				
Interest expense	**55**	51	**110**	106
Interest income	**(7)**	(18)	**(18)**	(48)
Total interest expense (income)	**48**	33	**92**	58
Income before income taxes	**1,143**	1,416	**1,902**	2,892
Provision for income taxes	**351**	453	**580**	923
Net income including noncontrolling interest	**$ 792**	$ 963	**1,322**	1,969
Less: Net income attributable to noncontrolling interest	**9**	18	**21**	36
Net income attributable to 3M	**$ 783**	$ 945	**$ 1,301**	$ 1,933
Weighted average 3M common shares outstanding basic	**696.8**	702.1	**695.2**	704.3
Earnings per share attributable to 3M common shareholders basic	**$ 1.12**	$ 1.35	**$ 1.87**	2.74
Weighted average 3M common shares outstanding diluted	**700.3**	712.0	**698.1**	714.6
Earnings per share attributable to 3M common shareholders diluted	**$ 1.12**	$ 1.33	**$ 1.86**	2.70
Cash dividends paid per 3M common share	**$ 0.51**	$ 0.50	**$ 1.02**	$ 1.00

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)		June 30 2009		Dec. 31 2008
Assets				
Current assets				
Cash and cash equivalents	$	2,596	$	1,849
Marketable securities current		378		373
Accounts receivable net		3,456		3,195
Inventories				
Finished goods		1,245		1,505
Work in process		803		851
Raw materials and supplies		553		657
Total inventories		2,601		3,013
Other current assets		867		1,168
Total current assets		9,898		9,598
Marketable securities non-current		307		352
Investments		106		111
Property, plant and equipment		19,187		18,812
Less: Accumulated depreciation		(12,288)		(11,926)
Property, plant and equipment net		6,899		6,886
Goodwill		5,734		5,753
Intangible assets net		1,386		1,398
Prepaid pension benefits		39		36
Other assets		1,726		1,659
Total assets	$	26,095	$	25,793
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	908	$	1,552
Accounts payable		1,243		1,301
Accrued payroll		615		644
Accrued income taxes		501		350
Other current liabilities		2,051		1,992
Total current liabilities		5,318		5,839
Long-term debt		5,172		5,166
Pension and postretirement benefits		2,763		2,847
Other liabilities		1,621		1,637
Total liabilities	$	14,874	$	15,489
Commitments and contingencies (Note 11)				
Equity				
3M Company shareholders equity:				
Common stock par value, $.01 par value, 944,033,056 shares issued	$	9	$	9
Additional paid-in capital		3,133		3,006
Retained earnings		22,707		22,227

Treasury stock, at cost; 245,712,394 shares at June 30, 2009; 250,489,769 shares at Dec. 31, 2008		**(11,341)**		(11,676)
Unearned compensation		**(22)**		(40)
Accumulated other comprehensive income (loss)		**(3,683)**		(3,646)
Total 3M Company shareholders equity		**10,803**		9,880
Noncontrolling interest		**418**		424
Total equity		**11,221**		10,304
Total liabilities and equity	**$**	**26,095**	$	25,793

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in millions)	Six months ended June 30 2009	2008
Cash Flows from Operating Activities		
Net income including noncontrolling interest	**$ 1,322**	$ 1,969
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**569**	553
Company pension and postretirement contributions	**(205)**	(95)
Company pension and postretirement expense	**109**	52
Stock-based compensation expense	**132**	122
(Gain)/loss from sale of businesses		23
Deferred income taxes	**(15)**	46
Excess tax benefits from stock-based compensation		(20)
Changes in assets and liabilities		
Accounts receivable	**(222)**	(405)
Inventories	**447**	(171)
Accounts payable	**(76)**	30
Accrued income taxes	**199**	(42)
Product and other insurance receivables and claims	**34**	129
Other net	**(133)**	49
Net cash provided by operating activities	**2,161**	2,240
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(454)**	(632)
Proceeds from sale of PP&E and other assets	**57**	6
Acquisitions, net of cash acquired	**(12)**	(549)
Purchases of marketable securities and investments	**(485)**	(1,479)
Proceeds from sale of marketable securities and investments	**330**	732
Proceeds from maturities of marketable securities	**195**	427
Proceeds from sale of businesses		85
Other investing	**(6)**	(57)
Net cash used in investing activities	**(375)**	(1,467)
Cash Flows from Financing Activities		
Change in short-term debt net	**(552)**	1,120
Repayment of debt (maturities greater than 90 days)	**(88)**	(807)
Purchases of treasury stock	**(6)**	(1,082)
Reissuances of treasury stock	**225**	217
Dividends paid to stockholders	**(709)**	(704)
Distributions to noncontrolling interest		(12)
Excess tax benefits from stock-based compensation		20
Other net	**3**	131
Net cash used in financing activities	**(1,127)**	(1,117)
Effect of exchange rate changes on cash and cash equivalents	**88**	(5)

