

CABOT MICROELECTRONICS CORP  
 Form 4  
 January 23, 2008

**FORM 4**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287  
 Expires: January 31, 2005  
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 MOONEY EDWARD J

2. Issuer Name and Ticker or Trading Symbol  
 CABOT MICROELECTRONICS CORP [CCMP]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)  
 01/22/2008

Director  10% Owner  
 Officer (give title below)  Other (specify below)

C/O CABOT MICROELECTRONICS CORPORATION, 870 COMMONS DRIVE

(Street)

4. If Amendment, Date Original Filed (Month/Day/Year)

6. Individual or Joint/Group Filing (Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

AURORA, IL 60504

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock				(A) or (D) Price	2,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Security (Instr. 3 and 4)
Phantom Stock	\$ 32.04	01/22/2008		J <sup>(1)</sup>	46.8165	01/22/2008 01/22/2008 <sup>(2)</sup>	Common Stock 46.8

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MOONEY EDWARD J C/O CABOT MICROELECTRONICS CORPORATION 870 COMMONS DRIVE AURORA, IL 60504	X			

## Signatures

H. Carol Bernstein (Power of Attorney) 01/23/2008

\_\_Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Rights to acquire shares pursuant to Directors' Deferred Compensation Plan adopted March 12, 2001, as amended.
- (2) Rights to acquire shares pursuant to Directors' Deferred Compensation Plan are already earned.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Indicate by check mark whether 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 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 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 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. x

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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. (Check one):

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

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant (assuming, for purposes of this calculation only, that the registrant's directors and corporate officers are affiliates of the registrant) based upon the closing sale price of the registrant's common stock on August 3, 2014 (the last business day of the registrant's most recently completed second quarter) was \$8,873,223,505.

Number of shares of Common Stock outstanding as of March 17, 2015: 82,527,092

DOCUMENTS INCORPORATED BY REFERENCE

Document	Location in Form 10-K in which incorporated
Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 18, 2015	Part III

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**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:** Forward-looking statements in this Annual Report on Form 10-K including, without limitation, statements relating to our future revenue and cash flows, plans, strategies, objectives, expectations and intentions are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy, and some of which might not be anticipated, including, without limitation, (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) we may be considered to be highly leveraged and we use a significant portion of our cash flows to service our indebtedness, as a result of which we might not have sufficient funds to operate our businesses in the manner we intend or have operated in the past; (iii) the levels of sales of our apparel, footwear and related products, both to our wholesale customers and in our retail stores, the levels of sales of our licensees at wholesale and retail, and the extent of discounts and promotional pricing in which we and our licensees and other business partners are required to engage, all of which can be affected by weather conditions, changes in the economy, fuel prices, reductions in travel, fashion trends, consolidations, repositionings and bankruptcies in the retail industries, repositionings of brands by our licensors and other factors; (iv) our plans and results of operations will be affected by our ability to manage our growth and inventory, including our ability to realize benefits from our acquisition of The Warnaco Group, Inc. (“Warnaco”); (v) our operations and results could be affected by quota restrictions and the imposition of safeguard controls (which, among other things, could limit our ability to produce products in cost-effective countries that have the labor and technical expertise needed), the availability and cost of raw materials, our ability to adjust timely to changes in trade regulations and the migration and development of manufacturers (which can affect where our products can best be produced), changes in available factory and shipping capacity, wage and shipping cost escalation, and civil conflict, war or terrorist acts, the threat of any of the foregoing, or political and labor instability in any of the countries where our or our licensees’ or other business partners’ products are sold, produced or are planned to be sold or produced; (vi) disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas, as well as reduced consumer traffic and purchasing, as consumers become ill or limit or cease shopping in order to avoid exposure; (vii) acquisitions and issues arising with acquisitions and proposed transactions, including, without limitation, the ability to integrate an acquired entity, such as Warnaco, into us with no substantial adverse effect on the acquired entity’s or our existing operations, employee relationships, vendor relationships, customer relationships or financial performance; (viii) the failure of our licensees to market successfully licensed products or to preserve the value of our brands, or their misuse of our brands; and (ix) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

We do not undertake any obligation to update publicly any forward-looking statement, including, without limitation, any estimate regarding revenue or cash flows, whether as a result of the receipt of new information, future events or otherwise.

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## PART I

### Item 1. Business

#### Introduction

Unless the context otherwise requires, the terms “we,” “our” or “us” refer to PVH Corp. and its subsidiaries.

Our fiscal years are based on the 52-53 week period ending on the Sunday closest to February 1 and are designated by the calendar year in which the fiscal year commences. References to a year are to our fiscal year, unless the context requires otherwise. Our 2014 year commenced on February 3, 2014 and ended on February 1, 2015; 2013 commenced on February 4, 2013 and ended on February 2, 2014; and 2012 commenced on January 30, 2012 and ended on February 3, 2013.

We obtained the market and competitive position data used throughout this report from research, surveys or studies conducted by third parties (including, with respect to the brand rankings for woven sport shirts, the NPD Group/POS Tracking Service), information provided by customers and industry or general publications. The United States department and chain store rankings to which we refer in this report are on a unit basis. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications and all other information is reliable, we have not independently verified such data and we do not make any representation as to the accuracy of such information.

References to the brand names Calvin Klein Collection, Calvin Klein (platinum label), Calvin Klein (white label), Calvin Klein Jeans, Calvin Klein Underwear, Tommy Hilfiger, Hilfiger Denim, Hilfiger Collection, Tommy Hilfiger Tailored, Van Heusen, IZOD, ARROW, Warner’s, Olga, Eagle, Speedo, Geoffrey Beene, Kenneth Cole New York, Kenneth Cole Reaction, Sean John, MICHAEL Michael Kors, Michael Kors Collection, Chaps, Donald J. Trump Signature Collection, DKNY, Nautica, Ted Baker, J. Garcia, Claiborne, Ike Behar and Ryan Seacrest, and to other brand names in this report are to registered trademarks owned by us or licensed to us by third parties and are identified by italicizing the brand name.

References to the sale of Bass refer to our November 4, 2013 sale of our G.H. Bass & Co. business and its Bass and G.H. Bass & Co. trademarks, which we refer to collectively as “Bass.”

References to the acquisition of Warnaco refer to our February 13, 2013 acquisition of The Warnaco Group, Inc. and its subsidiaries, which companies we refer to collectively as “Warnaco.”

References to the acquisition of Tommy Hilfiger refer to our May 6, 2010 acquisition of Tommy Hilfiger B.V. and certain affiliated companies, which companies we refer to collectively as “Tommy Hilfiger.”

References to our acquisition of Calvin Klein refer to our February 2003 acquisition of Calvin Klein, Inc. and certain affiliated companies, which companies we refer to collectively as “Calvin Klein.”

#### Company Overview

We are one of the largest branded apparel companies in the world, with a heritage dating back over 130 years. Our brand portfolio consists of nationally and internationally recognized brand names, including the global designer lifestyle brands Calvin Klein and Tommy Hilfiger, as well as Van Heusen, IZOD, ARROW, Warner’s, Olga and Eagle, which are owned brands, and Speedo, Geoffrey Beene, Kenneth Cole New York, Kenneth Cole Reaction, Sean John,

MICHAEL Michael Kors, Michael Kors Collection, Chaps, Donald J. Trump Signature Collection, DKNY, Nautica, Ted Baker, J. Garcia, Claiborne, Ike Behar, Jones New York and Ryan Seacrest, which are licensed, as well as various other licensed and private label brands. In addition, through the end of the third quarter of 2013, we owned and operated businesses under the G.H. Bass & Co. and Bass trademarks. We design and market branded dress shirts, neckwear, sportswear, jeanswear, intimate apparel, swim products and, to a lesser extent, handbags, footwear and other related products. Additionally, we license our owned brands over a broad range of products. We market our brands globally at multiple price points and across multiple channels of distribution, allowing us to provide products to a broad range of consumers, while minimizing competition among our brands and reducing our reliance on any one demographic group, merchandise preference, distribution channel or geographic region. During 2014, our directly operated businesses in North America consisted principally of wholesale dress shirts, neckwear and underwear sales under our owned and licensed brands; wholesale men's sportswear sales under our Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD and ARROW brands; wholesale men's and women's jeanswear and underwear sales under our Calvin Klein brand; wholesale

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women's intimate apparel sales under our Warner's and Olga brands; wholesale swimwear, fitness apparel, swim accessories and related product sales under the Speedo brand; and the operation of retail stores, principally in premium outlet centers, under our Calvin Klein, Tommy Hilfiger, Van Heusen and IZOD brands and, through the end of the third quarter of 2013, the G.H. Bass & Co. and Bass brands. During 2014, our directly operated businesses outside of North America consisted principally of our Tommy Hilfiger International wholesale and retail businesses in Europe and Japan; our Calvin Klein wholesale and retail businesses in Europe, Asia and Latin America; and our wholesale Calvin Klein Collection business in Europe. Our licensing activities principally related to the licensing worldwide of our Calvin Klein and Tommy Hilfiger trademarks for a broad range of lifestyle products and for specific geographic regions.

On February 13, 2013, we acquired Warnaco, which followed our transformational acquisitions of Calvin Klein in 2003 and Tommy Hilfiger in 2010, and reinforced our strategy to assume more direct control over various licensed businesses where we believe we can leverage our core competencies and drive the Calvin Klein brand's reach globally. Prior to the acquisition, Warnaco was our largest Calvin Klein licensee. The Warnaco acquisition provided us with direct global control of the brand image and commercial operations for the two largest Calvin Klein apparel categories - jeanswear and underwear. With these categories under our ownership, our teams are focused on unifying our brand messaging for a more consistent customer experience across regions and product lines. In conjunction with this, we invested in our people, products, infrastructure, supply chain and distribution. We believe that these steps will strengthen Calvin Klein's image, positioning and execution across all markets to drive sustainable global growth. The Warnaco acquisition also provided a broader global platform for both the Calvin Klein and Tommy Hilfiger businesses and has enabled us to continue to transform from a primarily North American multi-brand business with strong European Tommy Hilfiger operations, to a more diversified, global organization. We intend to take advantage of our and Warnaco's complementary geographic operations; the former Warnaco operations in Asia and Brazil should enhance our opportunities in those regions, and we have the opportunity to leverage our expertise and infrastructure in North America and Europe to enhance the growth and profitability of the Calvin Klein Jeans and Calvin Klein Underwear businesses in those regions. The acquisition also added the Speedo, Warner's and Olga brands to our Heritage Brands portfolio, which are complementary to our existing offerings, given their leading market share positions within their respective industries and healthy cash flows. With a diversified brand portfolio and operations in every major consumer market around the world, we believe the acquisition makes our business better balanced across geographies, channels of distribution, product categories and price points, and creates opportunity to realize revenue growth and enhanced profitability over the long term.

We aggregate our segments into three main businesses: (i) Calvin Klein, which consists of the Calvin Klein North America and Calvin Klein International segments, (ii) Tommy Hilfiger, which consists of the Tommy Hilfiger North America and Tommy Hilfiger International segments and (iii) Heritage Brands, which consists of the Heritage Brands Wholesale and Heritage Brands Retail segments. Note 19, "Segment Data," in the Notes to Consolidated Financial Statements included in Item 8 of this report contains information with respect to revenue, income before interest and taxes and assets related to each segment, as well as information regarding our revenue generated from foreign and domestic sources, and the geographic locations where our long-lived assets are held.

Our revenue reached a record \$8.241 billion in 2014, approximately 45% of which was generated internationally. Our global designer lifestyle brands, Calvin Klein and Tommy Hilfiger, together generated over 75% of our revenue during 2014.

We sold substantially all of the assets of our Bass business on November 4, 2013 and announced in January 2015 that we will exit our Izod retail business during 2015.

Company Information

Explanation of Responses:

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We were incorporated in the State of Delaware in 1976 as the successor to a business begun in 1881. Our principal executive offices are located at 200 Madison Avenue, New York, New York 10016; our telephone number is (212) 381-3500.

We make available at no cost, on our corporate website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with the Securities and Exchange Commission. We also make available at no cost, on our corporate website, our Code of Business Conduct and Ethics. Our corporate website address is [www.pvh.com](http://www.pvh.com).

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## Calvin Klein Business Overview

We believe Calvin Klein is one of the best known designer names in the world. In order to more efficiently and effectively exploit the development opportunities for Calvin Klein, a tiered-brand strategy was established to provide a focused, consistent approach to global brand growth and development. Each of the Calvin Klein brands occupies a distinct marketing identity and position that preserves the brand's premium positioning and image, while also allowing us to market products both domestically and internationally, at a variety of price points and to various consumer groups. The Calvin Klein brands are as follows:

Calvin Klein Collection — our “halo” brand, under which men's and women's high-end designer apparel and accessories, as well as items for the home, are sold through the wholesale channel across the globe and through flagship stores in Asia and our own Calvin Klein Collection retail flagship store on Madison Avenue in New York City;

Calvin Klein (platinum label) — our “bridge” brand, formerly known as ck Calvin Klein, was rebranded in 2013 in order to unify the Calvin Klein brands under one umbrella. This line offers apparel and accessories, which are sold in the wholesale channel through specialty and department stores in various regions, as well as in free-standing stores in Asia;

Calvin Klein (white label) — our “better” brand includes offerings such as men's sportswear and dress furnishings, men's and women's outerwear, fragrance, accessories, footwear, performance apparel, women's sportswear, dresses and handbags and items for the home. Distribution is primarily in North America through department stores and free-standing stores;

Calvin Klein Jeans — offerings under this label include men's and women's jeans and related apparel, which are distributed worldwide, and denim accessories, which are distributed in Europe and Asia; and

Calvin Klein Underwear — offerings under this label include men's and women's underwear, sleepwear and loungewear, which are distributed worldwide.

Calvin Klein oversees the design and development of all products sold under the Calvin Klein brands, as well as worldwide marketing, advertising and promotional programs for the brands. We believe that maintaining control over design and advertising through Calvin Klein's dedicated in-house teams plays a key role in the continued strength of the brands. In 2014, over \$400 million was spent globally in connection with the advertising, marketing and promotion of the Calvin Klein brands and these expenses were principally funded by Calvin Klein's licensees and other authorized users of the brands.

Through our Calvin Klein North America and Calvin Klein International segments, we sell Calvin Klein products in a variety of distribution channels, as discussed below:

Calvin Klein Wholesale — We operate wholesale businesses, as mentioned above, through which we distribute and sell Calvin Klein products to third party retailers and distributors (in brick and mortar stores and online through e-commerce sites). Given the various price points at which products under the various Calvin Klein brands are sold, we have a range of wholesale customers. For example, within North America, our Calvin Klein white label men's dress shirts, neckwear and sportswear are marketed at better price points and are distributed principally in better fashion department and specialty stores, including Macy's, Inc. and Macys.com. Our Calvin Klein Collection and Calvin Klein platinum label dress shirts are sold into the more limited channels of luxury or premier department and specialty stores (in stores and online), as well as through free-standing stores. Our Calvin Klein Jeans and Calvin Klein Underwear businesses primarily distribute products through department stores, chain stores, Company-operated retail stores, shop-in-shop/concession locations and stores operated under retail licenses and/or distributor agreements and through e-commerce sites operated by key department store customers and pure play e-commerce retailers.

Calvin Klein Retail — We operate retail businesses in North America, Europe, Asia and Latin America. Our Calvin Klein stores in the United States and Canada are located primarily in premium outlet centers and offer men's and women's apparel and other Calvin Klein white label products to communicate the Calvin Klein lifestyle. We also operate full-price and outlet stores and shop-in-shop/concession shops in Europe, Asia, Mexico and Brazil where we

offer Calvin Klein Jeans and Calvin Klein Underwear products. Across our regional businesses, Calvin Klein products are also sold through our company-operated e-commerce sites.

• Calvin Klein Collection — We market the Calvin Klein Collection brand high-end men's and women's apparel and accessories collections through our Calvin Klein Collection flagship store located in New York City, our Calvin Klein

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Collection wholesale business in the United States and Europe and online through calvinklein.com and other high-end websites such as netaporter.com.

Licensing — We maintain licensing and similar arrangements globally for use of the Calvin Klein brands in connection with a broad array of products, including women’s dresses and suits, men’s tailored clothing, women’s sportswear and performance apparel, golf apparel, fragrances, cosmetics, eyewear, hosiery, socks, footwear, jewelry, watches, outerwear, handbags, small leather goods and home furnishings. In these arrangements, Calvin Klein combines its design, marketing and branding skills with the specific manufacturing, distribution and geographic capabilities of its licensing and other partners to develop, market and distribute these goods. Calvin Klein has approximately 65 licensing and other arrangements across the Calvin Klein brands. The arrangements generally are exclusive to a territory or product category. Additionally, we formed a joint venture, PVH Brands Australia Pty. Limited (“PVH Australia”), in 2013, in which we own a 50% economic interest. The joint venture licenses through a subsidiary the rights to distribute and sell Calvin Klein brand products in Australia, New Zealand and other island nations in the South Pacific. In 2014, we contributed to the joint venture our subsidiaries that were operating the Calvin Klein Jeans businesses in Australia and New Zealand and, in connection with this contribution, these subsidiaries were deconsolidated. As part of the Warnaco acquisition, we acquired a 51% interest in a joint venture in India, which licenses the rights to the Calvin Klein trademarks in India. During the first quarter of 2014, our joint venture partners’ interests were sold to a new shareholder and, as a result of the entry into a shareholder agreement with different governing arrangements as compared to the arrangements with the prior minority shareholders, we were deemed to no longer hold a controlling interest in the joint venture. As a result, the joint venture was deconsolidated.

Calvin Klein’s key licensing partners, and the products and territories licensed, include:

Licensing Partner	Product Category and Territory
CK Watch & Jewelry Co., Ltd. (Swatch SA)	Men’s and women’s watches (worldwide) and men’s and women’s jewelry (worldwide, excluding Japan)
CK21 Holdings Pte, Ltd.	Men’s and women’s platinum label apparel, shoes and accessories (Asia, excluding Japan)
Coty, Inc.	Men’s and women’s fragrance, bath products and color cosmetics (worldwide)
DWI Holdings, Inc. / Himatsingka Seide, Ltd.	Soft home bed and bath furnishings (United States, Canada, Mexico, Central America, South America and India)
G-III Apparel Group, Ltd.	Men’s and women’s coats, swimwear and luggage and women’s suits, dresses, sportswear, active performancewear, handbags and small leather goods (United States, Canada and Mexico with some distribution for certain lines in Europe and elsewhere)

7,486

Operating expenses		
Cost of sales	<b>3,969</b>	3,889
Selling, general and administrative expenses	<b>1,589</b>	1,552

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Research, development and related expenses		<b>430</b>	411
Total operating expenses		<b>5,988</b>	5,852
Operating income		<b>1,646</b>	1,634
<b>Interest expense and income</b>			
Interest expense		<b>39</b>	40
Interest income		<b>(10)</b>	(9)
Total interest expense net		<b>29</b>	31
<b>Income before income taxes</b>			
		<b>1,617</b>	1,603
Provision for income taxes		<b>470</b>	462
Net income including noncontrolling interest	\$	<b>1,147</b>	\$ 1,141
<b>Less: Net income attributable to noncontrolling interest</b>			
		<b>18</b>	16
Net income attributable to 3M	\$	<b>1,129</b>	\$ 1,125
<b>Weighted average 3M common shares outstanding basic</b>			
		<b>691.1</b>	696.8
Earnings per share attributable to 3M common shareholders basic	\$	<b>1.63</b>	\$ 1.61
<b>Weighted average 3M common shares outstanding diluted</b>			
		<b>702.1</b>	706.1
Earnings per share attributable to 3M common shareholders diluted	\$	<b>1.61</b>	\$ 1.59
Cash dividends paid per 3M common share	\$	<b>0.635</b>	\$ 0.59

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

Table of Contents**3M Company and Subsidiaries****Consolidated Statement of Comprehensive Income****(Unaudited)**

(Millions)	Three months ended			
		2013	March 31,	2012
Net income including noncontrolling interest	\$	1,147	\$	1,141
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment		(398)		134
Defined benefit pension and postretirement plans adjustment		85		97
Debt and equity securities, unrealized gain (loss)				3
Cash flow hedging instruments, unrealized gain (loss)		24		(15)
Total other comprehensive income (loss), net of tax		(289)		219
Comprehensive income (loss) including noncontrolling interest		858		1,360
Comprehensive (income) loss attributable to noncontrolling interest		20		5
Comprehensive income (loss) attributable to 3M	\$	878	\$	1,365

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

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

<b>(Dollars in millions, except per share amount)</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,928	\$ 2,883
Marketable securities - current	1,448	1,648
Accounts receivable - net	4,418	4,061
Inventories		
Finished goods	1,775	1,754
Work in process	1,179	1,186
Raw materials and supplies	865	897
Total inventories	3,819	3,837
Other current assets	1,242	1,201
Total current assets	13,855	13,630
Marketable securities - non-current	1,452	1,162
Investments	161	163
Property, plant and equipment	22,468	22,525
Less: Accumulated depreciation	(14,150)	(14,147)
Property, plant and equipment - net	8,318	8,378
Goodwill	7,247	7,385
Intangible assets - net	1,840	1,925
Prepaid pension benefits	19	16
Other assets	1,137	1,217
Total assets	\$ 34,029	\$ 33,876
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,072	\$ 1,085
Accounts payable	1,820	1,762
Accrued payroll	466	701
Accrued income taxes	392	371
Other current liabilities	2,187	2,281
Total current liabilities	5,937	6,200
Long-term debt	4,864	4,916
Pension and postretirement benefits	3,014	3,086
Other liabilities	1,686	1,634
Total liabilities	\$ 15,501	\$ 15,836
Commitments and contingencies (Note 10)		
<b>Equity</b>		
3M Company shareholders' equity:		
Common stock par value, \$.01 par value, 944,033,056 shares issued	\$ 9	\$ 9
Additional paid-in capital	4,179	4,044
Retained earnings	31,073	30,679
	(12,178)	(12,407)

Explanation of Responses:

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Treasury stock, at cost: 253,838,436 shares at March 31, 2013; 256,941,406 shares at December 31, 2012

Accumulated other comprehensive income (loss)		<b>(5,001)</b>		(4,750)
Total 3M Company shareholders' equity		<b>18,082</b>		17,575
Noncontrolling interest		<b>446</b>		465
Total equity	\$	<b>18,528</b>	\$	18,040
Total liabilities and equity	\$	<b>34,029</b>	\$	33,876

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

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

(Millions)	Three months ended March 31,	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 1,147	\$ 1,141
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	336	313
Company pension and postretirement contributions	(68)	(337)
Company pension and postretirement expense	138	180
Stock-based compensation expense	103	103
Deferred income taxes	61	44
Excess tax benefits from stock-based compensation	(34)	(28)
Changes in assets and liabilities		
Accounts receivable	(447)	(431)
Inventories	(28)	(96)
Accounts payable	97	118
Accrued income taxes (current and long-term)	99	221
Product and other insurance receivables and claims	(8)	(74)
Other net	(402)	(326)
Net cash provided by operating activities	994	828
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(324)	(261)
Proceeds from sale of PP&E and other assets	10	4
Purchases of marketable securities and investments	(1,767)	(900)
Proceeds from sale of marketable securities and investments	786	539
Proceeds from maturities of marketable securities	885	574
Other investing	5	1
Net cash used in investing activities	(405)	(43)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	(13)	(18)
Repayment of debt (maturities greater than 90 days)	(5)	(15)
Proceeds from debt (maturities greater than 90 days)	9	6
Purchases of treasury stock	(805)	(524)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	738	213
Dividends paid to shareholders	(440)	(410)
Excess tax benefits from stock-based compensation	34	28
Other net	(4)	(2)
Net cash used in financing activities	(486)	(722)
Effect of exchange rate changes on cash and cash equivalents	(58)	50
Net increase (decrease) in cash and cash equivalents	45	113
Cash and cash equivalents at beginning of year	2,883	2,219
Cash and cash equivalents at end of period	\$ 2,928	\$ 2,332



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.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its 2012 Annual Report on Form 10-K. However, as described in Note 12, effective in the first quarter of 2013, the Company completed a realignment of its business segments to better serve global markets and customers. In addition, during the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States rather than in the Latin America/Canada region. The Company has begun to report comparative results under the new business segment and geographic area structure with the filing of this Quarterly Report on Form 10-Q. In the second quarter of 2013, the Company plans to revise its business segment and geographic area disclosures in its 2012 Annual Report on Form 10-K via a Current Report on Form 8-K to reflect these realignments.