Net increase (decrease) in cash and cash equivalents		**747**		(349)
Cash and cash equivalents at beginning of year		**1,849**		1,896
Cash and cash equivalents at end of period	**$**	**2,596**	$	1,547

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the Company s consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q.

Certain amounts presented for prior periods have been reclassified to conform to the current year presentation. As discussed later in Note 1, effective January 1, 2009, 3M adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, and FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement). These accounting pronouncements, which related to noncontrolling interest and convertible debt instruments, respectively, both required retrospective application. In addition, 3M reclassified balance sheet amounts related to life insurance policies from investments to other assets; reclassified current and non-current balance sheet amounts related to income taxes between deferred income taxes and accrued income taxes; and reclassified amounts between unearned compensation and additional paid-in capital, both of which are within stockholders equity.

As described in 3M s Current Report on Form 8-K dated May 13, 2009 (which updated 3M s 2008 Annual Report on Form 10-K) and 3M s Quarterly Report on Form 10-Q for the period ended March 31, 2009, during the first quarter of 2009 the Company reorganized its business segments (Note 13) and as discussed above, also reclassified certain amounts presented for prior periods to conform to the current year presentation. 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 filed May 13, 2009.

3M has evaluated subsequent events through the date that the financial statements were issued, which was July 31, 2009, the date of 3M s Quarterly Report on Form 10-Q for the period ended June 30, 2009.

Earnings per share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company s stock-based compensation plans. Certain Management Stock Ownership Program (MSOP) options outstanding were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (71.5 million average options for the three months ended June 30, 2009; 71.7 million average options for the six months ended June 30, 2009; 31.6 million average options for the three months ended June 30, 2008; 29.9 million average options for the six months ended June 30, 2008). The conditions for conversion related to the Company s Convertible Notes were not met (refer to 3M s Current Report on Form 8-K filed May 13, 2009, Note 10 to the Consolidated Financial Statements, for more detail). 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. Accordingly, there was no impact on diluted earnings per share attributable to 3M common shareholders. The computations for basic and diluted earnings per share follow:

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Earnings Per Share Computations

(Amounts in millions, except per share amounts)	Three months ended June 30 2009	2008	Six months ended June 30 2009	2008
Numerator:				
Net income attributable to 3M	**$ 783**	$ 945	**1,301**	1,933
Denominator:				
Denominator for weighted average 3M common shares outstanding basic	**696.8**	702.1	**695.2**	704.3
Dilution associated with the Company s stock-based compensation plans	**3.5**	9.9	**2.9**	10.3
Denominator for weighted average 3M common shares outstanding diluted	**700.3**	712.0	**698.1**	714.6
Earnings per share attributable to 3M common shareholders basic	**$ 1.12**	$ 1.35	**1.87**	2.74
Earnings per share attributable to 3M common shareholders diluted	**1.12**	1.33	**1.86**	2.70