**Foreign Currency Translation**

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

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

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

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

Table of Contents**Earnings Per Share**

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company's stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (4.1 million average options for the three months ended March 31, 2013 and 19.2 million average options for the three months ended March 31, 2012). The computations for basic and diluted earnings per share follow:

**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended	
	2013	March 31, 2012
Numerator:		
Net income attributable to 3M	\$ 1,129	\$ 1,125
Denominator:		
Denominator for weighted average 3M common shares outstanding basic	691.1	696.8
Dilution associated with the Company's stock-based compensation plans	11.0	9.3
Denominator for weighted average 3M common shares outstanding diluted	702.1	706.1
Earnings per share attributable to 3M common shareholders basic	\$ 1.63	\$ 1.61
Earnings per share attributable to 3M common shareholders diluted	\$ 1.61	\$ 1.59

**New Accounting Pronouncements**

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, and in January 2013 issued ASU No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. These standards created new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements are required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, these ASUs were effective January 1, 2013 with retrospective application required. The additional disclosures required by these ASUs are included in Note 8. Since these standards impact disclosure requirements only, their adoption did not have a material impact on 3M's consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. Under this standard, entities testing long-lived intangible assets for impairment now have an option of performing a qualitative assessment to determine whether further impairment testing is necessary. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU was effective beginning January 1, 2013. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under this standard, entities are required to disclose additional information with respect to changes in accumulated other comprehensive income (AOCI) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income (for example, unrealized gains or losses on available for sale marketable securities) as well as presenting separately for each such component the portion of change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location is required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts is

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required only for components of AOCI reclassified into income in their entirety. Therefore, disclosure of the income statement line items affected by AOCI components such as net periodic benefit costs is not included. The disclosures required with respect to income statement line item impacts are to be made in either the notes to the consolidated financial statements or parenthetically on the face of the financial statements. For 3M, this ASU was effective beginning January 1, 2013. The additional disclosures required by this ASU are included in Note 4. Because this standard only impacts presentation and disclosure requirements, its adoption did not have a material impact on 3M's consolidated results of operations or financial condition.

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

**NOTE 2. Acquisitions**

3M makes acquisitions of certain businesses from time to time that the Company feels align with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies. Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M's acquisition of these businesses. In addition to business combinations, 3M periodically acquires certain tangible and/or intangible assets and purchases interests in certain enterprises that do not otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

There were no business combinations that closed during the three months ended March 31, 2013. Adjustments in the first quarter of 2013 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2012 acquisition of Ceradyne, Inc. The allocations of purchase price related to the acquisitions of the business purchased from Federal Signal Corp. in September 2012 and Ceradyne, Inc. in November 2012 are considered preliminary, largely with respect to certain acquired property, plant and equipment; intangible assets; and tax-related assets and liabilities. Refer to Note 2 in 3M's 2012 Annual Report on Form 10-K for more information on 3M's 2012 acquisitions.

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

There were no acquisitions that closed during the first three months of 2013. The acquisition activity in the following table includes the net impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which decreased goodwill by \$6 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2012 and March 31, 2013, follow:

**Goodwill**

(Millions)	December 31, 2012 Balance	Acquisition activity	Translation and other	March 31, 2013 Balance
Industrial	\$ 2,174	\$ (6)	\$ (47)	\$ 2,121
Safety and Graphics	1,751		(29)	1,722
Electronics and Energy	1,622		(22)	1,600
Health Care	1,598		(26)	1,572
Consumer	240		(8)	232
Total Company	\$ 7,385	\$ (6)	\$ (132)	\$ 7,247

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

As discussed in Note 12, effective in the first quarter of 2013, 3M completed a realignment of its business segments. Concurrent with this business segment realignment, certain products were also moved between business segments, with the resulting impact reflected in the goodwill balances by business segment above for all periods presented. For any product moves that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. During the first quarter of 2013, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

**Acquired Intangible Assets**

3M did not complete any business combinations during the three months ended March 31, 2013. As a result, balances of acquired intangible assets were primarily impacted by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of March 31, 2013, and December 31, 2012, follow:

(Millions)	March 31, 2013	December 31, 2012
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Patents	\$	591	\$	596
Other amortizable intangible assets (primarily tradenames and customer related intangibles)		2,423		2,456
Total gross carrying amount	\$	3,014	\$	3,052
Accumulated amortization patents		(425)		(421)
Accumulated amortization other		(874)		(833)
Total accumulated amortization	\$	(1,299)	\$	(1,254)
Total finite-lived intangible assets net	\$	1,715	\$	1,798
Non-amortizable intangible assets (tradenames)		125		127
Total intangible assets net	\$	1,840	\$	1,925



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Amortization expense for acquired intangible assets for the three months ended March 31, 2013 and 2012 follows:

(Millions)	Three months ended March 31,	
	2013	2012
Amortization expense	\$ 60	\$ 58

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of March 31, 2013:

(Millions)	Remainder of 2013	2014	2015	2016	2017	2018	After 2018
Amortization expense	\$ 178	\$ 211	\$ 197	\$ 184	\$ 168	\$ 152	\$ 625

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

Table of Contents**NOTE 4. Supplemental Equity and Comprehensive Income Information****Consolidated Statement of Changes in Equity****Three months ended March 31, 2013**

(Millions)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at December 31, 2012</b>	\$ 18,040	\$ 4,053	\$ 30,679	\$ (12,407)	\$ (4,750)	\$ 465
Net income	1,147		1,129			18
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(398)				(360)	(38)
Defined benefit pension and post-retirement plans adjustment	85				85	
Debt and equity securities - unrealized gain (loss)						
Cash flow hedging instruments - unrealized gain (loss)	24				24	
Total other comprehensive income (loss), net of tax	(289)					
Dividends paid	(440)		(440)			
Sale of subsidiary shares	8	7				1
Stock-based compensation, net of tax impacts	128	128				
Reacquired stock	(807)			(807)		
Issuances pursuant to stock option and benefit plans	741		(295)	1,036		
<b>Balance at March 31, 2013</b>	\$ 18,528	\$ 4,188	\$ 31,073	\$ (12,178)	\$ (5,001)	\$ 446

**Three months ended March 31, 2012**

(Millions)	Total	3M Company Shareholders			Accumulated Other Comprehensive	Non-controlling Interest
		Common Stock and Additional	Retained Earnings	Treasury Stock		

Explanation of Responses:

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		Paid-in Capital				Income (Loss)	
<b>Balance at December 31, 2011</b>	\$	15,862	\$	3,776	\$	28,348	\$ (11,679) \$ 442
Net income		1,141				1,125	16
Other comprehensive income (loss), net of tax:							
Cumulative translation adjustment		134				155	(21)
Defined benefit pension and post-retirement plans adjustment		97				97	
Debt and equity securities - unrealized gain (loss)		3				3	
Cash flow hedging instruments - unrealized gain (loss)		(15)				(15)	
Total other comprehensive income (loss), net of tax		219					
Dividends paid		(410)				(410)	
Stock-based compensation, net of tax impacts		127		127			
Reacquired stock		(534)				(534)	
Issuances pursuant to stock option and benefit plans		214				(205) 419	
<b>Balance at March 31, 2012</b>	\$	16,619	\$	3,903	\$	28,858	\$ (11,794) \$ 437

Table of Contents**Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component****Three months ended March 31, 2013**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2012, net of tax</b>	\$ 230	\$ (4,955)	\$ (2)	\$ (23)	\$ (4,750)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(324)			(70)	(394)
Amounts reclassified out		143		108	251
Total other comprehensive income (loss), before tax	(324)	143		38	(143)
Tax effect	(36)	(58)		(14)	(108)
Total other comprehensive income (loss), net of tax	(360)	85		24	(251)
<b>Balance at March 31, 2013, net of tax</b>	\$ (130)	\$ (4,870)	\$ (2)	\$ 1	\$ (5,001)

**Three months ended March 31, 2012**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2011, net of tax</b>	\$ 114	\$ (5,155)	\$ (6)	\$ 22	\$ (5,025)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	155		4	(28)	131
Amounts reclassified out		153	1	4	158
Total other comprehensive income (loss), before tax	155	153	5	(24)	289
Tax effect		(56)	(2)	9	(49)
Total other comprehensive income (loss), net of tax	155	97	3	(15)	240
<b>Balance at March 31, 2012, net of tax</b>	\$ 269	\$ (5,058)	\$ (3)	\$ 7	\$ (4,785)

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

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

(Millions) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Location on Income Statement
	Three months ended March 31, 2013	Three months ended March 31, 2012	
Gains (losses) associated with, defined benefit pension and postretirement plans amortization			
Transition asset	\$ 1	\$ 1	See Note 7
Prior service benefit	20	20	See Note 7
Net actuarial loss	(164)	(174)	See Note 7
Total before tax	(143)	(153)	
Tax effect	58	56	Provision for income taxes
Net of tax	\$ (85)	\$ (97)	
Debt and equity security gains (losses)			
Sales or impairments of securities			Selling, general and administrative expenses
	\$	\$	(1)
Total before tax			(1)
Tax effect			Provision for income taxes
Net of tax	\$	\$	(1)
Cash flow hedging instruments gains (losses)			
Foreign currency forward/option contracts	\$ (6)	\$	Cost of sales
Foreign currency forward contracts	(101)		Interest expense
Commodity price swap contracts	(1)	(4)	Cost of sales
Total before tax	(108)	(4)	
Tax effect	39	1	Provision for income taxes
Net of tax	\$ (69)	\$ (3)	
Total reclassifications for the period, net of tax	\$ (154)	\$ (101)	

**Sale of Subsidiary Shares**

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

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**NOTE 5. Income Taxes**

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

The IRS completed its field examination of the Company's U.S. federal income tax returns for the years 2005 through 2007 in the fourth quarter of 2009. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS during the first quarter of 2010. During the first quarter of 2010, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2008 year. The Company protested certain IRS positions for 2008 and entered into the administrative appeals process with the IRS during the second quarter of 2010. During the first quarter of 2011, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2009 year. The Company protested certain IRS positions for 2009 and entered into the administrative appeals process with the IRS during the second quarter of 2011. During the first quarter of 2012, the IRS completed its field examination of the Company's U.S. federal income tax return for the 2010 year. The Company protested certain IRS positions for 2010 and entered into the administrative appeals process with the IRS during the second quarter of 2012. In December 2012, the Company received a statutory notice of deficiency for the 2006 year. The Company filed a petition in Tax Court in the first quarter of 2013 relating to the 2006 tax year.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2011, 2012, and 2013. It is anticipated that the IRS will complete its examination of the Company for 2011 by the end of the third quarter of 2013, for 2012 by the end of the first quarter of 2014, and for 2013 by the end of the first quarter of 2015. As of March 31, 2013, the IRS has not proposed any significant adjustments to any of the Company's tax positions for which the Company is not adequately reserved.

During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. Payments relating to other proposed assessments arising from the 2005 through 2013 examinations may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also limited audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company's uncertain tax positions due to the closing of various audit years mentioned above. Currently, the Company is not able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2013 and December 31, 2012, respectively, are \$198 million and \$185 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately \$4 million of expense and \$3 million of benefit for the three months ended March 31, 2013 and March 31, 2012, respectively. At March 31, 2013 and December 31, 2012, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$46 million and \$44 million, respectively. Included in these interest and penalty amounts are interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

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The effective tax rate for the first quarter of 2013 was 29.1 percent, compared to 28.8 percent in the first quarter of 2012, an increase of 0.3 percentage points. This included an increase in the effective tax rate of 3.6 percentage points year-on-year, which largely related to adjustments to 3M's income tax reserves in the first quarter of 2012. This increase was partially offset by factors which decreased the Company's effective tax rate by 3.3 percentage points year-on-year, which included the combination of the reinstatement of the U.S. research and development credit in 2013, and international taxes. The international tax benefit was largely due to the estimated current year geographic mix of income before taxes.

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when



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uncertainty regarding their realizability exists. As of March 31, 2013 and December 31, 2012, the Company had valuation allowances of \$28 million and \$29 million on its deferred tax assets, respectively.

**NOTE 6. Marketable Securities**

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

(Millions)	March 31, 2013	December 31, 2012
U.S. government agency securities	\$ 336	\$ 162
Foreign government agency securities	21	16
Corporate debt securities	301	471
Commercial paper	95	116
Certificates of deposit/time deposits	42	41
U.S. treasury securities	54	54
U.S. municipal securities	15	13
Asset-backed securities:		
Automobile loan related	479	567
Credit card related	61	123
Equipment lease related	43	54
Other	1	31
Asset-backed securities total	584	775
<b>Current marketable securities</b>	<b>\$ 1,448</b>	<b>\$ 1,648</b>
U.S. government agency securities	\$ 196	\$ 125
Foreign government agency securities	71	51
Corporate debt securities	475	494
Certificates of deposit/time deposits	20	
U.S. treasury securities	2	18
U.S. municipal securities	13	14
Auction rate securities	7	7
Asset-backed securities:		
Automobile loan related	506	375
Credit card related	82	34
Equipment lease related	54	36
Other	26	8
Asset-backed securities total	668	453
<b>Non-current marketable securities</b>	<b>\$ 1,452</b>	<b>\$ 1,162</b>
<b>Total marketable securities</b>	<b>\$ 2,900</b>	<b>\$ 2,810</b>

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At March 31, 2013, gross unrealized losses totaled approximately \$6 million (pre-tax),

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while gross unrealized gains totaled approximately \$2 million (pre-tax). At December 31, 2012, gross unrealized losses totaled approximately \$6 million (pre-tax), while gross unrealized gains totaled approximately \$3 million (pre-tax). Refer to Note 4 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

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

The balances at March 31, 2013 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	March 31, 2013	
Due in one year or less	\$	704
Due after one year through three years		1,526
Due after three years through five years		651
Due after five years		19
Total marketable securities	\$	2,900

3M has a diversified marketable securities portfolio of \$2.900 billion as of March 31, 2013. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$1.252 billion) primarily include interests in automobile loans and credit cards. At March 31, 2013, one asset-backed security with a fair market value of approximately \$4 million was rated Aa2 by Moody's and AA by Fitch. All remaining asset-backed securities were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's and/or AAA or F1+ by Fitch.

3M's marketable securities portfolio includes auction rate securities that represent interests in investment grade credit default swaps; however, currently these holdings comprise less than one percent of this portfolio. The estimated fair value of auction rate securities was \$7 million at both March 31, 2013 and December 31, 2012. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$6 million (pre-tax) at both March 31, 2013 and December 31, 2012. As of March 31, 2013, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 9 for a table that reconciles the beginning and ending balances of auction rate securities.

Table of Contents**NOTE 7. Pension and Postretirement Benefit Plans**

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the three months ended March 31, 2013 and 2012 follow:

**Benefit Plan Information**

(Millions)	Three months ended March 31,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International		2013	2012
	2013	2012	2013	2012	2013	2012
<b>Net periodic benefit cost (benefit)</b>						
Service cost	\$ 64	\$ 63	\$ 36	\$ 31	\$ 20	\$ 19
Interest cost	150	147	61	61	22	22
Expected return on plan assets	(261)	(248)	(75)	(73)	(22)	(21)
Amortization of transition (asset) obligation			(1)	(1)		
Amortization of prior service cost (benefit)	1	2	(4)	(4)	(17)	(18)
Amortization of net actuarial (gain) loss	100	117	40	30	24	27
Net periodic benefit cost (benefit)	\$ 54	\$ 81	\$ 57	\$ 44	\$ 27	\$ 29
Settlements, curtailments, special termination benefits and other		26				
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 54	\$ 107	\$ 57	\$ 44	\$ 27	\$ 29

For the three months ended March 31, 2013, contributions totaling \$67 million were made to the Company's U.S. and international pension plans and \$1 million to its postretirement plans. For total year 2013, the Company expects to contribute approximately \$400 million to \$600 million of cash to its U.S. and international pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of future discretionary pension contributions could vary significantly depending on the U.S. plans' funded status and the anticipated tax deductibility of the contributions. Future contributions will also depend on market conditions, interest rates and other factors. 3M's annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

In December 2011, the Company began offering a voluntary early retirement incentive program to certain eligible participants of its U.S. pension plans who met age and years of pension service requirements. The eligible participants who accepted the offer and retired on February 1, 2012 received an enhanced pension benefit. Pension benefits were enhanced by adding one additional year of pension service and one additional year of age for certain benefit calculations. 616 participants accepted the offer and retired on February 1, 2012. As a result, the Company incurred a \$26 million charge related to these special termination benefits in the first quarter of 2012.

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3M was informed during the first quarter of 2009 that the general partners of WG Trading Company, in which 3M's benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver's proposed distribution plan (and in April 2013, the United States Court of Appeals for the Second Circuit affirmed the district court's ruling). The benefit plan trustee holdings of WG Trading Company interests were adjusted to reflect the decreased estimated fair market value, inclusive of estimated insurance proceeds, as of the annual measurement dates. The Company has insurance that it believes, based on what is currently known, will result in the recovery of a portion of the decrease in original asset value. As of the 2012 measurement date these holdings represented less than one percent of 3M's fair value of total plan assets. 3M currently believes that the resolution of these events will not have a material adverse effect on the consolidated financial position of the Company.

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**NOTE 8. Derivatives**

The Company uses interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity price fluctuations. The information that follows explains the various types of derivatives and financial instruments used by 3M, how and why 3M uses such instruments, how such instruments are accounted for, and how such instruments impact 3M's financial position and performance.

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 9. References to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt are also made in Note 9 to the Consolidated Financial Statements in 3M's 2012 Annual Report on Form 10-K.

*Types of Derivatives/Hedging Instruments and Inclusion in Income/Other Comprehensive Income*

Cash Flow Hedges:

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

*Cash Flow Hedging - Foreign Currency Forward and Option Contracts:* The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three months ended March 31, 2013 and 2012. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at March 31, 2013, the majority of the Company's open foreign exchange forward and option contracts had maturities of one year or less. The dollar equivalent gross notional amount of the Company's foreign exchange forward and option contracts designated as cash flow hedges at March 31, 2013 was approximately \$5.9 billion.

*Cash Flow Hedging - Commodity Price Management:* The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects

earnings. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. No significant commodity cash flow hedges were discontinued and hedge ineffectiveness was not material for the three months ended March 31, 2013 and 2012. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at March 31, 2013 was \$14 million.

*Cash Flow Hedging - Forecasted Debt Issuance:* In August 2011, in anticipation of the September 2011 issuance of \$1 billion in five-year fixed rate notes, 3M executed a pre-issuance cash flow hedge on a notional amount of \$400 million by entering into a forward-starting five-year floating-to-fixed interest rate swap. Upon debt issuance in September 2011, 3M terminated the floating-to-fixed interest rate swap. The termination of the swap resulted in a \$7 million pre-tax loss (\$4 million after-tax) that is amortized over the five-year life of the note and, when material, is included in the tables below as part of the loss recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income.