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 established a single definition of fair value and a framework for measuring fair value, set out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and required disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. As disclosed in the notes included in 3M s Current Report on Form 8-K filed May 13, 2009, 3M adopted SFAS No. 157, as amended by associated FASB Staff Positions (FSPs), beginning January 1, 2008 on a prospective basis. One of these FSPs, FSP No. FAS 157-2, deferred the effective date for one year relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applied to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. These remaining aspects of SFAS No. 157 were adopted by the Company prospectively beginning January 1, 2009 and did not have a material impact on 3M s consolidated results of operations or financial condition. Refer to Note 10 for additional disclosures of assets and liabilities that are measured at fair value on a nonrecurring basis as a result of this adoption.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which changed the accounting for business acquisitions. SFAS No. 141R, as amended by FSP No. FAS 141-1 issued in April 2009, requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. For 3M, SFAS No. 141R, as amended, was effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008. This standard had no immediate impact upon adoption by 3M, and was applied to the business combinations disclosed in Note 2 that were completed post-2008 and to applicable adjustments to acquired entity deferred tax items occurring after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, which established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. For 3M, SFAS No. 160 was effective beginning January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, 3M retroactively

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reclassified the Minority interest in subsidiaries balance previously included in the Other liabilities section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including NCI and net income attributable to 3M. Additional disclosures required by this standard are also included in Note 5. The adoption of SFAS No. 160 did not have a material impact on 3M s consolidated financial position or results of operations.

In December 2007, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 was effective for 3M beginning January 1, 2009 and applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The adoption of EITF Issue No. 07-1 did not have a material impact on 3M s consolidated results of operations or financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which requires additional disclosures about an entity s strategies and objectives for using derivative instruments; the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Certain disclosures are also required with respect to derivative features that are credit-risk-related. SFAS No. 161 was effective for 3M beginning January 1, 2009 on a prospective basis. The additional disclosures required by this standard are included in Note 9.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, which amended the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. This guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under FSP No. FAS 142-3, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. For 3M, this FSP required certain additional disclosures beginning January 1, 2009 (which are included in Notes 2 and 3) and application to useful life estimates prospectively for intangible assets acquired after December 31, 2008. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement). This FSP applies to convertible debt securities that, upon conversion by the holder, may be settled by the issuer fully or partially in cash (rather than settled fully in shares) and specifies that issuers of such instruments should separately account for the liability and equity components in a manner that reflects the issuer s nonconvertible debt borrowing rate when related interest cost is recognized. This FSP was effective for 3M beginning January 1, 2009 with retrospective application to all periods presented. This standard impacted the Company s Convertible Notes (refer to Note 10 to the Consolidated Financial Statements included in 3M s Current Report on Form 8-K filed May 13, 2009 for more detail), and required that additional interest expense essentially equivalent to the portion of issuance proceeds be retroactively allocated to the instrument s equity component and be recognized over the period from the Convertible Notes issuance on November 15, 2002 through November 15, 2005 (the first date holders of these Notes had the ability to put them back to 3M). 3M adopted this standard in January 2009. Its retrospective application had no impact on results of operations for periods following 2005, but on post-2005 consolidated balance sheets, it resulted in an increase of approximately $22 million in previously reported opening additional paid in capital and a corresponding decrease in previously reported opening retained earnings.