As of March 31, 2013, the Company had a balance of \$1 million associated with the after-tax net unrealized gain associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This net gain

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includes a \$3 million balance (loss) related to a floating-to-fixed interest rate swap (discussed in the preceding paragraph), which is being amortized over the five-year life of the note. 3M expects to reclassify a majority of the remaining balance to earnings over the next 12 months (with the impact offset by cash flows from underlying hedged items).

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative instruments designated as cash flow hedges are provided in the following table. Reclassifications of amounts from accumulated other comprehensive income into income include accumulated gains (losses) on dedesignated hedges at the time earnings are impacted by the forecasted transaction.

**Three months ended March 31, 2013**

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location	Amount	Location
Foreign currency forward/option contracts	\$ 31	Cost of sales	\$ (6)	Cost of sales	\$	Cost of sales
Foreign currency forward contracts	(103)	Interest expense	(101)	Interest expense		Interest expense
Commodity price swap contracts	2	Cost of sales	(1)	Cost of sales		Cost of sales
Total	\$ (70)		\$ (108)		\$	

**Three months ended March 31, 2012**

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location	Amount	Location
Foreign currency forward/option contracts	\$ (24)	Cost of sales	\$	Cost of sales	\$	Cost of sales
Foreign currency forward contracts	1	Interest expense		Interest expense		Interest expense
Commodity price swap contracts	(5)	Cost of sales	(4)	Cost of sales		Cost of sales
Total	\$ (28)		\$ (4)		\$	

Fair Value Hedges:

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.



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*Fair Value Hedging - Interest Rate Swaps:* The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at March 31, 2013 was \$342 million.

At March 31, 2013, the Company had interest rate swaps designated as fair value hedges of underlying fixed rate obligations. In July 2007, in connection with the issuance of a seven-year Eurobond for an amount of 750 million Euros, the Company completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. In August 2010, the Company terminated 150 million Euros of the notional amount of this swap. As a result, a gain of 18 million Euros, recorded as part of the balance of the underlying debt, is amortized over this debt's remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance is not part of gain on hedged items recognized in income in the tables below.

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The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments designated as fair value hedges and similar information relative to the hedged items are as follows:

**Three months ended March 31, 2013**

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ (5)	Interest expense	\$ 5
Total		\$ (5)		\$ 5

**Three months ended March 31, 2012**

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ (1)	Interest expense	\$ 1
Total		\$ (1)		\$ 1

Net Investment Hedges:

As circumstances warrant, the Company uses cross currency swaps, forwards and foreign currency denominated debt to hedge portions of the Company's net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At March 31, 2013, there were no cross currency swaps and foreign currency forward contracts designated as net investment hedges.

In addition to the derivative instruments used as hedging instruments in net investment hedges, 3M also uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. In July and December 2007, the Company issued seven-year fixed rate Eurobond securities for amounts of 750 million Euros and 275 million Euros, respectively. 3M designated each of these Eurobond issuances as hedging instruments of the Company's net investment in its European subsidiaries.

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative and nonderivative instruments designated as net investment hedges are as follows. There were no reclassifications of the effective portion of net investment hedges out of accumulated other comprehensive income into income for the periods presented in the table below.

## Three months ended March 31, 2013

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location Amount	
	Foreign currency denominated debt	\$	(41)	N/A
Total	\$	(41)		\$

## Three months ended March 31, 2012

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location Amount	
	Foreign currency denominated debt	\$	(40)	N/A
Total	\$	(40)		\$

Table of ContentsDerivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and fluctuations in costs associated with the use of certain precious metals, respectively. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled \$1.1 billion as of March 31, 2013. The Company does not hold or issue derivative financial instruments for trading purposes.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments not designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2013	
	Gain (Loss) on Derivative Recognized in Income Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ 10
Foreign currency forward contracts	Interest expense	21
Total		\$ 31

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2012	
	Gain (Loss) on Derivative Recognized in Income Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ (15)
Foreign currency forward contracts	Interest expense	27
Commodity price swap contracts	Cost of sales	1
Total		\$ 13

Table of Contents*Location and Fair Value Amount of Derivative Instruments*

The following tables summarize the fair value of 3M's derivative instruments, excluding nonderivative instruments used as hedging instruments, and their location in the consolidated balance sheet. Additional information with respect to the fair value of derivative instruments is included in Note 9.

**March 31, 2013**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 58	Other current liabilities	\$ 61
Commodity price swap contracts	Other current assets	2	Other current liabilities	
Interest rate swap contracts	Other assets	18	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 78</b>		<b>\$ 61</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 15	Other current liabilities	\$ 25
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 15</b>		<b>\$ 25</b>
<b>Total derivative instruments</b>		<b>\$ 93</b>		<b>\$ 86</b>

**December 31, 2012**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 39	Other current liabilities	\$ 85
Commodity price swap contracts	Other current assets		Other current liabilities	1
Interest rate swap contracts	Other assets	23	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 62</b>		<b>\$ 86</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 10	Other current liabilities	\$ 20
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 10</b>		<b>\$ 20</b>
<b>Total derivative instruments</b>		<b>\$ 72</b>		<b>\$ 106</b>

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

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of March 31, 2013, 3M has International Swaps and Derivatives Association (ISDA) agreements with eight applicable banks and financial institutions which contain netting provisions. In addition to a master agreement with 3M supported by a primary counterparty's parent guarantee, 3M also has associated credit support agreements in place with six of its primary derivative counterparties which, among other things, provide the circumstances under which either party is required to post eligible collateral (when the market value of transactions covered by these agreements exceeds specified thresholds or if a counterparty's credit rating has been downgraded to a predetermined rating). The Company does not anticipate nonperformance by any of these counterparties.

3M has elected to present the fair value of derivative assets and liabilities within the Company's consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. However, the following tables provide information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria in the event of default or termination as stipulated by the terms of netting arrangements with each of the counterparties. For each counterparty, if netted, the Company would offset the asset and liability balances of all derivatives at the end of the reporting period based on the 3M entity that is a party to the transactions. Derivatives not subject to master netting agreements are not eligible for net presentation. As of the applicable dates presented below, no cash collateral had been received or pledged related to these derivative instruments.

**Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties****March 31, 2013**

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	\$ 91	\$ 26	\$	\$ 65
Derivatives not subject to master netting agreements	2			2
<b>Total</b>	<b>\$ 93</b>		<b>\$</b>	<b>\$ 67</b>

**March 31, 2013**

Gross Amount of	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject
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(Millions)	to Master Netting Agreements					
	Derivative Liabilities Presented in the Consolidated Balance Sheet		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities	
Derivatives subject to master netting agreements	\$	80	\$	26	\$	54
Derivatives not subject to master netting agreements		6				6
<b>Total</b>	\$	86			\$	60

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December 31, 2012

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements			Net Amount of Derivative Assets
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received		
Derivatives subject to master netting agreements	\$ 67	\$ 25	\$	\$	42
Derivatives not subject to master netting agreements	5				5
<b>Total</b>	<b>\$ 72</b>			<b>\$</b>	<b>47</b>

December 31, 2012

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

*Currency Effects*

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$6 million for the three months ended March 31, 2013. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars, which 3M estimates increased net income attributable to 3M by approximately \$13 million for three months ended March 31, 2013.



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**NOTE 9. Fair Value Measurements**

3M follows ASC 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

*Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:*

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis for the three month periods ended March 31, 2013 and 2012.

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

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

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

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

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

Available-for-sale investments:

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

Derivative instruments:

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

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

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

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

(Millions) Description	Fair Value at March 31, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 532	\$	\$ 532	\$
Foreign government agency securities	92		92	
Corporate debt securities	776		776	
Certificates of deposit/time deposits	62		62	
Commercial paper	95		95	
Asset-backed securities:				
Automobile loan related	985		985	
Credit card related	143		143	
Equipment lease related	97		97	
Other	27		27	
U.S. treasury securities	56	56		
U.S. municipal securities	28		28	
Auction rate securities	7			7
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	73	73		
Commodity price swap contracts	2	2		
Interest rate swap contracts	18		18	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	86	86		

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(Millions) Description	Fair Value at December 31, 2012	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 287	\$	\$ 287	\$
Foreign government agency securities	67		67	
Corporate debt securities	965		965	
Certificates of deposit/time deposits	41		41	
Commercial paper	116		116	
Asset-backed securities:				
Automobile loan related	942		942	
Credit card related	157		157	
Equipment lease related	90		90	
Other	39		39	
U.S. treasury securities	72	72		
U.S. municipal securities	27		27	
Auction rate securities	7			7
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	49	49		
Interest rate swap contracts	23		23	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	105	104	1	
Commodity price swap contracts	1	1		

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

(Millions) Marketable securities	auction rate securities only	Three months ended March 31,	
		2013	2012
Beginning balance		\$ 7	\$ 4
Total gains or losses:			
Included in earnings			
Included in other comprehensive income			
Purchases, issuances, and settlements			
Transfers in and/or out of Level 3			
Ending balance (March 31)		7	5
Additional losses included in earnings due to reclassifications from other comprehensive income for:			
Securities sold during the period ended March 31			
Securities still held at March 31			

In addition, the plan assets of 3M's pension and postretirement benefit plans are measured at fair value on a recurring basis (at least annually). Refer to Note 10 in 3M's 2012 Annual Report on Form 10-K.

*Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis:*

Disclosures are required for certain assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis in periods subsequent to initial recognition. For 3M, such measurements of fair value relate primarily to long-lived asset impairments. There were no material long-lived asset impairments for the three months ended March 31, 2013 and 2012.

Table of Contents*Fair Value of Financial Instruments:*

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt approximated carrying values because of the short-term nature of these instruments. Available-for-sale marketable securities and investments, in addition to certain derivative instruments, are recorded at fair values as indicated in the preceding disclosures. For its long-term debt the Company utilized third-party quotes to estimate fair values (classified as level 2). Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

(Millions)	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding current portion	\$ 4,864	\$ 5,282	\$ 4,916	\$ 5,363

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. 3M's fixed-rate bonds were trading at a premium at March 31, 2013 and December 31, 2012 due to the low interest rates and tightening of 3M's credit spreads.

Table of Contents**NOTE 10. Commitments and Contingencies***Legal Proceedings:*

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information can be found in Note 13 "Commitments and Contingencies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, including information about the Company's process for disclosure and recording of liabilities and insurance receivables related to legal proceedings.

The following table shows the major categories of significant legal matters—respirator mask/asbestos litigation (including Aearo—described below), environmental remediation and other environmental liabilities—for which the Company has been able to estimate its probable liability and for which the Company has taken accruals and the related insurance receivables:

**Liability and Receivable Balances**

(Millions)	March 31, 2013	December 31, 2012
Respirator mask/asbestos liabilities	\$ 160	\$ 154
Respirator mask/asbestos insurance receivables	80	87
Environmental remediation liabilities	\$ 31	\$ 29
Environmental remediation insurance receivables	11	11
Other environmental liabilities	\$ 55	\$ 57
Other environmental insurance receivables	15	15

The following sections first describe the significant legal proceedings in which the Company is involved, and then describe the liabilities and associated insurance receivables the Company has accrued relating to its significant legal proceedings.

Respirator Mask/Asbestos Litigation

As of March 31, 2013, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,095 individual claimants compared to approximately 2,060 individual claimants, with actions pending at December 31, 2012.

The vast majority of the lawsuits and claims resolved by and currently pending against the Company allege use of some of the Company's mask and respirator products and seek damages from the Company and other defendants for alleged personal injury from workplace exposures to asbestos, silica, coal mine dust or other occupational dusts found in products manufactured by other defendants or generally in the workplace. A minority of the lawsuits and claims resolved by and currently pending against the Company generally allege personal injury from occupational exposure to asbestos from products previously manufactured by the Company, which are often unspecified, as well as products manufactured by other defendants, or occasionally at Company premises.

The Company's current volume of new and pending matters is substantially lower than its historical experience. The Company expects that filing of claims by unimpaired claimants in the future will continue to be at much lower levels than in the past. Accordingly, the number of claims alleging more serious injuries, including mesothelioma and other malignancies, will represent a greater percentage of total claims than in the past. The Company has prevailed in all nine cases taken to trial, including seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2001, 2003, 2004, and 2007), and an appellate reversal in 2005 of the 2001 jury verdict adverse to the Company. The ninth case, tried in 2009, was dismissed by the Court at the close of plaintiff's evidence, based on the Court's legal finding that the plaintiff had not presented sufficient evidence to support a jury verdict. The plaintiffs appealed, but in February 2012 the California Court of Appeals granted the plaintiff's voluntary dismissal of the appeal.

The Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical conditions, even if significant, are attributable to the Company's



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respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with malignant conditions are costlier to resolve than the claims of unimpaired persons, and it therefore believes the average cost of resolving pending and future claims on a per-claim basis will continue to be higher than it experienced in prior periods when the vast majority of claims were asserted by the unimpaired.

As previously reported, the State of West Virginia, through its Attorney General, filed a complaint in 2003 against the Company and two other manufacturers of respiratory protection products in the Circuit Court of Lincoln County, West Virginia and amended its complaint in 2005. The amended complaint seeks substantial, but unspecified, compensatory damages primarily for reimbursement of the costs allegedly incurred by the State for worker's compensation and healthcare benefits provided to all workers with occupational pneumoconiosis and unspecified punitive damages. While the case has been inactive since the fourth quarter of 2007, the court held a case management conference in March 2011, but no further activity has occurred in the case since that conference. No liability has been recorded for this matter because the Company believes that liability is not probable and estimable at this time. In addition, the Company is not able to estimate a possible loss or range of loss given the minimal activity in this case and the fact that the complaint asserts claims against two other manufacturers where a defendant's share of liability may turn on the law of joint and several liability and by the amount of fault a jury allocates to each defendant if a case is ultimately tried.

*Respirator Mask/Asbestos Liabilities and Insurance Receivables:* The Company estimates its respirator mask/asbestos liabilities, including the cost to resolve the claims and defense costs, by examining: (i) the Company's experience in resolving claims, (ii) apparent trends, (iii) the apparent quality of claims (*e.g.*, whether the claim has been asserted on behalf of asymptomatic claimants), (iv) changes in the nature and mix of claims (*e.g.*, the proportion of claims asserting usage of the Company's mask or respirator products and alleging exposure to each of asbestos, silica, coal or other occupational dusts, and claims pleading use of asbestos-containing products allegedly manufactured by the Company), (v) the number of current claims and a projection of the number of future asbestos and other claims that may be filed against the Company, (vi) the cost to resolve recently settled claims, and (vii) an estimate of the cost to resolve and defend against current and future claims.

Developments may occur that could affect the Company's estimate of its liabilities. These developments include, but are not limited to, significant changes in (i) the number of future claims, (ii) the average cost of resolving claims, (iii) the legal costs of defending these claims and in maintaining trial readiness, (iv) changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) changes in the law and procedure applicable to these claims, and (vii) the financial viability of other co-defendants and insurers.

As a result of the greater cost of resolving claims of persons with more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in the first quarter of 2013 for respirator mask/asbestos liabilities by \$13 million. In the first quarter of 2013, the Company made payments for fees and settlements of \$7 million related to the respirator mask/asbestos litigation. As of March 31, 2013, the Company had accruals for respirator mask/asbestos liabilities of \$132 million (excluding Aearo accruals). The Company cannot estimate the amount or range of amounts by which the liability may exceed the accrual the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted, particularly with respect to the Company's respiratory products that themselves did not contain any harmful materials, (ii) the complaints nearly always assert claims against multiple defendants where the damages alleged are typically not attributed to individual defendants so that a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, (iii) the multiple factors described above that the Company considers in estimating its liabilities, and (iv) the several possible developments described above that may occur that could affect the Company's estimate of liabilities.

As of March 31, 2013, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$80 million. The Company estimates insurance receivables based on an analysis of its numerous policies, including their exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and assessment of the nature of the claim and remaining coverage, and records an amount it has concluded is likely to be recovered.

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Various factors could affect the timing and amount of recovery of this receivable, including (i) delays in or avoidance of payment by insurers; (ii) the extent to which insurers may become insolvent in the future, and (iii) the outcome of negotiations with insurers and legal proceedings with respect to respirator mask/asbestos liability insurance coverage. The difference between the accrued liability and insurance receivable represents in part the time delay between payment of claims on the one hand and receipt of insurance reimbursements on the other hand. Because of the lag time between settlement and payment of a claim, no meaningful conclusions may be drawn from quarterly or annual changes in the amount of receivables for expected insurance recoveries or changes in the number of claimants.

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As previously reported, on January 5, 2007 the Company was served with a declaratory judgment action filed on behalf of two of its insurers (Continental Casualty and Continental Insurance Co. both part of the Continental Casualty Group) disclaiming coverage for respirator mask/asbestos claims. The action, pending in the District Court in Ramsey County, Minnesota, seeks declaratory judgment regarding coverage provided by the policies and the allocation of covered costs among the policies issued by the various insurers. The action named, in addition to the Company, over 60 of the Company's insurers. This action is similar in nature to an action filed in 1994 with respect to breast implant coverage, which ultimately resulted in the Minnesota Supreme Court's ruling of 2003 that was largely in the Company's favor. The plaintiff insurers have served an amended complaint that names some additional insurers and deletes others. The plaintiffs, Continental Casualty and Continental Insurance Co., as well as a significant number of the insurer defendants named in the amended complaint have been dismissed because of settlements they have reached with 3M regarding the matters at issue in the lawsuit. Trial is scheduled to begin in the summer of 2013. During the first quarter of 2013, the Company received payments of \$8 million from settlements with insurers.

Respirator Mask/Asbestos Litigation - Aearo Technologies

On April 1, 2008, a subsidiary of the Company purchased the stock of Aearo Holding Corp., the parent of Aearo Technologies (Aearo). Aearo manufactured and sold various products, including personal protection equipment, such as eye, ear, head, face, fall and certain respiratory protection products.

As of March 31, 2013, Aearo and/or other companies that previously owned and operated Aearo's respirator business (American Optical Corporation, Warner-Lambert LLC, AO Corp. and Cabot Corporation (Cabot)) are named defendants, with multiple co-defendants, including the Company, in numerous lawsuits in various courts in which plaintiffs allege use of mask and respirator products and seek damages from Aearo and other defendants for alleged personal injury from workplace exposures to asbestos, silica-related, or other occupational dusts found in products manufactured by other defendants or generally in the workplace.

As of March 31, 2013, the Company, through its Aearo subsidiary, has recorded \$28 million as the best estimate of the probable liabilities for product liabilities and defense costs related to current and future Aearo-related asbestos and silica-related claims. Responsibility for legal costs, as well as for settlements and judgments, is currently shared in an informal arrangement among Aearo, Cabot, American Optical Corporation and a subsidiary of Warner Lambert and their insurers (the Payor Group). Liability is allocated among the parties based on the number of years each company sold respiratory products under the AO Safety brand and/or owned the AO Safety Division of American Optical Corporation and the alleged years of exposure of the individual plaintiff. Aearo's share of the contingent liability is further limited by an agreement entered into between Aearo and Cabot on July 11, 1995. This agreement provides that, so long as Aearo pays to Cabot a quarterly fee of \$100,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, any product liability claims involving exposure to asbestos, silica, or silica products for respirators sold prior to July 11, 1995. Because of the difficulty in determining how long a particular respirator remains in the stream of commerce after being sold, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators involving exposure to asbestos, silica or silica products prior to January 1, 1997. With these arrangements in place, Aearo's potential liability is limited to exposures alleged to have arisen from the use of respirators involving exposure to asbestos, silica, or silica products on or after January 1, 1997. To date, Aearo has elected to pay the quarterly fee. Aearo could potentially be exposed to additional claims for some part of the pre-July 11, 1995 period covered by its agreement with Cabot if Aearo elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters.

In March 2012, Cabot CSC Corporation and Cabot Corporation filed a lawsuit against Aearo in the Superior Court of Suffolk County, Massachusetts seeking declaratory relief as to the scope of Cabot's indemnity obligations under the July 11, 1995 agreement, including whether Cabot has retained liability for coal workers' pneumoconiosis claims, and seeking damages for breach of contract. Fact discovery in the first phase of the case is scheduled to conclude in May 2013.

Developments may occur that could affect the estimate of Aearo's liabilities. These developments include, but are not limited to: (i) significant changes in the number of future claims, (ii) significant changes in the average cost of resolving claims, (iii) significant changes in the legal costs of defending these claims, (iv) significant changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) significant changes in the law and procedure applicable to these claims, (vii) significant changes in the liability allocation among the co-defendants, (viii) the financial viability of members of the Payor Group including exhaustion of available coverage limits, (ix) the outcome of pending insurance coverage litigation among certain other members of the Payor Group and their respective insurers, and/or (x) a determination that the interpretation of the contractual obligations on which Aearo has estimated its share of liability is inaccurate. The Company cannot determine the impact of these potential developments on its current estimate of Aearo's share of liability for these existing and future claims. If any of the developments described above were to occur, the actual amount of these liabilities for existing and future claims could be significantly larger than the amount accrued.

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Because of the inherent difficulty in projecting the number of claims that have not yet been asserted, the complexity of allocating responsibility for future claims among the Payor Group, and the several possible developments that may occur that could affect the estimate of Aearo's liabilities, the Company cannot estimate the amount or range of amounts by which Aearo's liability may exceed the accrual the Company has established.

Environmental Matters and Litigation

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

Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the Company may be jointly and severally liable, typically with other companies, for the costs of remediation of environmental contamination at current or former facilities and at off-site locations. The Company has identified numerous locations, most of which are in the United States, at which it may have some liability. Please refer to the paragraph entitled *Environmental Liabilities and Insurance Receivables* that follows for information on the amount of the accrual.

*Environmental Matters*

As previously reported, the Company has been voluntarily cooperating with ongoing reviews by local, state, national (primarily the U.S. Environmental Protection Agency (EPA)), and international agencies of possible environmental and health effects of various perfluorinated compounds (PFCs), including perfluorooctanyl compounds such as perfluorooctanoate (PFOA) and perfluorooctane sulfonate (PFOS). As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds. The company ceased manufacturing and using the vast majority of these compounds within approximately two years of the phase-out announcement, and ceased all manufacturing and the last significant use of this chemistry by 2008. Through its ongoing life cycle management and its raw material composition identification processes associated with the Company's policies covering the use of all persistent and bio-accumulative materials, the Company has on occasion identified the presence of precursor chemicals in materials purchased from suppliers that may ultimately degrade to PFOA, PFOS or similar compounds. Upon such identification, the Company works to find alternatives for such chemicals.

Regulatory activities concerning PFOA and/or PFOS continue in the United States, Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. The EPA continues to develop Drinking Water Health Advisories for PFOS and PFOA, which are expected to be released in 2013. Those advisory levels will supersede the current provisional advisory levels. In an effort to move toward developing standards under the Safe Drinking Water Act, the EPA published on May 2, 2012 a list of unregulated substances, including six PFCs, required to be monitored during the period 2013-2015 by public water system suppliers to determine the extent of their occurrence.

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The Agency for Toxic Substances and Disease Registry (ATSDR) has completed a bio-monitoring study evaluating PFC blood levels in volunteers living near fields where wastewater treatment sludge was applied from the municipal wastewater treatment plant in Decatur, Alabama that received wastewater from numerous sources, including sanitary wastewater from 3M. ATSDR released the results of its exposure investigation in April 2013. The exposure study found that drinking well or public water with detectable levels of PFC s may contribute to an increase of PFC levels in blood, but did not find a link between living near a biosolids-treated field and the PFC levels in blood.

3M continues its third and final phase of work pursuant to a Memorandum of Understanding with the EPA regarding an environmental assessment program at the Company s Decatur manufacturing site. That work includes groundwater sampling off-site from the 3M Decatur facility as well as at three local landfills used by the facility. The Company shared results from this final phase of sampling work with the EPA in September 2012 and will submit updated analysis of the sampling work in 2013.

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The Company is continuing to make progress in its work, under the supervision of state regulators, to address its historic disposal of PFC-containing waste associated with manufacturing operations at the Cottage Grove, Minnesota and Decatur, Alabama plants.

As previously reported, the Company entered into a voluntary remedial action agreement with the Alabama Department of Environmental Management (ADEM) to address the presence of PFCs in the soil at the Company's manufacturing facility in Decatur, Alabama. For approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility pursuant to a permit issued by ADEM. After a review of the available options to address the presence of PFCs in the soil, ADEM agreed that the preferred remediation option is to use a multilayer cap over the former sludge incorporation areas on the manufacturing site with subsequent groundwater migration controls and treatment. Implementation of that option will continue throughout the balance of 2013 and is expected to be completed in 2016.

The Company continues to work with the Minnesota Pollution Control Agency (MPCA) pursuant to the terms of the previously disclosed May 2007 Settlement Agreement and Consent Order to address the presence of certain PFCs in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of certain PFCs from these sites and proposing response actions; (ii) providing treatment or alternative drinking water upon identifying any level exceeding a Health Based Value (HBV) or Health Risk Limit (HRL) (i.e., the amount of a chemical in drinking water determined by the Minnesota Department of Health (MDH) to be safe for human consumption over a lifetime) for certain PFCs for which a HBV and/or HRL exists as a result of contamination from these sites; (iii) remediating identified sources of other PFCs at these sites that are not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about certain perfluorinated compounds. During 2008, the MPCA issued formal decisions adopting remedial options for the former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). In August 2009, the MPCA issued a formal decision adopting remedial options for the Company's Cottage Grove manufacturing facility. During the spring and summer of 2010, 3M began implementing the agreed upon remedial options at the Cottage Grove and Woodbury sites. 3M commenced the remedial option at the Oakdale site in late 2010. At each location the remedial options were recommended by the Company and approved by the MPCA. Remediation work has been completed at the Oakdale site, and it is in an operational maintenance mode. Remediation will continue at the other two sites during 2013.

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

*Environmental Litigation*

As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama seeking unstated damages and alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to certain perfluorochemicals at or near the Company's Decatur, Alabama, manufacturing facility. The Circuit Court in 2005 granted the Company's motion to dismiss the named plaintiff's personal injury-related claims on the basis that such claims are barred by the exclusivity provisions of the state's Workers Compensation Act. The plaintiffs' counsel filed an amended complaint in November 2006, limiting the case to property damage claims on behalf of a purported class of residents and property owners in the vicinity of the Decatur plant. Also, in 2005, the judge in a second purported class action lawsuit (filed by three residents of Morgan County, Alabama, seeking unstated compensatory and punitive damages involving alleged damage to their property from emissions of certain perfluorochemical compounds from the Company's Decatur, Alabama, manufacturing facility that formerly manufactured those compounds) granted the Company's motion to abate the case, effectively putting the case on hold pending the resolution of class certification issues in the first action described above filed in the same court in 2002. Despite the stay, plaintiffs filed an amended complaint seeking damages for alleged personal injuries and property damage on behalf of the named plaintiffs and the members of a purported class. No further action in the case is expected unless and until the stay is lifted.

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



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transferred from Franklin County to Morgan County. In May, 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the first case filed there.

In December 2010, the State of Minnesota, by its Attorney General Lori Swanson, acting in its capacity as trustee of the natural resources of the State of Minnesota, filed a lawsuit in Hennepin County District Court against 3M to recover damages (including unspecified assessment costs and reasonable attorney's fees) for alleged injury to, destruction of, and loss of use of certain of the State's natural resources under the Minnesota Environmental Response and Liability Act (MERLA) and the Minnesota Water Pollution Control Act (MWPCA), as well as statutory nuisance and common law claims of trespass, nuisance, and negligence with respect to the presence of PFCs in the groundwater, surface water, fish or other aquatic life and sediments. The State also seeks declarations under MERLA that 3M is responsible for all damages the State may suffer in the future for injuries to natural resources from releases of PFCs into the environment, and under MWPCA that 3M is responsible for compensation for future loss or destruction of fish, aquatic life and other damages.

In January 2011, the City of Lake Elmo filed a motion to intervene in the State of Minnesota lawsuit and seeks damages in excess of \$50,000 and other legal and equitable relief, including reasonable attorneys' fees, for alleged contamination of city property, wells, groundwater and water contained in the wells with PFCs under several theories, including common law and statutory nuisance, strict liability, trespass, negligence, and conversion. The court granted the City of Lake Elmo's motion to intervene in this lawsuit.

In November 2011, the Metropolitan Council filed a motion to intervene and a complaint in the State of Minnesota lawsuit seeking damages in excess of \$50,000 and other legal, declaratory and equitable relief, including reasonable attorneys' fees, for costs and fees that the Metropolitan Council alleges it will be required to assess at some time in the future if the MPCA imposes restrictions on Metropolitan Council's PFOS discharges to the Mississippi River. Metropolitan Council's intervention motion was based on several theories, including common law negligence, and statutory claims under MERLA for response costs and under the Minnesota Environmental Rights Act (MERA) for declaratory and equitable relief against 3M for PFOS and other PFC pollution of the waters and sediments of the Mississippi River. 3M did not object to the motion to intervene. In January 2012, 3M answered the Metropolitan Council's complaint and filed a counterclaim alleging that the Metropolitan Council discharges PFCs to the Mississippi River and discharges PFC-containing sludge and biosolids from one or more of its wastewater treatment plants onto agricultural lands and local area landfills. Accordingly, 3M requested that if the Court finds that the State is entitled to any of the damages the State seeks, 3M seeks contribution and apportionment from the Metropolitan Council, including attorneys' fees, under MERLA, and contribution from and liability for the Metropolitan Council's proportional share of damages awarded to the State under the MWPCA, as well as under statutory nuisance and common law theories of trespass, nuisance and negligence. 3M also seeks declaratory relief under MERA.

In May 2012, 3M filed a motion to disqualify the State of Minnesota's counsel, Covington & Burling, LLP (Covington). In October 2012, the court granted 3M's motion to disqualify Covington as counsel to the State and stayed the case for up to 180 days to give the State time to secure new counsel. In October 2012, the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals. In April 2013, the Court of Appeals heard arguments on the appeal.

The State of New Jersey filed suit in 2005 against Occidental Chemical Corporation, Tierra Solutions Inc., Maxus Energy Corporation and five other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of a 17-mile stretch of the Passaic River in New Jersey. In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint by Tierra Solutions Inc. and Maxus Energy Corporation seeking contribution towards the cost and damages asserted or incurred for investigation and remediation of discharges to the Passaic River. The third-party complaint seeks to spread those costs among the third-party defendants, including 3M. Allegations asserted against 3M relate to its use of two commercial drum conditioning facilities in New Jersey. In March 2013, 3M and other third party defendants entered into a settlement agreement with the state of New Jersey for an amount that is not material to 3M. The settlement is subject to public notice and Court approval. The proposed settlement

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resolves claims or potential claims by the State of New Jersey regarding discharges or alleged discharges into the Passaic River by the settling parties, and precludes certain cost recovery actions by the third-party plaintiffs. The proposed settlement with the State of New Jersey does not include release from potential federal claims, yet to be asserted. Total costs for the remedy currently proposed by EPA could easily exceed \$1 billion. While the Company does not yet have a basis for estimating its potential exposure in the yet to be asserted EPA claim, the Company currently believes its allocable share of the possible loss, if any, is likely to be a fraction of one percent of the total costs because of the Company's limited potential involvement at this site.

For environmental litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not

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material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time, with the exception of the Passaic River litigation, where the Company's potential exposure, if any, is likely to be a fraction of one percent of the total costs.

*Environmental Liabilities and Insurance Receivables*

As of March 31, 2013, the Company had recorded liabilities of \$31 million for estimated environmental remediation costs based upon an evaluation of currently available facts with respect to each individual site and also recorded related insurance receivables of \$11 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of March 31, 2013, the Company had recorded liabilities of \$55 million for other environmental liabilities based upon an evaluation of currently available facts to implement the Settlement Agreement and Consent Order with the MPCA, the remedial action agreement with ADEM, and to address trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur over the next four years. As of March 31, 2013, the Company's receivable for insurance recoveries related to other environmental liabilities was \$15 million.

It is difficult to estimate the cost of environmental compliance and remediation given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternative cleanup methods. Developments may occur that could affect the Company's current assessment, including, but not limited to: (i) changes in the information available regarding the environmental impact of the Company's operations and products; (ii) changes in environmental regulations, changes in permissible levels of specific compounds in drinking water sources, or changes in enforcement theories and policies, including efforts to recover natural resource damages; (iii) new and evolving analytical and remediation techniques; (iv) success in allocating liability to other potentially responsible parties; and (v) the financial viability of other potentially responsible parties and third-party indemnitors. For sites included in both environmental remediation liabilities and other environmental liabilities, at which remediation activity is largely complete and remaining activity relates primarily to operation and maintenance of the remedy, including required post-remediation monitoring, the Company believes the exposure to loss in excess of the amount accrued would not be material to the Company's consolidated results of operations or financial condition. However, for locations at which remediation activity is largely ongoing, the Company cannot estimate a possible loss or range of loss in excess of the associated established accruals for the reasons described above.

Other Matters

*Commercial Litigation*

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3M completed its acquisition of Cogent, Inc. in December 2010. Several purported holders of Cogent shares, representing a total of approximately 5.8 million shares, have asserted appraisal rights under Delaware law. Trial in Delaware occurred in November 2012 and the parties are awaiting the court's decision.

In October 2012, four plaintiffs filed purported class actions against Ceradyne, Inc., its directors, 3M and Cyborg Acquisition Corporation (a direct wholly owned subsidiary of 3M) in connection with 3M's proposed acquisition of Ceradyne. Two suits were filed in California Superior Court for Orange County and two were filed in the Delaware Chancery Court. The suits alleged that the defendants breached and/or aided and abetted the breach of their fiduciary duties to Ceradyne by seeking to sell Ceradyne through an allegedly unfair process and for an unfair price and on unfair terms, and/or by allegedly failing to make adequate disclosures to Ceradyne stockholders regarding the acquisition of Ceradyne. 3M completed its acquisition of Ceradyne in November 2012. In November 2012, the parties reached a settlement with the California plaintiffs for an amount that is not material to the Company, while the Delaware plaintiffs dismissed their complaints without prejudice. The settlement will bind all former Ceradyne shareholders and has received preliminary approval from the California court. A final approval hearing is scheduled for July 2013.

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

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

3M sued TransWeb Corporation in Minnesota in 2010 for infringement of several 3M patents covering fluorination and hydrocharging of filter media used in 3M's respirators and furnace filters. TransWeb does not make finished goods, but sells media to competitors of 3M's respirator and furnace filter businesses. TransWeb filed a declaratory judgment action in and successfully moved the litigation to the United States District Court for the District of New Jersey, seeking a declaration of invalidity and non-infringement of 3M's patents, and further alleging that 3M waited too long to enforce its rights. TransWeb also alleged 3M obtained the patents through inequitable conduct and that 3M's attempt to enforce the patents constitutes a violation of the antitrust laws. In November 2012, a jury returned a verdict in favor of TransWeb on all but one count, including findings that 3M's patents were invalid and not infringed, and that 3M had committed an antitrust violation by seeking to enforce a patent it had obtained fraudulently. The jury also recommended that the court find 3M had committed inequitable conduct in obtaining the patents, and that the patents were therefore unenforceable. Since the vast majority of TransWeb's claim for treble antitrust damages is in the form of its attorneys' fees and expenses in connection with the defense of the patent case, the parties agreed that the measure of damages would not go to the jury, but rather would be submitted to a special master after the trial. This process is ongoing. The special master's recommendations will be forwarded to the court for review and entry of a final judgment. 3M intends to appeal if the court enters judgment against 3M.

In December 2010, Meda AB, the Swedish-based acquirer of 3M's European pharmaceutical business, filed a lawsuit against 3M, 3M Innovative Properties Company, and Riker Laboratories, Inc. (collectively, "3M"). Meda initially asserted claims against 3M for breach of contract and breach of the implied covenant of good faith and fair dealing. In October 2011, Meda amended its pleading to assert a claim for fraud. All three claims are based on allegations that 3M did not inform Meda about certain information relating to the pricing of a particular drug in France prior to the acquisition. Meda seeks to recover compensatory damages in excess of \$300 million (including prejudgment interest), punitive damages, and attorneys' fees. In September 2012, 3M filed a motion for summary judgment on the grounds that Meda cannot establish a breach of any duty owed by 3M. A non-jury trial occurred in the United States District Court for the Southern District of New York in January 2013. The court is expected to issue its decision in 2013.

Shurtape Technologies, LLC sued 3M in the United States District Court for the Western District of North Carolina, alleging that 3M's ScotchBlue Painter's Masking Tape with Edge-Lock Paint Line Protector, which was introduced in late 2009, infringes Shurtape's U.S. patent describing masking tape having an absorbent coating applied to the edge of the tape and several of Shurtape's trademarks. 3M is challenging both Shurtape's allegations of infringement and the validity of the patent. Trial is anticipated in late 2013 or early 2014. 3M has also requested reexamination of the Shurtape patent, and in November 2012, the US PTO issued an office action adopting many of 3M's invalidity arguments and rejecting all claims in the Shurtape patent. The reexamination is ongoing.

For commercial litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes that such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

*Product Liability Litigation*

Électricité de France (EDF) filed a lawsuit against 3M France in the French courts in 2006 claiming commercial loss and property damage after experiencing electrical network failures which EDF alleges were caused by so-called defective 3M transition splices. The French Court of Appeals at Versailles affirmed the commercial trial court's decision that the transition splices conformed to contract specifications which were thoroughly analyzed and tested by EDF before purchase and installation. The Court of Appeals, however, ordered a court-appointed expert to study the problem and issue a technical opinion on the cause of the network failures. The court-appointed expert is expected to submit his preliminary report to the commercial court by June 30, 2013. Thereafter, the commercial court may take from six months to one year to render its decision.

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One customer obtained an order in the French courts against 3M Purification SAS (a French subsidiary) in October 2011 appointing an expert to determine the amount of commercial loss and property damage allegedly caused by so-called defective 3M filters used in the customer's manufacturing process. An Austrian subsidiary of this same customer also filed a claim against 3M Austria GmbH (an Austrian subsidiary) and 3M Purification SAS in the Austrian courts in September 2012 seeking damages for the same issue. Another customer filed a lawsuit against 3M Deutschland GmbH (a German subsidiary) in the German courts in March 2012 seeking commercial loss and property damage allegedly caused by so-called defective 3M filters used in that customer's manufacturing process. The Company has resolved on an amicable basis claims of two other customers arising out of the same issue.

For product liability litigation matters described in this section for which a liability has been recorded, the Company believes the amount recorded is not material to the Company's consolidated results of operations or financial condition. In addition, the Company is not able to estimate a possible loss or range of loss in excess of the established accruals at this time.

Table of Contents**NOTE 11. Stock-Based Compensation**

The 3M 2008 Long-Term Incentive Plan, as discussed in the 2012 Annual Report on Form 10-K, provides for the issuance or delivery of up to 100 million shares of 3M common stock pursuant to awards granted under the plan. Awards under this plan may be issued in the form of Incentive Stock Options, Nonqualified Stock Options, Progressive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock Awards, and Performance Units and Performance Shares. The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 38,205,266 as of March 31, 2013.

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed five years of service. This retiree-eligible population represents 32 percent of the 2013 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter. 3M also has granted progressive (reload) options. These options are nonqualified stock options that were granted to certain participants under the 1997 or 2002 MSOP, but for which the reload feature was eliminated in 2005 (on a prospective basis only). Participants who had options granted prior to this effective date may still qualify to receive new progressive (reload) stock options.

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

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units, performance shares and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material for the three months ended March 31, 2013 and 2012.

**Stock-Based Compensation Expense**

(Millions)	Three months ended	
	2013	March 31, 2012
Cost of sales	\$ 12	\$ 12
Selling, general and administrative expenses	77	78
Research, development and related expenses	14	13
Stock-based compensation expenses	\$ 103	\$ 103
Income tax benefits	\$ (32)	\$ (32)
Stock-based compensation expenses, net of tax	\$ 71	\$ 71





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The following table summarizes stock option activity during the three months ended March 31, 2013:

**Stock Option Program**

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	56,565,030	\$ 80.33		
Granted:				
Annual	6,220,810	101.55		
Progressive (Reload)	91,690	102.45		
Exercised	(9,059,296)	77.46		
Canceled	(40,064)	87.37		
March 31	53,778,170	\$ 83.29	64	\$ 1,238
Options exercisable				
March 31	41,708,894	\$ 79.83	51	\$ 1,105

As of March 31, 2013, there was \$94 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 25 months. The total intrinsic values of stock options exercised were \$215 million and \$67 million during the three months ended March 31, 2013 and 2012, respectively. Cash received from options exercised was \$702 million and \$179 million for the three months ended March 31, 2013 and 2012, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$80 million and \$25 million for the three months ended March 31, 2013 and 2012, respectively.

For the primary 2013 annual stock option grant, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

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

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2013 annual grant date, the Company estimated the expected volatility based upon the average of the most recent one year volatility, the median of the term of the expected life rolling volatility, the median of the most recent term of the expected life volatility of 3M stock, and the implied volatility on the grant date. The expected term assumption is based on the weighted average of historical grants.



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The following table summarizes restricted stock and restricted stock unit activity during the three months ended March 31, 2013:

**Restricted Stock and Restricted Stock Units**

<b>Restricted Stock and Restricted Stock Units</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested balance		
As of January 1	3,261,562	\$ 85.17
Granted:		
Annual	946,774	101.57
Other	4,553	103.95
Vested	(1,020,901)	79.74
Forfeited	(10,315)	89.85
As of March 31	3,181,673	\$ 91.81

As of March 31, 2013, there was \$128 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 weighted-average vesting period of 28 months. The total fair value of restricted stock and restricted stock units that vested during the three months ended March 31, 2013 and 2012 was \$105 million and \$102 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock and restricted stock units was \$39 million and \$58 million for the three months ended March 31, 2013 and 2012, respectively.

Restricted stock units granted under the 3M 2008 Long-Term Incentive Plan generally vest three years following the grant date assuming continued employment. Dividend equivalents equal to the dividends payable on the same number of shares of 3M common stock accrue on these restricted stock units during the vesting period, although no dividend equivalents are paid on any of these restricted stock units that are forfeited prior to the vesting date. Dividends are paid out in cash at the vest date on restricted stock units, except for performance shares which do not earn dividends. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average restricted stock unit shares outstanding are included in the computation of diluted earnings per share.

**Performance Shares**

Beginning in 2008, the Company grants certain members of executive management performance shares on an annual basis. The performance criteria, which were modified in 2010, are designed to focus management attention on three key factors that create long-term stockholder value: Organic Sales Growth, Return on Invested Capital and sales from new products. The number of shares of 3M common stock that could actually be delivered at the end of the three-year performance period may be anywhere from 0% to 200% of each performance share granted, depending on the performance of the Company during such performance period. Non-substantive vesting requires that expense for the performance shares be recognized over one or three years depending on when each individual became a 3M executive. The first performance shares, which were granted in 2008, were distributed in 2011. Performance shares do not accrue dividends during the performance period. Therefore, the grant date fair value is determined by reducing the closing stock price on the date of grant by the net present value of dividends during the performance period. As a result of the significant uncertainty due to the economic crisis of 2008-2009, the Company granted restricted stock units instead of performance shares in 2009. Therefore, since there were no performance shares in 2009, there were also no related distributions in 2012. Performance share grants resumed in 2010 and continued thereafter.