In November 2008, the FASB ratified the EITF consensus on Issue No. 08-6, Equity Method Investment Accounting Considerations (EITF 08-6) which addresses certain effects of SFAS Nos. 141R and 160 on an entity s accounting for equity-method investments. The consensus indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor s ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. For 3M, EITF 08-6 was effective for transactions occurring after December 31, 2008. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In November 2008, the FASB ratified the EITF consensus on Issue No. 08-7, Accounting for Defensive Intangible Assets (EITF 08-7). The consensus addresses the accounting for an intangible asset acquired in a business combination or asset acquisition that an entity does not intend to use or intends to hold to prevent others from obtaining access (a defensive intangible asset). Under EITF 08-7, a defensive intangible asset needs to be accounted as a separate unit of accounting and would be assigned a useful life based on the period over which the asset diminishes in value. For 3M, EITF 08-7 was effective for transactions occurring after December 31, 2008. The Company considered this standard in terms of intangible assets acquired in business combinations or asset acquisitions that closed after December 31, 2008.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets . This FSP requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major categories of plan assets, and concentrations of risk within plan assets. Additionally, this FSP requires disclosures similar to those required under SFAS No. 157 with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value (see Note 10). The disclosures under this FSP are required for annual periods ending after December 15, 2009. 3M is currently evaluating the requirements of these additional disclosures.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. The FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value as well as disclosure of the hierarchy of the source of underlying fair value information on a disaggregated basis by specific major category of investment. For 3M, this FSP was effective prospectively beginning April 1, 2009. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition. The additional disclosures required by this standard are included in Note 10.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). This FSP modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The FSP also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the FSP, impairment of debt securities will be considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security s entire amortized cost basis (even if the entity does not intend to sell). The FSP further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security s fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. FSP 115-2 requires entities to initially apply the provisions of the standard to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulated other comprehensive income. For 3M, this FSP was effective beginning April 1, 2009. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition. Additional disclosures required by this standard are included in Note 7.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. This FSP was effective for 3M beginning April 1, 2009 on a prospective basis. The additional disclosures required by this standard are included in Note 10.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under SFAS No.165, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of

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subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard added an additional required disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued. For 3M, this standard was effective beginning April 1, 2009. The additional disclosures required by this standard are included in Note 1.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, amending the guidance on transfers of financial assets to, among other things, eliminate the qualifying special-purpose entity concept, include a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarify and change the derecognition criteria for a transfer to be accounted for as a sale, and require significant additional disclosure. For 3M, this standard is effective for new transfers of financial assets beginning January 1, 2010. Because 3M historically does not have significant transfers of financial assets, the adoption of this standard is not expected to have a material impact on 3M s consolidated results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which revised the consolidation guidance for variable-interest entities. The modifications include the elimination of the exemption for qualifying special purpose entities, a new approach for determining who should consolidate a variable-interest entity, and changes to when it is necessary to reassess who should consolidate a variable-interest entity. For 3M, this standard is effective January 1, 2010. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on 3M s consolidated results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, and approved the FASB Accounting Standards CodificationTM (Codification) as the single source of authoritative nongovernmental US GAAP. The Codification does not change current US GAAP, but is intended to simplify user access to all authoritative US GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. For 3M, the Codification is effective July 1, 2009 and will require future references to authoritative US GAAP to coincide with the appropriate section of the Codification. Accordingly, this standard will not have an impact on 3M s consolidated results of operations or financial condition.

NOTE 2. Acquisitions

During the six months ended June 30, 2009, 3M completed three business combinations. The purchase price paid for these business combinations (net of cash acquired) and certain acquisition costs paid for pre-2009 business combinations during the six months ended June 30, 2009 aggregated to $12 million.

(1) In January 2009, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Alltech Solutions, a provider of water pipe rehabilitation services based in Moncton, New Brunswick, Canada.

(2) In February 2009, 3M (Industrial and Transportation Business) purchased the assets of Compac Corp. s pressure sensitive adhesive tape business, a global leader in providing custom solutions in coating, laminating and converting flexible substrates headquartered in Hackettstown, N.J.

(3) In April 2009, 3M (Industrial and Transportation Business) purchased 100% of the outstanding shares of Meguiar s International, UK, a distributor of Meguiar s Inc. products in the United Kingdom based in Daventry, United Kingdom.

Purchased identifiable intangible assets related to the three acquisitions which closed in the first six months of 2009 totaled $7 million and will be amortized on a straight-line basis over a weighted-average life of 6 years (lives ranging from 3 to 11 years). Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to the above acquisitions is not included because the impact on the Company s consolidated results of operations is not considered to be material.

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

Subsequent Events

On July 8, 2009, 3M (Consumer and Office Business) announced that it completed its acquisition of ACE Bandage, a manufacturer and distributor of branded elastic health supports in the U.S. and Canada, headquartered in Franklin Lakes, New Jersey.