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The following table summarizes performance share activity during the three months ended March 31, 2013:

Performance Shares	Number of Awards	Weighted Average Grant Date Fair Value
Undistributed balance		
As of January 1	1,089,084	\$ 79.27
Granted	335,031	95.79
Distributed	(506,725)	75.16
Performance change	(50,908)	85.54
Forfeited	(11,276)	91.27
As of March 31	855,206	\$ 87.65

As of March 31, 2013, there was \$33 million of compensation expense that has yet to be recognized related to performance shares. This expense is expected to be recognized over the remaining weighted-average earnings period of 11 months. The total fair value of performance shares that were distributed during the three months ended March 31, 2013 was \$52 million and actual tax benefits realized for the tax deductions related to the distribution of performance shares was \$16 million. There were no performance shares distributed or related tax benefits realized during the three months ended March 31, 2012.

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**NOTE 12. Business Segments**

3M's businesses are organized, managed and internally grouped into segments based on differences in markets, products, technologies and services. Effective in the first quarter of 2013 (as discussed below), 3M now manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. 3M's five business segments bring together common or related 3M technologies, enhancing the development of innovative products and services and providing for efficient sharing of business resources. These segments have worldwide responsibility for virtually all 3M product lines. 3M is not dependent on any single product/service or market. Transactions among reportable segments are recorded at cost. 3M is an integrated enterprise characterized by substantial intersegment cooperation, cost allocations and inventory transfers. Therefore, management does not represent that these segments, if operated independently, would report the operating income information shown. The difference between operating income and pre-tax income relates to interest income and interest expense, which are not allocated to business segments.

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

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

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

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

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

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

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

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

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



Table of Contents**Business Segment Information**

(Millions)	Three months ended	
	2013	March 31, 2012
<b>Net Sales</b>		
Industrial	\$ 2,675	\$ 2,558
Safety and Graphics	1,417	1,387
Electronics and Energy	1,277	1,320
Health Care	1,311	1,275
Consumer	1,081	1,060
Corporate and Unallocated	2	2
Elimination of Dual Credit	(129)	(116)
Total Company	\$ 7,634	\$ 7,486
<b>Operating Income</b>		
Industrial	\$ 576	\$ 591
Safety and Graphics	335	334
Electronics and Energy	196	234
Health Care	404	401
Consumer	237	237
Corporate and Unallocated	(74)	(138)
Elimination of Dual Credit	(28)	(25)
Total Company	\$ 1,646	\$ 1,634

Corporate and unallocated operating income includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

3M business segment reporting measures include dual credit to business segments for certain U.S. sales and related operating income. Management evaluates each of its five operating business segments based on net sales and operating income performance, including dual credit U.S. reporting to further incentivize U.S. sales growth. As a result, 3M provides additional ( dual ) credit to those business segments selling products in the U.S. to an external customer when that segment is not the primary seller of the product. For example, certain respirators are primarily sold by the Personal Safety Division within the Safety and Graphics business segment; however, the Industrial business segment also sells this product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial) would also receive credit for the associated net sales it initiated and the related approximate operating income. The assigned operating income related to dual credit activity may differ from operating income that would result from actual costs associated with such sales. The offset to the dual credit business segment reporting is reflected as a reconciling item entitled Elimination of Dual Credit, such that sales and operating income for the U.S. in total are unchanged.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM\***

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

We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein), and in our report dated February 14, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

May 2, 2013

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\* Pursuant to Rule 436(c) of the Securities Act of 1933 ( " Act " ) this should not be considered a report within the meaning of Sections 7 and 11 of the Act and the independent registered public accounting firm liability under Section 11 does not extend to it.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of 3M's financial statements with a narrative from the perspective of management. 3M's MD&A is presented in the following sections:

- Overview
- Results of Operations
- Performance by Business Segment
- Financial Condition and Liquidity
- Cautionary Note Concerning Factors That May Affect Future Results

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products and services. 3M manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. From a geographic perspective, any references to EMEA refer to Europe, Middle East and Africa on a combined basis.

As described in Note 12, effective in the first quarter of 2013, the Company completed a realignment of its business segments to better serve global markets and customers. In addition, during the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States rather than in the Latin America/Canada region. The Company has begun to report comparative results under the new business segment and geographic area structure with the filing of this Quarterly Report on Form 10-Q. In the second quarter of 2013, the Company plans to revise its business segment and geographic area disclosures in its 2012 Annual Report on Form 10-K via a Current Report on Form 8-K to reflect these realignments.

Net income attributable to 3M was \$1.129 billion, or \$1.61 per diluted share in the first quarter of 2013, compared to \$1.125 billion, or \$1.59 per diluted share, in the first quarter of 2012. Despite a low-growth economic environment and the strong U.S. dollar, first-quarter 2013 sales increased 2.0 percent to \$7.6 billion. 3M achieved organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in four of its five business segments. Organic local-currency sales increased 4.0 percent in Health Care, 3.7 percent in Consumer, 2.9 percent in Industrial, and 2.3 percent in Safety and Graphics. Organic local-currency sales declined 2.2 percent in Electronics and Energy, impacted by weakness in consumer electronics demand. For the company in total, organic local-currency sales grew 2.1 percent, with higher organic volumes contributing 1.7 percent and selling price increases contributing 0.4 percent. Acquisitions added 1.7 percent to sales, driven by the November 2012 acquisition of Ceradyne, Inc. (Industrial), the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group (Safety and Graphics), and the April 2012 acquisition of CodeRyte, Inc. (Health Care). Currency impacts reduced sales by 1.8 percent year-on-year, due in large part to a 14 percent weakening of the Japanese yen versus the U.S. dollar.

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On a geographic basis, first-quarter 2013 organic local-currency sales growth was led by Latin America/Canada at 7.3 percent. All business segments contributed to this growth, led by Health Care and Safety and Graphics. Organic sales growth in the United States was 2.3 percent, marking the fourteenth consecutive quarter of positive growth, led by a 5 percent increase in Consumer and positive organic growth in Industrial, Safety and Graphics, and Health Care. Organic local-currency sales growth in Asia Pacific was 1.9 percent, with sales growth led by Consumer and Health Care. China/Hong Kong organic local-currency sales grew by 10 percent, while Japan declined 8 percent. Organic local-currency sales in EMEA decreased 0.8 percent, with positive organic growth in Middle East and Africa, along with Central/East Europe, more than offset by a 3 percent decline in Western Europe, reflecting the economic growth challenges in that region. In EMEA, organic local-currency sales grew in Health Care, were flat in Industrial, and declined in the other three business segments.

Operating income increased 0.7 percent in the first quarter and operating margins were 21.6 percent, a decrease of 0.2 percentage points year-on-year. These results benefited from selling price increases, raw material cost decreases, lower pension and postretirement benefit costs, and organic volume growth, with these benefits more than offset by several items, primarily lower factory utilization levels and the impact of 2012 acquisitions on 2013 operating income margins. Refer to the section entitled Results of Operations for further discussion. 3M incurred early retirement/restructuring costs of approximately 4 cents per diluted share in the first quarter of 2012. Of this amount, approximately 3 cents per diluted share related to special termination benefits for a voluntary early retirement incentive program in the United States (discussed in Note 7). The remainder related to selective restructuring in a few developed countries. These actions, in

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aggregate, were neutral to full-year 2012 earnings, with the costs incurred in the first quarter of 2012, and the associated benefits realized over the remainder of 2012.

Weighted-average diluted shares outstanding declined 0.6 percent year-on-year to 702.1 million, which increased earnings per diluted share by approximately 1 cent. The income tax rate was 29.1 percent in the first quarter, up 0.3 percentage points versus last year's first quarter, which decreased earnings per diluted share by approximately 1 cent.

The following table contains sales and operating income results by business segment for the three months ended March 31, 2013 and 2012. In addition to the discussion below, refer to the section entitled "Performance by Business Segment" later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 12 for additional information on business segments, including Elimination of Dual Credit.

(Dollars in millions)	Three months ended March 31,		2012		% change	
	2013	Operating	Net	Operating	Net	Operating
	Net	Income	Sales	Income	Sales	Income
	Sales					
<b>Business Segments</b>						
Industrial	\$ 2,675	\$ 576	\$ 2,558	\$ 591	4.6%	(2.6)%
Safety and Graphics	1,417	335	1,387	334	2.2	0.4
Electronics and Energy	1,277	196	1,320	234	(3.3)	(16.3)
Health Care	1,311	404	1,275	401	2.8	0.8
Consumer	1,081	237	1,060	237	2.0	0.1
Corporate and Unallocated	2	(74)	2	(138)		
Elimination of Dual Credit	(129)	(28)	(116)	(25)		
<b>Total Company</b>	<b>\$ 7,634</b>	<b>\$ 1,646</b>	<b>\$ 7,486</b>	<b>\$ 1,634</b>	<b>2.0%</b>	<b>0.7%</b>

Sales in the first quarter of 2013 increased 2.0 percent. Organic local-currency sales increased 2.1 percent, acquisitions added 1.7 percent, and foreign currency translation impacts reduced sales by 1.8 percent. Sales increased 4.6 percent in Industrial, 2.8 percent in Health Care, 2.2 percent in Safety and Graphics, and 2.0 percent in Consumer. Sales declined 3.3 percent in Electronics and Energy. Four of 3M's five business segments achieved operating income margins in excess of 21 percent. Worldwide operating income margins for the first quarter of 2013 were 21.6 percent, compared to 21.8 percent for the first quarter of 2012.

3M generated \$994 million of operating cash flows in the first quarter of 2013, an increase of \$166 million when compared to the first quarter of 2012. Refer to the section entitled "Financial Condition and Liquidity" later in MD&A for a discussion of items impacting cash flows. In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first quarter of 2013, the Company purchased \$805 million of treasury stock, of which a portion was under the previous authorization, compared to \$524 million of treasury stock repurchases in the first quarter of 2012. As of March 31, 2013, approximately \$6.9 billion remained available under the February 2013 repurchase authorization. In February 2013, 3M's Board of Directors authorized a per-share dividend increase of 7.6 percent for 2013, marking the 55th consecutive year of dividend increases for 3M. 3M's debt to total capital ratio (total capital defined as debt plus equity) was 24 percent at March 31, 2013 and 25 percent at December 31, 2012. 3M has an AA- credit rating with a stable outlook from Standard & Poor's and an Aa2 credit rating with a stable outlook from Moody's Investors Service. The Company has significant cash on hand and sufficient additional access to capital markets to meet its funding needs.

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3M expects to contribute approximately \$400 million to \$600 million of cash to its global pension and postretirement plans in 2013. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. 3M expects pension and postretirement benefit expense in 2013 to decrease by approximately \$100 million pre-tax, or approximately 10 cents per diluted share, when compared to 2012. Refer to Note 7 (Pension and Postretirement Benefit Plans) for additional information concerning 3M's pension and post-retirement plans.

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There are a few major items that will impact earnings in 2013. As discussed above, 3M expects that a decrease in pension and postretirement expense will increase 2013 earnings, when compared to 2012, by approximately 10 cents per diluted share. 3M currently expects that its effective tax rate for 2013 will be approximately 29.5 to 30.0 percent, compared to 29.0 percent for 2012. Based on March 31, 2013 exchange rates, currency effects are expected to reduce total year 2013 sales by approximately 1.5 percent. Considering these items, 3M currently expects that sales growth and related incremental income, in addition to other benefits, should more than offset the items that will negatively impact earnings.

Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled Cautionary Note Concerning Factors That May Affect Future Results in Part I, Item 2 and the risk factors provided in Part II, Item 1A for discussion of these risks and uncertainties).



Table of Contents**RESULTS OF OPERATIONS**

Percent change information compares the first quarter of 2013 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended March 31, 2013						Worldwide
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated		
Net sales (millions)	\$ 2,704	\$ 2,286	\$ 1,765	\$ 882	\$ (3)	\$	\$ 7,634
% of worldwide sales	35.4%	30.0%	23.1%	11.5%			100.0%
Components of net sales change:							
Volume organic	1.6%	3.1%	(1.1)%	2.9%			1.7%
Price	0.7	(1.2)	0.3	4.4			0.4
Organic local-currency sales	2.3	1.9	(0.8)	7.3			2.1
Acquisitions	3.0	0.3	2.3	0.4			1.7
Translation		(2.7)	(1.5)	(5.0)			(1.8)
Total sales change	5.3%	(0.5)%		2.7%			2.0%

Sales in the first quarter of 2013 increased 2.0 percent when compared to the first quarter of 2012. Organic local-currency sales grew 2.1 percent, with increases of 7.3 percent in Latin America/Canada, 2.3 percent in the United States, and 1.9 percent in Asia Pacific. Organic local-currency sales declined 0.8 percent in Europe, Middle East and Africa, impacted by weakness in Western Europe. Acquisitions added 1.7 percent to worldwide growth and currency impacts reduced first three months 2013 worldwide sales growth by 1.8 percent. Worldwide selling prices rose 0.4 percent in the first three months, despite selling price declines in 3M's optical systems business, where prices typically decline each year, which is common for the electronics industry.

*Operating Expenses:*

(Percent of net sales)	Three months ended March 31,		
	2013	2012	Change
Cost of sales	52.0%	52.0%	%
Selling, general and administrative expenses	20.8	20.7	0.1
Research, development and related expenses	5.6	5.5	0.1
Operating income	21.6%	21.8%	(0.2)%

As discussed in the overview section, 3M expects its global pension and postretirement expense to decrease \$100 million for total year 2013 when compared to 2012, which impacts cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D). The year-on-year decrease in pension and postretirement expense for the first quarter was \$42 million, which included a year-on-year benefit related to a \$26 million charge in the first quarter of 2012 for a voluntary early retirement incentive program (discussed in Note 7).

*Cost of Sales:*

Cost of sales includes manufacturing, engineering and freight costs. Cost of sales as a percent of net sales was 52.0 percent in the first quarter of 2013, unchanged from the same quarter last year. First-quarter selling price increases and raw material cost decreases, lower pension and postretirement costs (of which a portion impacts cost of sales), in addition to organic volume increases, benefited first-quarter 2013 cost of sales as a percent of sales. These benefits were offset by several items, primarily lower factory utilization and the impact of 2012 acquisitions.

*Selling, General and Administrative Expenses:*

SG&A increased \$37 million, or 2.4 percent, in the first quarter of 2013 when compared to the first quarter of 2012, in line with the net sales increase. First quarter 2013 SG&A included increases from acquired businesses which were not in 3M's first-quarter 2012 spending, primarily related to SG&A spending for Ceradyne, Inc. and Federal Signal Technologies,

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which were partially offset by lower pension and postretirement expense. SG&A, measured as a percent of sales, increased to 20.8 percent in the first quarter of 2013, compared to 20.7 percent in the first quarter of 2012.

***Research, Development and Related Expenses:***

R&D expense increased \$19 million, or 4.6 percent, in the first quarter of 2013 when compared to the first quarter of 2012. 3M continued to invest in its key growth initiatives. In addition, first quarter 2013 R&D included increases from acquired businesses which were not in 3M's first-quarter 2012 spending, primarily related to R&D spending for Ceradyne, Inc. and Federal Signal Technologies. These increases were partially offset by lower pension and postretirement expense. R&D, measured as a percent of sales, increased to 5.6 percent of sales in the first quarter of 2013, compared to 5.5 percent of sales in the first quarter of 2012.

***Operating Income:***

Operating income margins were 21.6 percent in the first quarter of 2013 compared to 21.8 in the first quarter of 2012, a decrease of 0.2 percentage points. This included a 0.9 percentage point benefit from the combination of selling price increases and raw material cost decreases. Selling prices rose 0.4 percent and raw material cost deflation was over 2 percent favorable year-on-year. In addition, lower year-on-year pension and postretirement benefit costs provided a 0.6 percentage point benefit and profit leverage on organic volume growth added 0.2 percentage points. These benefits were offset by lower factory utilization, which decreased margins by approximately 1.0 percentage points. Factory utilization largely related to increased inventories in portions of the Electronics and Energy, and Industrial business segments. In addition, acquisition impacts decreased margins by approximately 0.4 percentage points and other items decreased margins by approximately 0.5 percentage points.

***Interest Expense and Income:***

(Millions)	Three months ended		
	2013	March 31,	2012
Interest expense	\$	39	\$ 40
Interest income		(10)	(9)
Total	\$	29	\$ 31

Interest expense was slightly lower in the first quarter of 2013 compared to the same period last year, primarily due to lower interest rates, partially offset by higher average debt balances. Interest income was up slightly year-on-year when comparing the first quarter of 2013 to the same period last year, primarily due to higher average cash balances, partially offset by lower international interest rates.

***Provision for Income Taxes:***

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(Percent of pre-tax income)	Three months ended	
	2013	March 31, 2012
Effective tax rate	29.1%	28.8%

The effective tax rate for the first quarter of 2013 was 29.1 percent, compared to 28.8 percent in the first quarter of 2012, an increase of 0.3 percentage points. This included an increase in the effective tax rate of 3.6 percentage points year-on-year, which largely related to adjustments to 3M's income tax reserves in the first quarter of 2012. This increase was partially offset by factors which decreased the Company's effective tax rate by 3.3 percentage points year-on-year, which included the combination of the reinstatement of the U.S. research and development credit in 2013, and international taxes. The international tax benefit was largely due to the estimated current year geographic mix of income before taxes. Refer to Note 5 for further discussion of income taxes.

The company currently expects that its effective tax rate for total year 2013 will be approximately 29.5 to 30.0 percent. The rate can vary from quarter to quarter due to discrete items, such as the settlement of income tax audits and changes in tax laws, as well as recurring factors, such as geographic mix of income before taxes.

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

(Millions)	Three months ended	
	2013	March 31, 2012
Net income attributable to noncontrolling interest	\$ 18	\$ 16

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M's most significant consolidated entity with non-3M ownership interests. As of March 31, 2013, 3M's effective ownership in Sumitomo 3M Limited is 75 percent.

***Currency Effects:***

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$6 million for the three months ended March 31, 2013. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars, which 3M estimates increased net income attributable to 3M by approximately \$13 million for three months ended March 31, 2013.

***Significant Accounting Policies:***

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

**PERFORMANCE BY BUSINESS SEGMENT**

Disclosures related to 3M's business segments are provided in Note 12. The reportable segments are Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer.

In addition to these five operating business segments, 3M assigns certain costs to Corporate and Unallocated, which is presented separately in the preceding business segments table and in Note 12. Corporate and Unallocated includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis. Corporate and Unallocated operating expenses decreased by \$64 million in the first quarter of 2013.

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when compared to the same period last year. About half of this decrease was due to lower pension and postretirement benefit expense. A portion of the remainder relates to the phased implementation of 3M's enterprise resource planning (ERP) system. As 3M moves its ERP system from the development stage into deployment, more costs are being borne by the business segments rather than Corporate. On average, this ERP impact reduced year-on-year operating income margins in each of 3M's five business segments by 0.3 percentage points, while Corporate reflects a year-on-year benefit.

Information related to 3M's business segments for the first quarter of both 2013 and 2012 is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts are measured separately for the first twelve months of the acquisition. The acquisition and divestiture impacts, if any, foreign currency translation impact and total sales change are also provided for each business segment. Any references to EMEA relate to Europe, Middle East and Africa on a combined basis.

Table of Contents**Industrial Business:**

	Three months ended March 31,			
	2013		2012	
Sales (millions)	\$	2,675	\$	2,558
Sales change analysis:				
Organic local currency		2.9%		7.1%
Acquisitions		3.6		3.2
Translation		(1.9)		(1.2)
Total sales change		4.6%		9.1%
Operating income (millions)	\$	576	\$	591
Percent change		(2.6)%		19.3%
Percent of sales		21.5%		23.1%

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

Sales in Industrial totaled \$2.7 billion, up 4.6 percent in U.S. dollars. Organic local-currency sales increased 2.9 percent, acquisitions added 3.6 percent, and foreign currency translation reduced sales by 1.9 percent. On an organic local-currency basis, most of Industrial's businesses experienced sales growth in the first quarter. Sales growth was led by aerospace, due to a combination of market share gains and strong end-market growth, followed by industrial adhesives and tapes, personal care, and liquid filtration. 3M's automotive OEM business local-currency sales increased 2 percent, despite an estimated decline in first-quarter global auto production, as 3M continues to gain relevance and higher market penetration levels. Organic local-currency sales declined in advanced materials. Acquisition growth related to the November 2012 acquisition of Ceradyne, Inc., which is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries.

Geographically, organic local-currency sales increased 6 percent in Latin America/Canada, and 4 percent in both the United States and Asia Pacific. Organic local-currency sales were flat in EMEA, with broad-based declines in Western Europe offset by increases in Central/East Europe and Middle East/Africa.

Operating income was \$576 million in the first quarter, down 2.6 percent year-on-year. Operating income margins decreased by 1.6 percentage points to 21.5 percent. This decline in margins partially related to the Ceradyne acquisition, which reduced operating income margins by approximately 1.0 percentage point, in addition to some increased inventories in the advanced materials business, which reduced factory utilization levels in the first quarter.

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

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2013</b>			<b>2012</b>
Sales (millions)	\$	<b>1,417</b>	\$	1,387
Sales change analysis:				
Organic local currency		<b>2.3%</b>		5.3%
Acquisitions		<b>2.2</b>		0.1
Divestitures		<b>(0.1)</b>		
Translation		<b>(2.2)</b>		(1.2)
Total sales change		<b>2.2%</b>		4.2%
Operating income (millions)	\$	<b>335</b>	\$	334
Percent change		<b>0.4%</b>		7.0%
Percent of sales		<b>23.7%</b>		24.1%

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

Sales in Safety and Graphics totaled \$1.4 billion, up 2.2 percent in U.S. dollars. Organic local-currency sales increased 2.3 percent, acquisitions added 2.2 percent, divestitures reduced sales by 0.1 percent, and foreign currency translation reduced sales by 2.2 percent. On an organic local-currency basis, sales increased in most businesses, led by commercial graphics and architectural markets. 3M also posted positive organic local-currency sales growth in building and commercial services, personal safety, and roofing granules. Sales declined in the traffic safety and security business, as weak government funding levels and a slow start to the U.S road construction season impacted sales. Acquisition growth related to the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group from Federal Signal Corp. This business focuses on electronic toll collection and parking management hardware and software services.