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NOTE 3. Goodwill and Intangible Assets

Purchased goodwill related to the three acquisitions which closed in the first six months of 2009 totaled $6 million, $1 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the impacts of adjustments to the preliminary allocation of purchase price and certain acquisition costs for pre-2009 acquisitions, which reduced goodwill by $52 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balance by business segment as of December 31, 2008 and June 30, 2009, follow:

Goodwill

(Millions)		Dec. 31, 2008 Balance		Acquisition activity		Translation and other		June 30, 2009 Balance
Industrial and Transportation	$	1,692	$	(4)	$	17	$	1, 705
Health Care		988		1		(1)		988
Consumer and Office		155		1		(17)		139
Safety, Security and Protection Services		1,202		6		44		1,252
Display and Graphics		1,042		(48)		(13)		981
Electro and Communications		674		(2)		(3)		669
Total Company	$	5,753	$	(46)	$	27	$	5,734

SFAS No. 142 requires that goodwill be tested for impairment annually and between annual tests in certain circumstances such as a change in reporting units or the testing of recoverability of a significant asset group within a reporting unit. At 3M, reporting units generally correspond to a division.

As discussed in Note 13, 3M made certain changes to its business segments effective in the first quarter of 2009, which resulted in no material changes to the goodwill balances by business segment. For those changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact to reporting units. During the first quarter of 2009, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

As discussed in Note 10, in June 2009, 3M tested the long lived assets grouping associated with the UK passport production activity of 3M s Security Systems Division for recoverability. This circumstance required the Company to also test goodwill for impairment at the reporting unit (Security Systems Division) level. 3M completed its assessment of potential goodwill impairment for this reporting unit and determined that no goodwill impairment existed as of June 30, 2009.

Acquired Intangible Assets

For the six months ended June 30, 2009, acquired intangible asset activity through business combinations increased balances by $72 million, of which approximately $65 million related to adjustments to preliminary allocations of purchase price on pre-2009 acquisitions. The carrying amount and accumulated amortization of acquired intangible assets as of June 30, 2009, and December 31, 2008, follow:

(Millions)	June 30 2009	Dec. 31 2008
Patents	**$ 463**	$ 475
Other amortizable intangible assets (primarily tradenames and customer related intangibles)	**1,481**	1,381
Non-amortizable intangible assets (tradenames)	**131**	130
Total gross carrying amount	**$ 2,075**	$ 1,986
Accumulated amortization patents	**(331)**	(318)
Accumulated amortization other	**(358)**	(270)
Total accumulated amortization	**(689)**	(588)
Total intangible assets net	**$ 1,386**	$ 1,398

Amortization expense for acquired intangible assets for the six-months ended June 30, 2009 and 2008 follows:

(Millions)	Three months ended June 30 2009	Three months ended June 30 2008	Six months ended June 30 2009	Six months ended June 30 2008
Amortization expense	**$ 48**	$ 32	**$ 87**	$ 56

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The table below shows expected amortization expense for acquired intangible assets recorded as of June 30, 2009:

(Millions)	Last 2 Quarters 2009	2010	2011	2012	2013	After 2013
Amortization expense	$ 87	$ 156	$ 129	$ 122	$ 117	$ 644

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

NOTE 4. Restructuring Actions and Exit Activities

Restructuring actions and exit activities generally include significant actions involving employee-related severance charges, contract termination costs, and impairment of assets associated with such actions.

Employee-related severance charges are largely based upon distributed employment policies and substantive severance plans and are reflected in the quarter in which management approves the associated 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.

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. Asset impairment charges related to intangible assets and property, plant and equipment reflect the excess of the assets carrying values over their fair values.

The following provides information concerning the Company s first-six months of 2009 restructuring actions and fourth-quarter 2008 restructuring actions.