Organic local-currency sales increased 10 percent in Latin America/Canada, 4 percent in Asia Pacific, and 3 percent in the United States. Organic local-currency sales declined 4 percent in EMEA.

Operating income in the first quarter of 2013 totaled \$335 million, up 0.4 percent. Operating income margins were 23.7 percent of sales, compared to 24.1 percent in the first quarter of 2012. This decline in margins related to the Federal Signal Technologies Group acquisition, which reduced operating income margins by 0.6 percentage points. In addition, 3M incurred some restructuring expenses in the traffic safety and security business.



Table of Contents*Electronics and Energy Business:*

	Three months ended				
	2013		March 31,		2012
Sales (millions)	\$	1,277	\$	1,320	
Sales change analysis:					
Organic local currency		(2.2)%		(10.0)%	
Translation		(1.1)		(0.2)	
Total sales change		(3.3)%		(10.2)%	
Operating income (millions)	\$	196	\$	234	
Percent change		(16.3)%		(25.1)%	
Percent of sales		15.3%		17.7%	

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

Electronics and Energy sales totaled \$1.3 billion, down 3.3 percent in U.S. dollars. Organic local-currency sales decreased 2.2 percent, and foreign currency translation reduced sales by 1.1 percent. Organic local-currency sales decreased approximately 4 percent in 3M's electronics-related businesses due to weakness in consumer electronics demand. Lower market demand also triggered sizable inventory reductions by some of 3M's OEM customers and their tier suppliers. As a result, factory utilization declined and is expected to persist into the second quarter. The reductions in 3M's electronics-related businesses were partially offset by organic local-currency sales increases of approximately 1 percent in 3M's energy businesses, with strength in electrical markets offset in part by weakness in telecommunications and renewable energy. About 60 percent of this segment is electronics-related and about 40 percent is energy-related.

On a geographic basis, organic local-currency sales increased 4 percent in Latin America/Canada. Organic local-currency sales declined 3 percent in Asia Pacific, and 2 percent in both EMEA and the United States.

Operating income decreased 16.3 percent to \$196 million in the first quarter of 2013. Operating income margins were 15.3 percent, compared to 17.7 percent in the first quarter of 2012. The operating margin decline was primarily attributable to lower factory utilization and year-on-year volume declines.

Table of Contents**Health Care Business:**

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2013</b>			<b>2012</b>
Sales (millions)	\$	<b>1,311</b>	\$	1,275
Sales change analysis:				
Organic local currency		<b>4.0%</b>		3.1%
Acquisitions		<b>0.4</b>		
Translation		<b>(1.6)</b>		(1.1)
Total sales change		<b>2.8%</b>		2.0%
Operating income (millions)	\$	<b>404</b>	\$	401
Percent change		<b>0.8%</b>		9.1%
Percent of sales		<b>30.8%</b>		31.4%

The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, health information systems, and food manufacturing and testing. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, inhalation and transdermal drug delivery systems, dental and orthodontic products (oral care), health information systems, and food safety products.

Health Care sales totaled \$1.3 billion, an increase of 2.8 percent in U.S. dollars. Organic local-currency sales increased 4.0 percent, acquisitions added 0.4 percent, and foreign currency translation reduced sales by 1.6 percent. Organic local-currency sales increased across the portfolio, led by food safety, critical and chronic care, and health information systems. In April 2012, 3M further strengthened its health information systems business by acquiring CodeRyte, Inc., which provides clinical natural language processing technology and computer-assisted coding solutions for outpatient providers.

On a geographic basis, organic local-currency sales increased 12 percent in Latin America/Canada, 7 percent in Asia Pacific, 3 percent in EMEA, and 2 percent in the United States. Health Care organic local-currency sales grew 13 percent in emerging markets, with notable strength in India, Middle East/Africa, Brazil, Central/East Europe, and Southeast Asia. Organic local-currency sales in developed markets grew 2 percent, including 6 percent growth in Japan.

Operating income increased 0.8 percent to \$404 million. Operating income margins were 30.8 percent in the first quarter of 2013, compared to 31.4 percent in the first quarter of 2012. Effective January 1, 2013, 3M began to absorb additional costs related to the U.S. medical device tax, which impacted operating income margins by 0.4 percentage points.

Table of Contents**Consumer Business:**

	<b>Three months ended</b>		<b>March 31,</b>	
	<b>2013</b>		<b>2012</b>	
Sales (millions)	\$	<b>1,081</b>	\$	1,060
Sales change analysis:				
Organic local currency		<b>3.7%</b>		2.1%
Acquisitions				2.9
Translation		<b>(1.7)</b>		(0.8)
Total sales change		<b>2.0%</b>		4.2%
Operating income (millions)	\$	<b>237</b>	\$	237
Percent change		<b>0.1%</b>		8.2%
Percent of sales		<b>21.9%</b>		22.3%

The Consumer segment serves markets that include consumer retail, office retail, home improvement, building maintenance and other markets. Products in this segment include office supply products, stationery products, construction and home improvement products (do-it-yourself), home care products, protective material products, certain consumer retail personal safety products, and consumer health care products.

Sales in Consumer totaled \$1.1 billion, up 2.0 percent in U.S. dollars. Organic local-currency sales increased 3.7 percent, and foreign currency translation reduced sales by 1.7 percent. On an organic local-currency basis, sales growth was led by the consumer health care, construction and home improvement, and home care businesses.

On a geographic basis, organic local-currency sales increased 8 percent in Asia Pacific and 5 percent in both the United States and Latin America/Canada. Organic local-currency sales declined by 6 percent in EMEA.

Consumer operating income was \$237 million, the same as first quarter last year. Operating income margins were 21.9 percent, compared to 22.3 percent in the same period last year. During the first quarter, 3M increased investments to build strength for the future, including investments in e-commerce, product design and advertising/merchandising.

Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

As indicated in the following table, 3M's net debt at March 31, 2013 was \$108 million. This compared to net debt of \$308 million at December 31, 2012. At March 31, 2013, 3M had \$5.828 billion of cash, cash equivalents, and marketable securities and \$5.936 billion of debt. Debt included \$4.864 billion of long-term debt and \$1.072 billion related to the current portion of long-term debt and other borrowings. The current portion of long-term debt includes \$850 million (principal amount) of medium-term notes due in August 2013. The strength of 3M's capital structure and consistency of its cash flows provide 3M reliable access to capital markets. Additionally, the Company's maturity profile is staggered to help ensure refinancing needs in any given year are reasonable in proportion to the total portfolio. The Company has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service.

The Company generates significant ongoing cash flow, which has been used, in part, to pay dividends on 3M common stock, for acquisitions, and to fund share repurchase activities. In 2012, the Company acquired Ceradyne, Inc. and other businesses for approximately \$1.0 billion. 3M was able to complete these acquisitions without incurring significant additional debt, while maintaining a strong level of cash, cash equivalents and marketable securities. 2012 acquisitions are discussed in Note 2 in 3M's 2012 Annual Report on Form 10-K.

(Millions)	March 31, 2013	December 31, 2012
Total Debt	\$ 5,936	\$ 6,001
Less: Cash and cash equivalents and marketable securities	5,828	5,693
Net Debt	\$ 108	\$ 308

The Company defines net debt as total debt less the total of cash, cash equivalents and current and long-term marketable securities. 3M considers net debt to be an important measure of liquidity and of its ability to meet ongoing obligations. This measure is not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies.

The Company has sufficient liquidity to meet currently anticipated growth plans, including capital expenditures, working capital investments and acquisitions. Operating cash flow of \$994 million in the first quarter of 2013 was utilized for items such as dividends paid to shareholders (\$440 million) and capital spending (\$324 million). The Company does not utilize derivative instruments linked to the Company's stock.

At March 31, 2013 and December 31, 2012, cash, cash equivalents and marketable securities held internationally totaled \$4.1 billion and \$3.7 billion, respectively, and in the United States totaled \$1.7 billion and \$2.0 billion, respectively. Cash available in the United States has historically been sufficient to fund dividend payments to shareholders and share repurchases, in addition to funding U.S. acquisitions, U.S. capital spending, U.S. pension/other postemployment benefit contributions, and other items as needed. For those international earnings considered to be reinvested indefinitely, the Company currently has no plans or intentions to repatriate these funds for U.S. operations. However, if these international funds are needed for operations in the U.S., 3M would be required to accrue and pay U.S. taxes to repatriate them.

The Company's financial condition and liquidity are strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$7.918 billion at March 31, 2013, compared with \$7.430 billion at December 31, 2012. Working capital increases were primarily attributable to increases in accounts receivable and decreases in accrued payroll.

Primary short-term liquidity needs are met through cash on hand, U.S. commercial paper and euro commercial paper issuances. The Company maintains a commercial paper program that allows 3M to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of issuance. As of March 31, 2013 and December 31, 2012, 3M had no outstanding commercial paper. The Company believes it is unlikely that its access to the commercial paper market will be restricted.

In September 2012, 3M entered into a \$1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of

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up to \$500 million, bringing the total facility up to \$2 billion (at the lenders' discretion). This facility was undrawn at March 31, 2013. In August 2012, 3M entered into a \$150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year \$200 million committed credit facility that was entered into in August 2011. As of March 31, 2013, 3M letters of credit issued under this \$150 million committed facility totaled \$120 million. In December 2012, 3M entered into a three-year 66 million British Pound (approximately \$106 million based on agreement date exchange rates) committed credit agreement with JP Morgan Chase Bank, which is fully drawn as of March 31, 2013. Apart from the committed facilities, an additional \$97 million in stand-alone letters of credit was also issued and outstanding at March 31, 2013. These letters of credit are utilized in connection with normal business activities. Under both the \$1.5 billion and \$150 million credit agreements, the Company is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At March 31, 2013, this ratio was approximately 46 to 1. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective August 5, 2011, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated February 17, 2009. In September 2011, in connection with the August 5, 2011 shelf registration statement, 3M established a \$3 billion medium-term notes program (Series F), from which 3M issued a five-year \$1 billion fixed rate note with a coupon rate of 1.375%. Proceeds were used for general corporate purposes, including repayment in November 2011 of \$800 million (principal amount) of medium-term notes. In June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 with a coupon rate of 1.000% and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022 with a coupon rate of 2.000%, which were both issued from this \$3 billion medium-term notes program (Series F). The designated use of proceeds is for general corporate purposes.

3M's cash and cash equivalents balance at March 31, 2013 totaled \$2.928 billion, with an additional \$2.900 billion in current and long-term marketable securities. 3M's strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M has a long history of dividend increases. In February 2013, 3M's Board of Directors increased the quarterly dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of \$2.54 per share. In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. As of March 31, 2013, approximately \$6.9 billion remained available under the February 2013 repurchase authorization.

In 2013, the Company plans to contribute an amount in the range of \$400 million to \$600 million of cash to its U.S. and international pension and postretirement plans. For the first quarter of 2013, contributions totaling \$67 million were made to the Company's U.S. and international pension plans and \$1 million to its postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of future discretionary contributions could vary significantly depending on the U.S. qualified plans' funded status as of the 2013 measurement date and the anticipated tax deductibility of the contributions. Future contributions will also depend on market conditions, interest rates and other factors. 3M believes its strong cash flow and balance sheet will allow it to fund future pension needs without compromising growth opportunities.

The Company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. These measures are not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventory and accounts payable. This combined index (defined as current quarterly net sales multiplied by four, divided by the sum of ending net accounts receivable plus inventory less accounts payable) was 4.8 at March 31, 2013, similar to 4.8 and 4.9, respectively, at December 31, 2012 and March 31, 2012. Receivables increased \$357 million, or 9 percent, compared with December 31, 2012, with higher March 2013 sales compared to December 2012 sales contributing to this increase. Inventories decreased \$18 million compared with December 31, 2012. At March 31, 2013 compared with December 31, 2012, currency translation decreased accounts receivable by \$87 million and inventories by \$62 million. As indicated in the next section (cash flows from operating activities), accounts receivable increased at a slightly higher level and

inventories increased at a lower level when compared to the first three months of 2012. Accounts payable increased \$58 million compared with December 31, 2012, with the increase primarily related to changes in business activity partially offset by currency translation, which reduced accounts payable by \$32 million.

Cash flows from operating, investing and financing activities are provided in the tables that follow. Individual amounts in the Consolidated Statement of Cash Flows exclude the effects of acquisitions, divestitures and exchange rate impacts on cash and cash equivalents, each of which are presented separately in the cash flows. Thus, the amounts presented in the

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following operating, investing and financing activities tables reflect changes in balances from period to period adjusted for these effects.

**Cash Flows from Operating Activities:**

(Millions)	Three months ended	
	2013	March 31, 2012
Net income including noncontrolling interest	\$ 1,147	\$ 1,141
Depreciation and amortization	336	313
Company pension contributions	(67)	(300)
Company postretirement contributions	(1)	(37)
Company pension expense	111	151
Company postretirement expense	27	29
Stock-based compensation expense	103	103
Income taxes (deferred and accrued income taxes)	160	265
Excess tax benefits from stock-based compensation	(34)	(28)
Accounts receivable	(447)	(431)
Inventories	(28)	(96)
Accounts payable	97	118
Product and other insurance receivables and claims	(8)	(74)
Other net	(402)	(326)
Net cash provided by operating activities	\$ 994	\$ 828

Cash flows from operating activities can fluctuate significantly from period to period, as pension funding decisions, tax timing differences and other items can significantly impact cash flows.

In the first three months of 2013, cash flows provided by operating activities increased \$166 million compared to the first three months of 2012. Operating cash flows benefited year-on-year from \$269 million of lower pension and postretirement plans contributions, which were offset in part by higher year-on-year tax payments. Working capital (which includes accounts receivable, inventories and accounts payable) increased \$378 million in the first three months of 2013 compared to working capital increases of \$409 million in the first three months of 2012. The category Other-net in the preceding table reflects changes in other assets and liabilities accounts, which in the first three months of both 2013 and 2012 largely relates to reductions in accrued payroll, driven by annual incentive plan payments. Additional discussion on working capital changes is provided earlier in the Financial Condition and Liquidity section.

**Free Cash Flow (non-GAAP measure):**

In addition to net cash provided by operating activities, 3M uses free cash flow as a useful measure of performance and as an indication of the strength of the Company and its ability to generate cash. 3M defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment (which is classified as an investing activity). Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The first quarter of each year is typically 3M's seasonal low point for free cash flow each



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year. Below find a recap of free cash flow for the three months ended March 31, 2013 and 2012.

(Millions)	Three months ended	
	2013	March 31, 2012
Net cash provided by operating activities	\$ 994	\$ 828
Purchases of property, plant and equipment (PP&E)	(324)	(261)
Free Cash Flow	\$ 670	\$ 567

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

(Millions)	2013	Three months ended March 31,	2012
Purchases of property, plant and equipment (PP&E)	\$	(324)	\$ (261)
Proceeds from sale of PP&E and other assets		10	4
Purchases and proceeds from sale or maturities of marketable securities and investments, net		(96)	213
Other investing		5	1
Net cash used in investing activities	\$	(405)	\$ (43)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital expenditures were \$324 million in the first three months of 2013, an increase of \$63 million when compared to the first three months of 2012. The Company expects 2013 capital spending to be approximately \$1.6 to \$1.8 billion. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth.

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

Refer to Note 2 for information on acquisitions. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses.

Purchases of marketable securities and investments and proceeds from sale (or maturities) of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 6 for more details about 3M's diversified marketable securities portfolio, which totaled \$2.900 billion as of March 31, 2013. Purchases of marketable securities and investments, net of proceeds from sales or maturities, totaled \$96 million in the first three months of 2013. Proceeds from sales or maturities of marketable securities and investments, net of purchases, totaled \$213 million in the first three months of 2012. Purchases of investments also include additional survivor benefit insurance and equity investments.



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

(Millions)	Three months ended	
	2013	March 31, 2012
Change in short-term debt net	\$ (13)	\$ (18)
Repayment of debt (maturities greater than 90 days)	(5)	(15)
Proceeds from debt (maturities greater than 90 days)	9	6
Total cash change in debt	\$ (9)	\$ (27)
Purchases of treasury stock	(805)	(524)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	738	213
Dividends paid to stockholders	(440)	(410)
Excess tax benefits from stock-based compensation	34	28
Other net	(4)	(2)
Net cash used in financing activities	\$ (486)	\$ (722)

Total debt at March 31, 2013, was \$5.9 billion, down slightly from \$6.0 billion at year-end 2012. Total debt was 24 percent of total capital (total capital is defined as debt plus equity) at March 31, 2013, compared to 25 percent of total capital at year-end 2012. Changes in short-term debt, repayment of debt, and proceeds from debt in the first three months of 2013 and first three months of 2012 were minimal.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2013, 3M's Board of Directors authorized the repurchase of up to \$7.5 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first quarter of 2013, the Company purchased \$805 million of treasury stock, of which a portion was under the previous authorization, compared to \$524 million of treasury stock repurchases in the first quarter of 2012. As of March 31, 2013, approximately \$6.9 billion remained available under the February 2013 repurchase authorization. For more information, refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 2. The Company does not utilize derivative instruments linked to the Company's stock.

Cash dividends paid to stockholders totaled \$440 million in the first three months of 2013 compared to \$410 million in the first three months of 2012. 3M has paid dividends since 1916. In February 2013, the Board of Directors increased the quarterly dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of \$2.54 per share. This marked the 55th consecutive year of dividend increases.

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

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



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**CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders and in press releases. In addition, the Company's representatives may from time to time make oral forward-looking statements.

Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as plan, expect, aim, believe, project, target, anticipate, intend, estimate, will, should, could and other words meaning, typically identify such forward-looking statements. In particular, these include, among others, statements relating to the Company's

- strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position,
- worldwide economic and capital markets conditions, such as interest rates, foreign currency exchange rates, financial conditions of our suppliers and customers, and natural and other disasters affecting the operations of the Company or our suppliers and customers,
- new business opportunities, product development, and future performance or results of current or anticipated products,
- the scope, nature or impact of acquisition, strategic alliance and divestiture activities,
- the outcome of contingencies, such as legal and regulatory proceedings,
- future levels of indebtedness, common stock repurchases and capital spending,
- future availability of and access to credit markets,
- pension and postretirement obligation assumptions and future contributions, asset impairments, tax liabilities, information technology security, and
- the effects of changes in tax, environmental and other laws and regulations in the United States and other countries in which we operate.

The Company assumes no obligation to update or revise any forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Important information as to these factors can be found in this document, including, among others, Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings of Overview, Financial Condition and Liquidity and annually in Critical Accounting Estimates. Discussion of these factors is incorporated by reference from Part II, Item 1A, Risk

Factors, of this document, and should be considered an integral part of Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

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

In the context of Item 3, 3M is exposed to market risk due to the risk of loss arising from adverse changes in foreign currency exchange rates, interest rates and commodity prices. Changes in those factors could cause fluctuations in earnings and cash flows. For a discussion of sensitivity analysis related to these types of market risks, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in 3M's 2012 Annual Report on Form 10-K. There have been no material changes in information that would have been provided in the context of Item 3 from the end of the preceding year until March 31, 2013. However, the Company does provide risk management discussion in various places in this Quarterly Report on Form 10-Q, primarily in the Derivatives note.

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**Item 4. Controls and Procedures.**

a. The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

b. There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is implementing an enterprise resource planning ( ERP ) system on a worldwide basis, which is expected to improve the efficiency of certain financial and related transaction processes. The gradual implementation is expected to occur in phases over the next several years. The implementation of a worldwide ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

The Company completed implementation with respect to elements of certain processes/sub-processes in limited subsidiaries/locations and will continue to roll-out the ERP system over the next several years. As with any new information technology application we implement, this application, along with the internal controls over financial reporting included in this process, was appropriately considered within the testing for effectiveness with respect to the implementation in these instances. We concluded, as part of our evaluation described in the above paragraphs, that the implementation of ERP in these circumstances has not materially affected our internal control over financial reporting.



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**3M COMPANY**

**FORM 10-Q**

**For the Quarterly Period Ended March 31, 2013**

**PART II. Other Information**

**Item 1. Legal Proceedings.**

Discussion of legal matters is incorporated by reference from Part I, Item 1, Note 10, *Commitments and Contingencies*, of this document, and should be considered an integral part of Part II, Item 1, *Legal Proceedings*.

**Item 1A. Risk Factors.**

Provided below is a cautionary discussion of what we believe to be the most important risk factors applicable to the Company. Discussion of these factors is incorporated by reference into and considered an integral part of Part I, Item 2, *Management's Discussion and Analysis of Financial Conditions and Results of Operations*.

*\* Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 70 countries and derives approximately two-thirds of its revenues from outside the United States. The Company's business is subject to global competition and may be adversely affected by factors in the United States and other countries that are beyond its control, such as disruptions in financial markets, economic downturns in the form of either contained or widespread recessionary conditions, elevated unemployment levels, sluggish or uneven recovery, in specific countries or regions, or in the various industries in which the Company operates; social, political or labor conditions in specific countries or regions; natural and other disasters affecting the operations of the Company or its customers and suppliers; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

*\* The Company's credit ratings are important to 3M's cost of capital.* The major rating agencies routinely evaluate the Company's credit profile and assign debt ratings to 3M. The Company currently has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company's current ratings have served to lower 3M's borrowing costs and facilitate access to a variety of lenders. Failure to maintain the current ratings level would adversely affect the Company's cost of funds and could adversely affect liquidity and access to capital markets.

*\* The Company's results are affected by competitive conditions and customer preferences.* Demand for the Company's products, which impacts revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products; (ii) the Company's response to downward pricing to stay competitive; (iii) changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases which may be affected by announced price changes, changes in the Company's incentive

programs, or the customer's ability to achieve incentive goals; and (iv) changes in customer's preferences for our products, including the success of products offered by our competitors, and changes in customer designs for their products that can affect the demand for some of the Company's products.

*\* Foreign currency exchange rates and fluctuations in those rates may affect the Company's ability to realize projected growth rates in its sales and earnings.* Because the Company's financial statements are denominated in U.S. dollars and approximately two-thirds of the Company's revenues are derived from outside the United States, the Company's results of operations and its ability to realize projected growth rates in sales and earnings could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

*\* The Company's growth objectives are largely dependent on the timing and market acceptance of its new product offerings, including its ability to continually renew its pipeline of new products and to bring those products to market.* This ability may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection, or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful.

*\* The Company's future results are subject to fluctuations in the costs and availability of purchased components, compounds, raw materials and energy, including oil and natural gas and their derivatives, due to shortages, increased demand, supply interruptions, currency exchange risks, natural disasters and other factors.* The Company depends on various components, compounds, raw materials, and energy (including oil and natural gas and their derivatives) supplied by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due

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to natural and other disasters and other events, or be terminated in the future. Any sustained interruption in the Company's receipt of adequate supplies could have a material adverse effect on the Company. In addition, while the Company has a process to minimize volatility in component and material pricing, no assurance can be given that the Company will be able to successfully manage price fluctuations or that future price fluctuations or shortages will not have a material adverse effect on the Company.

*\* Acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring could affect future results.* The Company monitors its business portfolio and organizational structure and has made and may continue to make acquisitions, strategic alliances, divestitures and changes to its organizational structure. With respect to acquisitions, future results will be affected by the Company's ability to integrate acquired businesses quickly and obtain the anticipated synergies.

*\* The Company's future results may be affected if the Company generates fewer productivity improvements than estimated.* The Company utilizes various tools, such as Lean Six Sigma, to improve operational efficiency and productivity. There can be no assurance that all of the projected productivity improvements will be realized.

*\* The Company employs information technology systems to support its business, including ongoing phased implementation of an enterprise resource planning (ERP) system on a worldwide basis over the next several years. Security breaches and other disruptions to the Company's information technology infrastructure could interfere with the Company's operations, compromise information belonging to the Company and its customers and suppliers, and expose the Company to liability which could adversely impact the Company's business and reputation.* In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. There may be other challenges and risks as the Company upgrades and standardizes its ERP system on a worldwide basis. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company's reputation, which could adversely affect the Company's business.

*\* The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, environmental, the U.S. Foreign Corrupt Practices Act and other anti-bribery, anti-corruption, or other matters.* The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period. For a more detailed discussion of the legal proceedings involving the Company and the associated accounting estimates, see the discussion in Note 10 Commitments and Contingencies within the Notes to Consolidated Financial Statements.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Issuer Purchases of Equity Securities**

Repurchases of 3M common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, with no pre-established end date. In February 2013, 3M's Board of Directors replaced the Company's existing repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$7.5 billion of 3M's outstanding common stock, with no pre-established end date.

**Issuer Purchases of Equity**

**Securities (registered pursuant to**

**Section 12 of the Exchange Act)**

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)</b>
January 1-31, 2013	1,664,478	\$ 97.17	1,634,216	\$ 2,306
February 1-28, 2013	3,199,508	\$ 103.21	2,644,039	\$ 7,227
March 1-31, 2013	2,995,946	\$ 105.13	2,981,063	\$ 6,913
Total January 1-March 31, 2013	7,859,932	\$ 102.66	7,259,318	\$ 6,913

(1) The total number of shares purchased includes: (i) shares purchased under the Board's authorizations described above, and (ii) shares purchased in connection with the exercise of stock options.

(2) The total number of shares purchased as part of publicly announced plans or programs includes shares purchased under the Board's authorizations described above.

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

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

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

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**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed herewith with this report. Exhibit numbers 10.1 through 10.37 are management contracts or compensatory plans or arrangements.

**Index to Exhibits:**

(3) Articles of Incorporation and bylaws

(3.1) Certificate of incorporation, as amended as of May 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.

(3.2) Bylaws, as amended as of February 10, 2009, are incorporated by reference from our Form 8-K dated February 12, 2009.

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

(4.1) Indenture, dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 8-K dated December 7, 2000.

(4.2) First Supplemental Indenture, dated as of July 29, 2011, to Indenture dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2011.

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

(10.1) 3M 2008 Long-Term Incentive Plan (including amendments through February 2012) is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Stockholders.

(10.2) Form of Agreement for Stock Option Grants to Executive Officers under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated May 13, 2008.

(10.3) Form of Stock Option Agreement for options granted to Executive Officers under the 3M 2008 Long-Term Incentive Plan, commencing February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.

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- (10.4) Form of Restricted Stock Unit Agreement for restricted stock units granted to Executive Officers under the 3M Long-Term Incentive Plan, effective February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.5) Form of 3M 2010 Performance Share Award under the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated March 4, 2010.
- (10.6) Form of Stock Option Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.7) Form of Restricted Stock Unit Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.8) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.9) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.10) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.11) Amendments of 3M 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.12) Form of award agreement for non-qualified stock options granted under the 2005 Management Stock Ownership Program, is incorporated by reference from our Form 8-K dated May 16, 2005.
- (10.13) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.

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- (10.14) 3M 1997 General Employees Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 3M Board resolution dated May 12, 2009, regarding three-year extension of 3M 1997 General Employees Stock Purchase Plan is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2009.
- (10.16) Amendment of the 3M 1997 General Employees Stock Purchase Plan approved on February 9, 2010 is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.17) 3M Board resolution dated February 7, 2012 extending for three additional one-year periods the General Employees Stock Purchase Plan, is incorporated by reference from our Form 10-K for the year ended December 31, 2011.
- (10.18) 3M 2012 Amended and Restated General Employees Stock Purchase Plan is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Shareholders.
- (10.19) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.20) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.21) 3M VIP (Voluntary Investment Plan) Plus is incorporated by reference from Registration Statement No. 333-73192 on Form S-8, filed on November 13, 2001.
- (10.22) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.23) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.24) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.25) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.26) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.27) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.28) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.29) 3M Compensation Plan for Non-Employee Directors, as amended, through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.30) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.31) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.



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- (10.32) Summary of Personal Financial Planning Services for 3M Executives is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.33) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.34) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.35) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.36) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.37) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.38) Amended and restated five-year credit agreement as of September 28, 2012, is incorporated by reference from our Form 8-K dated October 3, 2012.
- (10.39) Letter of credit agreement as of August 24, 2012 is incorporated by reference from our Form 8-K dated August 29, 2012.
- (10.40) Registration Rights Agreement as of August 4, 2009, between 3M Company and State Street Bank and Trust Company as Independent Fiduciary of the 3M Employee Retirement Income Plan, is incorporated by reference from our Form 8-K dated August 5, 2009.

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Filed herewith:

- (12) Calculation of ratio of earnings to fixed charges.
- (15) A letter from the Company's independent registered public accounting firm regarding unaudited interim consolidated financial statements.
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (95) Mine Safety Disclosures.
- (101) The following financial information from 3M Company's Quarterly Report on Form 10-Q for the period ended March 31, 2013, filed with the SEC on May 2, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month periods ended March 31, 2013 and 2012, (ii) the Consolidated Statement of Comprehensive Income for the three-month periods ended March 31, 2013 and 2012 (iii) the Consolidated Balance Sheet at March 31, 2013 and December 31, 2012, (iv) the Consolidated Statement of Cash Flows for the three-month periods ended March 31, 2013 and 2012, and (v) Notes to Consolidated Financial Statements.

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**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: May 2, 2013

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

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dden;font-size:10pt;">

N/A

\$

8.0

N/A

\$

8.0

Liabilities:

Foreign currency forward exchange contracts

N/A

\$

1.3

N/A

\$

1.3

N/A

\$

6.2

N/A

\$

6.2

Interest rate contracts

N/A

15.3

N/A

15.3

Explanation of Responses:

N/A

6.8

N/A

6.8

Contingent purchase price payments related to reacquisition of the perpetual rights to the Tommy Hilfiger trademarks in India

N/A

N/A

\$  
4.0

4.0

N/A

N/A

\$  
4.2

4.2

Total Liabilities

N/A

\$  
16.6

\$  
4.0

\$  
20.6

N/A

Explanation of Responses:

\$  
13.0

\$  
4.2

\$  
17.2

The fair value of the foreign currency forward exchange contracts is measured as the total amount of currency to be purchased, multiplied by the difference between (i) the forward rate as of the period end and (ii) the settlement rate specified in each contract. The fair values of the interest rate contracts are based on observable interest rate yield curves and represent the expected discounted cash flows underlying the financial instruments.

Pursuant to the agreement governing the reacquisition of the rights in India to the Tommy Hilfiger trademarks (which the Company entered into in connection with its acquisition of its 50% ownership of TH India), the Company is required to make annual contingent purchase price payments into 2016 (or, under certain circumstances, into 2017) based on a percentage of annual sales in excess of an agreed upon threshold of Tommy Hilfiger products in India. Such payments are subject to a \$25.0 million aggregate maximum and are due within 60 days following each one-year period. The Company made annual contingent purchase price payments of \$0.6 million, \$0.4 million and \$0.2 million during 2014, 2013 and 2012, respectively. The Company is required to remeasure this liability at fair value on a recurring basis and classifies this as a Level 3 measurement. The fair value of such liability was determined using the discounted cash flow method, based on net sales projections for the Tommy Hilfiger apparel and accessories businesses in India, and was discounted using rates of return that account for the relative risks of the estimated future cash flows. Excluding the initial recognition of the liability for the contingent purchase

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

price payments and payments made to reduce the liability, changes in the fair value are included within selling, general and administrative expenses.

The following table presents the change in the Level 3 contingent purchase price payment liability during 2014 and 2013:

(In millions)	2014	2013
Beginning Balance	\$4.2	\$7.0
Payments	(0.6	) (0.4
Adjustments included in earnings	0.4	(2.4
Ending Balance	\$4.0	\$4.2

Additional information with respect to assumptions used to value the contingent purchase price payment liability as of February 1, 2015 is as follows:

Unobservable Inputs	Amount
Approximate compounded annual net sales growth rate	35.0 %
Approximate discount rate	15.0 %

A five percentage point increase or decrease in the discount rate would change the liability by approximately \$0.5 million.

A five percentage point increase or decrease in the compounded annual net sales growth rate would change the liability by approximately \$0.5 million.

There were no transfers between any levels of the fair value hierarchy for any of the Company's fair value measurements.

The following table shows the fair value of the Company's non-financial assets and liabilities that were required to be remeasured at fair value on a nonrecurring basis (consisting of property, plant and equipment, other long-lived assets and goodwill) during 2014 and 2013, and the total impairments recorded as a result of the remeasurement process:

(In millions)	Fair Value Measurement Using			Fair Value As Of Impairment Date	Total Impairments
	Level 1	Level 2	Level 3		
2014	N/A	N/A	\$1.3	\$1.3	\$29.7
2013	N/A	N/A	\$1.1	\$1.1	\$8.8

Long-lived assets with a carrying amount of \$13.3 million were written down to a fair value of \$1.3 million during 2014 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the estimated discounted future cash flows associated with the assets using current sales trends and market participant assumptions. The \$12.0 million impairment charge was included in selling, general and administrative expenses, of which \$0.1 million was recorded in the Calvin Klein North America segment, \$3.8 million was recorded in the Calvin Klein International segment, \$3.4 million was recorded in the Tommy Hilfiger North America segment, \$1.7 million was recorded in the Tommy Hilfiger International segment and \$3.0 million was recorded in the Heritage

Explanation of Responses:

Brands Retail segment.

Long-lived assets with a carrying amount of \$5.8 million and goodwill of \$11.9 million were written down to a fair value of zero during 2014 in connection with the exit of the Company's Izod retail business. The impairment charge was included in selling, general and administrative expenses in the Heritage Brands Retail segment.

Long-lived assets with a carrying amount of \$8.7 million were written down to a fair value of \$1.1 million during 2013 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

estimated discounted future cash flows associated with the assets using current sales trends and market participant assumptions. The impairment charge of \$7.6 million was included in selling, general and administrative expenses, of which \$0.8 million was recorded in the Calvin Klein North America segment, \$1.0 million was recorded in the Calvin Klein International segment, \$3.1 million was recorded in the Tommy Hilfiger North America segment, \$2.2 million was recorded in the Tommy Hilfiger International segment and \$0.5 million was recorded in the Heritage Brands Retail segment.

Long-lived assets with a carrying amount of \$1.2 million were written down to a fair value of zero during 2013 in connection with the sale of substantially all of the assets of the Company's Bass business. The impairment charge was included in selling, general and administrative expenses in the Heritage Brands Retail segment.

In connection with the sale of substantially all of the assets of the Company's Bass business in the fourth quarter of 2013, the Company guaranteed lease payments for substantially all Bass retail stores included in the sale pursuant to the terms of noncancelable leases expiring on various dates through 2022. These guarantees include minimum rent payments and relate to leases that commenced prior to the sale of the Bass assets. In certain instances, the Company's guarantee remains in effect when an option is exercised to extend the term of the lease. The estimated fair value of these guarantee obligations as of February 1, 2015 was \$3.0 million, which was included in accrued expenses and other liabilities in the Company's Consolidated Balance Sheet. The Company classifies this as a Level 3 measurement. The fair value of such guarantee obligations was determined using the discounted cash flow method, based on the guaranteed lease payments, the estimated probability of lease extensions and estimates of the risk of default by the buyer of the Bass assets, and was discounted using rates of return that account for the relative risks of the estimated future cash flows.

The carrying amounts and the fair values of the Company's cash and cash equivalents, short-term borrowings and long-term debt were as follows:

(In millions)	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$479.3	\$479.3	\$593.2	\$593.2
Short-term borrowings	8.5	8.5	6.8	6.8
Long-term debt (including portion classified as current)	3,538.0	3,567.7	3,963.2	4,025.3

The fair values of cash and cash equivalents and short-term borrowings approximate their carrying values due to the short-term nature of these instruments. The Company estimates the fair value of its long-term debt using quoted market prices as of the last business day of the applicable year. The Company classifies the measurement of its long-term debt as a Level 1 measurement.

## 11. RETIREMENT AND BENEFIT PLANS

The Company has five noncontributory defined benefit pension plans as of February 1, 2015 covering substantially all employees resident in the United States who meet certain age and service requirements. As part of the Warnaco acquisition, the Company acquired a frozen noncontributory defined benefit pension plan. Such plan was merged with an existing plan during 2013. The plans provide monthly benefits upon retirement based on career compensation and years of credited service. Vesting in plan benefits generally occurs after five years of service. The Company refers to

these five plans as its “Pension Plans.” The Company also acquired as part of the Warnaco acquisition a defined benefit pension plan for certain of Warnaco’s former employees in Europe. This plan was not considered to be material for any period presented.

The Company also has for certain members of Tommy Hilfiger’s domestic senior management a supplemental executive retirement plan, which is an unfunded non-qualified supplemental defined benefit pension plan. Such plan is frozen and, as a result, participants do not accrue additional benefits. In addition, the Company has a capital accumulation plan, which is an unfunded non-qualified supplemental defined benefit plan. Under the individual participants’ agreements, the participants in this plan will receive a predetermined amount during the 10 years following the attainment of age 65, provided that prior to the termination of employment with the Company, the participant has been in the plan for at least 10 years and has attained age 55. The Company also has for certain employees resident in the United States who meet certain age and service requirements an unfunded non-qualified supplemental defined benefit pension plan, which provides benefits for compensation in excess of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Internal Revenue Service earnings limits and requires payments to vested employees upon, or shortly after, employment termination or retirement. The Company refers to these three plans as its "SERP Plans."

The Company also provides certain postretirement health care and life insurance benefits to certain retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. During 2002, the postretirement plan was amended to eliminate the Company contribution, which partially subsidized benefits, for active participants who, as of January 1, 2003, had not attained age 55 and 10 years of service. As a result of the Company's acquisition of Warnaco, the Company also provides certain postretirement health care and life insurance benefits to certain Warnaco retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. This plan was frozen on January 1, 2014. The Company refers to these two plans as its "Postretirement Plans."

Reconciliations of the changes in the projected benefit obligation (Pension Plans and SERP Plans) and the accumulated benefit obligation (Postretirement Plans) for each of the last two years were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2014	2013	2014	2013	2014	2013
Balance at beginning of year	\$571.5	\$406.4	\$80.8	\$74.9	\$16.1	\$16.0
Acquisition of Warnaco	—	182.3	—	0.2	—	4.5
Service cost	19.4	18.7	4.5	4.4	—	0.1
Interest cost	28.5	26.4	4.0	3.6	0.8	0.9
Benefit payments	(29.1 )	(30.5 )	(4.7 )	(4.4 )	—	—
Benefit payments, net of retiree contributions	—	—	—	—	(2.1 )	(2.2 )
Plan curtailments	—	—	—	—	—	(2.2 )
Medicare subsidy	—	—	—	—	0.1	0.0
Actuarial loss (gain)	144.5	(31.8 )	13.9	2.1	3.2	(1.0 )
Balance at end of year	\$734.8	\$571.5	\$98.5	\$80.8	\$18.1	\$16.1

The actuarial losses in 2014 were due principally to decreases in the discount rates and updated mortality assumptions.

Reconciliations of the fair value of the assets held by the Company's Pension Plans and the plans' funded status for each of the last two years were as follows:

(In millions)	2014	2013
Fair value of plan assets at beginning of year	\$615.6	\$384.0
Acquisition of Warnaco	—	143.5
Actual return, net of plan expenses	65.6	58.6
Benefit payments	(29.1 )	(30.5 )
Company contributions	2.7	60.0
Fair value of plan assets at end of year	\$654.8	\$615.6
Funded status at end of year	\$(80.0 )	\$44.1

Amounts recognized in the Company's Consolidated Balance Sheets were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2014	2013	2014	2013	2014	2013
Non-current assets	\$—	\$49.5	\$—	\$—	\$—	\$—
Current liabilities	—	—	(7.1 )	(6.5 )	(2.1 )	(2.1 )

Explanation of Responses:

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Non-current liabilities	(80.0	) (5.4	) (91.4	) (74.3	) (16.0	) (14.0	)
Net amount recognized	\$(80.0	) \$44.1	\$(98.5	) \$(80.8	) \$(18.1	) \$(16.1	)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Pre-tax amounts in AOCI that, as of the end of each applicable fiscal year, had not yet been recognized as components of net benefit cost were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2014	2013	2014	2013	2014	2013
Prior service (cost) credit	\$(0.0	) \$(0.0	) \$0.1	\$0.2	\$0.6	\$1.4

Pre-tax amounts in AOCI as of February 1, 2015 expected to be recognized as components of net benefit cost in 2015 were as follows:

(In millions)	Pension Plans	SERP Plans	Postretirement Plan
Prior service (cost) credit	\$(0.0	) \$0.1	\$0.4

The assets of the Pension Plans are invested with the objective of being able to meet current and future benefit payment needs, while controlling future contributions. The assets of the Pension Plans are diversified among United States equities, international equities, fixed income investments and cash. The strategic target allocation for the majority of the Pension Plans as of February 1, 2015 was approximately 40% United States equities, 20% international equities and 40% fixed income investments and cash. Equity securities primarily include investments in large-, mid- and small-cap companies located in the United States and abroad. Fixed income securities include corporate bonds of companies from diversified industries, municipal bonds, collective funds and United States Treasury bonds. Actual investment allocations may vary from the Company's target investment allocations due to prevailing market conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In accordance with the fair value hierarchy described in Note 10, "Fair Value Measurements," the following tables show the fair value of the total assets of the Company's Pension Plans for each major category as of February 1, 2015 and February 2, 2014:

(In millions)		Fair Value Measurements as of February 1, 2015 <sup>(9)</sup>		
Asset Category	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
United States equities <sup>(1)</sup>	\$192.5	\$192.5	\$—	\$—
International equities <sup>(1)</sup>	22.0	22.0	—	—
United States equity fund <sup>(2)</sup>	22.0	—	22.0	—
International equity funds <sup>(3)</sup>	115.0	77.2	37.8	—
Fixed income securities:				
Government securities <sup>(4)</sup>	57.5	—	57.5	—
Corporate securities <sup>(4)</sup>	219.9	—	219.9	—
Short-term investment funds <sup>(5)</sup>	17.2	—	17.2	—
Total return mutual fund <sup>(6)</sup>	5.8	5.8	—	—
Subtotal	\$651.9	\$297.5	\$354.4	\$—
Other assets and liabilities <sup>(7)</sup>	2.9			
Total	\$654.8			

(In millions)		Fair Value Measurements as of February 2, 2014 <sup>(9)</sup>		
Asset Category	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
United States equities <sup>(1)</sup>	\$244.7	\$244.7	\$—	\$—
International equities <sup>(1)</sup>	24.0	24.0	—	—
United States equity fund <sup>(2)</sup>	19.3	—	19.3	—
International equity fund <sup>(8)</sup>	63.4	63.4	—	—
Fixed income securities:				
Government securities <sup>(4)</sup>	51.6	—	51.6	—
Corporate securities <sup>(4)</sup>	168.6	—	168.6	—
Asset and mortgage-backed securities <sup>(4)</sup>	10.3	—	10.3	—
Short-term investment funds <sup>(5)</sup>	27.0	—	27.0	—
Total return mutual fund <sup>(6)</sup>	5.3	5.3	—	—
Subtotal	\$614.2	\$337.4	\$276.8	\$—
Other assets and liabilities <sup>(7)</sup>	1.4			
Total	\$615.6			

<sup>(1)</sup> Valued at the closing price or unadjusted quoted price in the active market in which the individual securities are traded.