2008 and 2009 Restructuring Actions:

During the fourth quarter of 2008 and the first six months of 2009, management approved and committed to undertake certain restructuring actions. Due to the rapid decline in global business activity in the fourth quarter of 2008 and into the first half of 2009, 3M aggressively reduced its cost structure and rationalized several facilities, including manufacturing, technical and office facilities. These actions included all geographies, with particular attention in the developed areas of the world that have and are experiencing large declines in business activity, and included the following:

- During the fourth quarter of 2008, 3M announced the elimination of more than 2,400 positions. Of these employment reductions, about 31 percent were in the United States, 29 percent in Europe, 24 percent in Latin America and Canada, and 16 percent in the Asia Pacific area. These restructuring actions resulted in a fourth-quarter 2008 pre-tax charge of $229 million, with $186 million for employee-related items/benefits and other, and $43 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($84 million), selling, general and administrative expenses ($135 million), and research, development and related expenses ($10 million). Cash payments in 2008 related to this restructuring were not material. Refer to 3M s Current Report on Form 8-K filed May 13, 2009, Note 4, for additional information on these 2008 restructuring actions.

- During the first quarter of 2009, 3M announced the elimination of approximately 1,200 positions. Of these employment reductions, about 43 percent were in the United States, 36 percent in Latin America, 16 percent in Europe and 5 percent in the Asia Pacific area. These restructuring actions resulted in a first-quarter 2009 pre-tax charge of $67 million, with $61 million for employee-related items/benefits and $6 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($17 million), selling, general and administrative expenses ($47 million), and research, development and related expenses ($3 million).

- During the second quarter of 2009, 3M announced the permanent reduction of approximately 900 positions, the majority of which were concentrated in the United States, Western Europe and Japan. In the United States, another 700 people accepted a voluntary early retirement option. Of these aggregate employment reductions, about 66 percent were in the United States, 17 percent in the Asia Pacific area, 14 percent in Europe and 3 percent in Latin America and Canada. These restructuring actions in total resulted in a second-quarter 2009 pre-tax charge of $116 million, with $103 million for employee-related items/benefits and $13 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($68 million), selling, general and administrative expenses ($44 million), and research, development and related expenses ($4 million).

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Components of these restructuring actions and a roll-forward of associated balances are summarized as follows:

(Millions)		Employee-Related Items/ Benefits/other		Asset Impairments		Total
Expense incurred in fourth quarter 2008	$	186	$	43	$	229
Non-cash charges in fourth quarter 2008	$		$	(43)	$	(43)
Expense incurred in first quarter 2009:						
Industrial and Transportation	$	22	$	1	$	23
Health Care		4				4
Consumer and Office		2				2
Safety, Security and Protection Services		4				4
Display and Graphics		1		5		6
Electro and Communications		3				3
Corporate and Unallocated		25				25
First quarter 2009 expense	$	61	$	6	$	67
Non-cash charges in first quarter 2009	$			(6)	$	(6)
Cash payments in first quarter 2009		(107)				(107)
Accrued liability balance at Mar. 31, 2009	$	140	$		$	140
Expense incurred in second quarter 2009:						
Industrial and Transportation	$	40	$	4	$	44
Health Care		15				15
Consumer and Office		11				11
Safety, Security and Protection Services		13				13
Display and Graphics		10		8		18
Electro and Communications		7				7
Corporate and Unallocated		7		1		8
Second quarter 2009 expense	$	103	$	13	$	116
Non-cash charges in second quarter 2009	$	(21)	$	(13)	$	(34)
Cash payments in second quarter 2009		(67)				(67)
Accrued liability balance at June 30, 2009	$	155	$		$	155

The majority of the remaining employee related items and benefits associated with these actions are expected to be paid out in cash through the remainder of 2009. As discussed in Note 8, a $21 million non-cash charge related to special termination benefits was recorded that related to the approximately 700 participants who accepted the voluntary early retirement incentive program offer.

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NOTE 5. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

3M Company and Subsidiaries

Three months ended June 30, 2009

		3M Company Shareholders					
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Comp-ensation	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at March 31, 2009	**$ 10,141**	**$ 3,095**	**$ 22,369**	**$ (11,618)**	**$ (18)**	**$ (4,091)**	**$ 404**
Net income including noncontrolling interest	792		783				9
Cumulative translation adjustment	460					455	5
Defined benefit pension andpostretirement plans adjustment	21						