Explanation of Responses:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Valued at the net asset value of the fund, as determined by a pricing vendor or the fund family. The Company has (2) the ability to redeem this investment at net asset value within the near term and therefore classifies this investment within Level 2. This commingled fund invests in United States large cap equities that track the Russell 1000 Index.

Valued at the net asset value of the fund, either as determined by the closing price in the active market in which the (3) individual fund is traded and classified within Level 1, or as determined by a pricing vendor or the fund family and classified within Level 2. This category includes funds that invest in equities of companies outside of the United States.

Valued with bid evaluation pricing where the inputs are based on actual trades in active markets, when available, (4) as well as observable market inputs that include actual and comparable trade data, market benchmarks, broker quotes, trading spreads and/or other applicable data.

Valued at the net asset value of the funds, as determined by a pricing vendor or the fund family. The Company has (5) the ability to redeem these investments at net asset value within the near term and therefore classifies these investments within Level 2. These funds invest in high-grade, short-term, money market instruments.

(6) Valued at the net asset value of the fund, as determined by the closing price in the active market in which the individual fund is traded. This fund invests in both equity securities and fixed income securities.

(7) This category includes other pension assets and liabilities such as pending trades and accrued income.

Valued at the net asset value of the fund, as determined by the closing price in the active market in which the (8) individual fund is traded. This category includes funds that invest in equities of companies outside of the United States.

The Company uses third party pricing services to determine the fair values of the financial instruments held by the Pension Plans. The Company obtains an understanding of the pricing services' valuation methodologies and related (9) inputs and validates a sample of prices provided by the pricing services by reviewing prices from other pricing sources and analyzing pricing data in certain instances. The Company has not adjusted any prices received from the third party pricing services.

The Company believes that there are no significant concentrations of risk within the plan assets at February 1, 2015.

In 2014, all of the Company's Pension Plans had projected benefit obligations and accumulated benefit obligations in excess of plan assets. In 2013, two of the Company's Pension Plans had projected benefit obligations and accumulated benefit obligations in excess of plan assets. The balances were as follows:

(In millions, except plan count)	2014	2013
Number of plans with projected benefit obligations in excess of plan assets	5	2
Aggregate projected benefit obligation	\$734.8	\$27.7
Aggregate fair value of related plan assets	\$654.8	\$22.3
Number of plans with accumulated benefit obligations in excess of plan assets	5	2
Aggregate accumulated benefit obligation	\$694.3	\$25.4
Aggregate fair value of related plan assets	\$654.8	\$22.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The components of net benefit cost and other pre-tax amounts recognized in other comprehensive (loss) income in each of the last three years were as follows:

## Net Benefit Cost Recognized in Selling, General and Administrative Expenses

(In millions)	Pension Plans			SERP Plans			Postretirement Plans		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Service cost, including plan expenses	\$20.0	\$19.2	\$15.7	\$4.5	\$4.4	\$3.6	\$—	\$0.1	\$—
Interest cost	28.5	26.4	18.0	4.0	3.6	3.3	0.8	0.9	0.8
Actuarial loss (gain)	121.8	(51.4 )	23.4	13.9	2.1	5.8	3.2	(1.0 )	(1.1 )
Expected return on plan assets	(43.5 )	(39.5 )	(20.9 )	—	—	—	—	—	—
Amortization of prior service cost (credit)	0.0	0.0	0.0	(0.1 )	(0.1 )	(0.1 )	(0.8 )	(0.8 )	(0.8 )
Curtailment gain	—	—	—	—	—	—	—	(2.2 )	—
Total	\$126.8	\$(45.3 )	\$36.2	\$22.3	\$10.0	\$12.6	\$3.2	\$(3.0 )	\$(1.1 )

## Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

(In millions)	Pension Plans			SERP Plans			Postretirement Plans		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Prior service cost	\$0.0	\$—	\$0.0	\$—	\$—	\$—	\$—	\$—	\$—
Amortization of prior service (cost) credit	(0.0 )	(0.0 )	(0.0 )	0.1	0.1	0.1	0.8	0.8	0.8
Loss (income) recognized in other comprehensive income	\$0.0	\$(0.0 )	\$(0.0 )	\$0.1	\$0.1	\$0.1	\$0.8	\$0.8	\$0.8

Currently, the Company expects to make contributions of approximately \$1.4 million to its Pension Plans in 2015. The Company's actual contributions may differ from planned contributions due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates. The expected benefit payments associated with the Company's Pension Plans and SERP Plans, and expected benefit payments, net of retiree contributions, associated with the Company's Postretirement Plans are as follows:

Fiscal Year	Pension Plans	SERP Plans	Postretirement Plans	
			Excluding Medicare Subsidy Receipts	Expected Medicare Subsidy Receipts
2015	\$28.8	\$7.1	\$2.0	\$0.0
2016	29.3	7.4	1.9	0.0
2017	30.0	6.6	1.8	0.0
2018	31.0	6.9	1.7	0.0
2019	32.1	14.5	1.6	0.0
2020-2024	179.4	51.9	6.4	0.1

Explanation of Responses:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The medical health care cost trend rate assumed for 2015 is 6.19% and is assumed to decrease by approximately 0.14% per year through 2027. Thereafter, the rate assumed is 4.50%. If the assumed health care cost trend rate increased or decreased by 1%, the aggregate effect on the service and interest cost components of the net postretirement benefit cost for 2014 and on the accumulated postretirement benefit obligation at February 1, 2015 would be as follows:

(In millions)	1% Increase	1% Decrease
Impact on service and interest cost	\$0.0	\$(0.0 )
Impact on year end accumulated postretirement benefit obligation	1.2	(1.0 )

Significant weighted average rate assumptions used in determining the projected and accumulated benefit obligations at the end of each year and benefit cost in the following year were as follows:

	2014	2013	2012	
Discount rate (applies to Pension Plans and SERP Plans)	3.94	% 5.07	% 4.67	%
Discount rate (applies to Postretirement Plans)	3.53	% 5.07	% 4.67	%
Rate of increase in compensation levels (applies to Pension Plans only)	4.28	% 4.33	% 4.34	%
Long-term rate of return on assets (applies to Pension Plans only)	6.75	% 7.25	% 7.25	%

To develop the expected weighted average long-term rate of return on assets assumption, the Company considered the historical level of the risk premium associated with the asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Company has savings and retirement plans and a supplemental savings plan for the benefit of its eligible employees who elect to participate. The Company matches a portion of employee contributions to the plans. The Company also has a defined contribution plan for certain employees associated with certain businesses acquired in the Tommy Hilfiger acquisition, whereby the Company pays a percentage of the contribution for the employee. The Company's contributions to these plans were \$20.3 million, \$21.8 million and \$15.1 million in 2014, 2013 and 2012, respectively.

## 12. STOCKHOLDERS' EQUITY

### Common Stock Issuance

On February 13, 2013, the Company issued 7.7 million shares of its common stock, par value \$1.00 per share, as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition.

### Series A Convertible Preferred Stock

In 2010, the Company sold 8 thousand shares of Series A convertible preferred stock for net proceeds of \$188.6 million after related fees and expenses. During 2012, the holders of the Series A convertible preferred stock converted such convertible preferred stock into 4.2 million shares of the Company's common stock. Holders of the Series A convertible preferred stock were entitled to vote and participate in dividends with the holders of the Company's common stock on an as-converted basis. Due to the conversion of such stock, there were no holders of the Company's Series A convertible preferred stock as of February 3, 2013. During 2013, the Company filed with the Secretary of State of the State of Delaware a certificate eliminating the Series A convertible preferred stock.

Explanation of Responses:

Common Stock Dividends

During each of 2014, 2013 and 2012, the Company paid four \$0.0375 per share cash dividends on its common stock.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

### 13. STOCK-BASED COMPENSATION

The Company grants stock-based awards under its 2006 Stock Incentive Plan (the “2006 Plan”). The 2006 Plan replaced the Company’s 2003 Stock Option Plan (the “2003 Plan”) and certain other prior stock option plans. The 2003 Plan and these other plans terminated upon the 2006 Plan’s initial stockholder approval in June 2006, other than with respect to outstanding options, which continued to be governed by the applicable prior plan. Only awards under the 2003 Plan continue to be outstanding insofar as these prior plans are concerned. Shares issued as a result of stock-based compensation transactions generally have been funded with the issuance of new shares of the Company’s common stock.

The Company may grant the following types of incentive awards under the 2006 Plan: (i) non-qualified stock options (“NQs”); (ii) incentive stock options (“ISOs”); (iii) stock appreciation rights; (iv) restricted stock; (v) restricted stock units (“RSUs”); (vi) performance share units; and (vii) other stock-based awards. Each award granted under the 2006 Plan is subject to an award agreement that incorporates, as applicable, the exercise price, the term of the award, the periods of restriction, the number of shares to which the award pertains, applicable performance period(s) and performance measure(s), and such other terms and conditions as the plan committee determines.

Through February 1, 2015, the Company has granted under the 2006 Plan (i) service-based NQs, RSUs and restricted stock; (ii) contingently issuable performance share units; and (iii) RSUs that are intended to satisfy the performance-based condition for deductibility under Section 162(m) of the Internal Revenue Code. According to the terms of the 2006 Plan, for purposes of determining the number of shares available for grant, with the exception of the Warnaco employee replacement awards discussed below, each share underlying a stock option award reduces the number available by one share and each share underlying a restricted stock award, RSU or performance share unit award reduces the number available by two shares. Each share underlying a Warnaco employee replacement stock option, restricted stock, RSU or performance share unit award reduces the number available by one share. The per share exercise price of options granted under the 2006 Plan cannot be less than the closing price of the common stock on the date of grant (the business day prior to the date of grant for awards granted prior to September 21, 2006).

The Company currently has service-based NQs outstanding under the 2003 Plan. Such options were granted with an exercise price equal to the closing price of the Company’s common stock on the business day immediately preceding the date of grant.

Under the terms of the merger agreement in connection with the Warnaco acquisition, each outstanding award of Warnaco stock options, restricted stock and restricted stock units was assumed by the Company in 2013 and converted into an award of the same type, and subject to the same terms and conditions, but payable in shares of Company common stock. The replacement stock options are generally exercisable in three equal annual installments commencing one year after the date of original grant and the replacement RSUs and restricted stock awards generally vest three years after the date of original grant, principally on a cliff basis. The Company accounted for the replacement awards as a modification of the existing awards. As such, a new fair value was assigned to the awards, a portion of which is included as part of the merger consideration. The merger consideration of \$39.8 million was determined by multiplying the estimated fair value of the Warnaco awards outstanding at the effective time of the Warnaco acquisition, net of the estimated value of awards to be forfeited, by the proportionate amount of the vesting period that had lapsed as of the acquisition date. The remaining fair value, net of estimated forfeitures, is being expensed over the awards’ remaining vesting periods.

Net income for 2014, 2013 and 2012 included \$48.7 million, \$58.0 million and \$33.6 million, respectively, of pre-tax expense related to stock-based compensation, with recognized income tax benefits of \$12.7 million, \$17.0 million and \$10.3 million, respectively.

Stock options currently outstanding, with the exception of the Warnaco employee replacement awards discussed above, are generally cumulatively exercisable in four equal annual installments commencing one year after the date of grant. The vesting of such options outstanding is also generally accelerated upon retirement (as defined in the applicable plan). Such options are generally granted with a 10-year term.

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes-Merton model. The estimated fair value of the options, net of estimated forfeitures, is expensed over the options' vesting periods. At February

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

1, 2015, there was \$12.0 million of unrecognized pre-tax compensation expense, net of estimated forfeitures, related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.6 years.

The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during 2014, 2013 (with the exception of the Warnaco employee replacement stock options) and 2012:

	2014	2013	2012	
Weighted average risk-free interest rate	2.15	% 1.05	% 1.20	%
Weighted average expected option term (in years)	6.25	6.22	6.25	
Weighted average Company volatility	44.12	% 45.20	% 45.16	%
Expected annual dividends per share	\$0.15	\$0.15	\$0.15	
Weighted average grant date fair value per option	\$56.21	\$51.51	\$40.59	

The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected option term. The expected option term represents the weighted average period of time that options granted are expected to be outstanding, based on vesting schedules and the contractual term of the options. Company volatility is based on the historical volatility of the Company's common stock over a period of time corresponding to the expected option term. Expected dividends are based on the Company's common stock cash dividend rate at the date of grant.

The Company has continued to utilize the simplified method to estimate the expected term for its "plain vanilla" stock options granted due to a lack of relevant historical data resulting, in part, from changes in the pool of employees receiving option grants, mainly due to acquisitions. The Company will continue to evaluate the appropriateness of utilizing such method.

The following summarizes the assumptions used to estimate the fair value of the Warnaco employee stock options that were replaced on February 13, 2013:

Weighted average risk-free interest rate	0.24	%
Weighted average expected option term (in years)	1.70	
Weighted average Company volatility	29.40	%
Expected annual dividends per share	\$0.15	
Weighted average grant date fair value per option	\$40.60	

Service-based stock option activity for the year was as follows:

(In thousands, except years and per option data)	Options	Weighted Average Price Per Option	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at February 2, 2014	1,588	\$58.47	5.9	\$99,319
Granted	140	124.27		
Exercised	232	56.35		
Cancelled	24	114.32		
Outstanding at February 1, 2015	1,472	\$64.14	5.5	\$70,737

Explanation of Responses:

Exercisable at February 1, 2015	1,046	\$49.46	4.6	\$63,965
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The aggregate grant date fair value of service-based options granted during 2014, 2013 and 2012 was \$7.9 million, \$9.4 million and \$7.6 million, respectively. At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee service-based options that were replaced during 2013 was \$18.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The aggregate grant date fair value of service-based options that vested during 2014, 2013 and 2012 was \$9.8 million, \$18.4 million and \$5.5 million, respectively.

The aggregate intrinsic value of service-based options exercised was \$15.6 million, \$70.8 million and \$27.8 million in 2014, 2013 and 2012, respectively.

RSUs granted to employees, with the exception of the Warnaco employee replacement awards, generally vest in three annual installments of 25%, 25% and 50% commencing two years after the date of grant. Service-based RSUs granted to non-employee directors vest in full one year after the date of grant. The underlying RSU award agreements (excluding agreements for non-employee director awards made during or after 2010) generally provide for accelerated vesting upon the award recipient's retirement (as defined in the 2006 Plan). The fair value of service-based RSUs, with the exception of the Warnaco employee replacement awards, is equal to the closing price of the Company's common stock on the date of grant and is expensed, net of estimated forfeitures, over the RSUs' vesting periods.

RSU activity for the year was as follows:

(In thousands, except per RSU data)	RSUs	Weighted Average Grant Date Fair Value
Non-vested at February 2, 2014	702	\$89.06
Granted	235	124.61
Vested	255	72.34
Cancelled	42	110.46
Non-vested at February 1, 2015	640	\$107.42

The aggregate grant date fair value of RSUs granted during 2014, 2013 and 2012 was \$29.3 million, \$29.3 million and \$17.1 million, respectively. At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee RSUs that were replaced during 2013 was \$14.5 million. The aggregate grant date fair value of RSUs vested during 2014, 2013 and 2012 was \$18.5 million, \$18.1 million and \$14.3 million, respectively.

At February 1, 2015, there was \$36.1 million of unrecognized pre-tax compensation expense, net of estimated forfeitures, related to non-vested RSUs, which is expected to be recognized over a weighted average period of 1.8 years.

The Company's restricted stock awards outstanding in 2014 consist solely of awards to Warnaco employees that were replaced with the Company's restricted stock as of the effective time of the acquisition. The fair value of restricted stock with respect to awards for which the vesting period had not lapsed as of the acquisition date was equal to the closing price of the Company's common stock on February 12, 2013 and is expensed, net of forfeitures, over the vesting period.

The Company granted restricted stock to certain of Tommy Hilfiger's management employees in 2010 in connection with the Tommy Hilfiger acquisition. All such restricted stock was vested as of February 3, 2013. The fair value of the restricted stock was equal to the closing price of the Company's common stock on May 6, 2010 and was expensed, net of forfeitures, over the restricted stock's vesting period.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restricted stock activity for the year was as follows:

(In thousands, except per share data)	Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested at February 2, 2014	46	\$ 120.72
Granted	—	—
Vested	22	120.72
Cancelled	4	120.72
Non-vested at February 1, 2015	20	\$ 120.72

Except for the replacement of awards for Warnaco employees, no restricted stock was granted during 2014, 2013 or 2012. At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee restricted stock awards that were replaced during 2013 was \$32.7 million. The aggregate grant date fair value of restricted stock vested during 2014, 2013 and 2012 was \$2.7 million, \$26.0 million and \$20.1 million, respectively.

At February 1, 2015, there was \$0.2 million of unrecognized pre-tax compensation expense, net of estimated forfeitures, related to non-vested restricted stock, which is expected to be recognized over a weighted average period of 0.4 years.

The Company granted contingently issuable performance share units to certain of the Company's senior executives during the first quarter of each of 2012, 2013 and 2014. These awards were (are) subject to a performance period of two years and a service period of one year beyond the certification of performance. The Company granted contingently issuable performance share units to certain of the Company's executives during the second quarter of 2013 subject to a performance period of three years. For the awards granted in the second quarter of 2013, the final number of shares that will be earned, if any, is contingent upon the Company's achievement of goals for the performance period, of which 50 percent is based upon the Company's absolute stock price growth during the performance period and 50 percent is based upon the Company's total shareholder return during the performance period relative to other companies included in the S&P 500 as of the date of grant. For the awards granted in the first quarter of 2014, the final number of shares that will be earned, if any, is contingent upon the Company's achievement of goals for the performance period based on earnings per share growth during the performance cycle. For the awards granted in the first quarters of 2012 and 2013, the two year performance period has ended and the final number of shares earned, as determined based on both earnings per share growth and return on equity for the awards granted in the first quarter of 2012 and earnings per share growth for the awards granted in the first quarter of 2013, will vest following the additional service period.

For the contingently issuable performance share units granted during the first quarter of each of 2012, 2013 and 2014, the Company records expense ratably over each applicable vesting period based on fair value and the Company's current expectations of the probable number of shares that will ultimately be issued. The fair value of these contingently issuable performance share units is equal to the closing price of the Company's common stock on the date of grant, reduced for the present value of any dividends expected to be paid on the Company's common stock during the performance cycle, as these contingently issuable performance share units do not accrue dividends prior to the completion of the performance cycle.

For the contingently issuable performance share units granted during the second quarter of 2013, because the awards are subject to market conditions, the Company records expense ratably over the vesting period, net of estimated

Explanation of Responses:

forfeitures, regardless of whether the market condition is satisfied. The fair value of such awards was established on the grant date using the Monte Carlo simulation model, which was based on the following assumptions:

Risk-free interest rate	0.34	%
Expected Company volatility	38.67	%
Expected annual dividends per share	\$0.15	
Grant date fair value per performance share unit	\$123.27	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Performance share activity for the year was as follows:

(In thousands, except per share data)	Performance Shares	Weighted Average Grant Date Fair Value
Non-vested at February 2, 2014	548	\$118.60
Granted	83	125.15
Vested	—	—
Cancelled	78	116.04
Non-vested at February 1, 2015	553	\$119.95

The aggregate grant date fair value of performance share units granted during 2014, 2013 and 2012 was \$10.4 million, \$62.6 million and \$8.4 million, respectively. No performance share units vested during 2014. The aggregate grant date fair value of performance share units vested during 2013 and 2012 was \$25.4 million and \$5.9 million, respectively. Performance share units in the above table and the aggregate grant date fair value amounts reflect (i) performance share units subject to market conditions at the target level, which is consistent with how expense will be recorded, regardless of the numbers of shares actually earned; and (ii) performance share units that are not subject to market conditions at the maximum level.

At February 1, 2015, based on the Company's current estimate of the most likely number of shares that will ultimately be issued, there was \$20.2 million of unrecognized pre-tax compensation expense related to non-vested performance share units, which is expected to be recognized over a weighted average period of 1.2 years.

The Company receives a tax deduction for certain transactions associated with its stock plan awards. The actual income tax benefits realized from these transactions were \$20.1 million, \$69.7 million and \$24.1 million in 2014, 2013 and 2012, respectively. Of those amounts, \$11.0 million, \$37.6 million and \$14.9 million, respectively, were reported as excess tax benefits. Excess tax benefits arise when the actual tax benefit resulting from a stock plan award transaction exceeds the tax benefit associated with the grant date fair value of the related stock award.

Total stock awards available for grant at February 1, 2015 amounted to 4.2 million shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in AOCI, net of related taxes, by component:

(In millions)	Foreign currency translation adjustments	Retirement liability adjustment	Net unrealized and realized (loss) gain on effective hedges	Total
Balance at February 3, 2013	\$ 153.6	\$ 1.6	\$(15.3)	) \$ 139.9
Other comprehensive (loss) before reclassifications	(103.5)	) —	(0.3)	) (103.8)
Less: Amounts reclassified from AOCI —		0.6	(6.8)	) (6.2)
Other comprehensive (loss) income	(103.5)	) (0.6)	) 6.5	) (97.6)
Balance at February 2, 2014	\$ 50.1	\$ 1.0	\$(8.8)	) \$ 42.3
Other comprehensive (loss) income before reclassifications	(548.3)	) —	92.9	) (455.4)
Less: Amounts reclassified from AOCI (2.0)		) 0.6	4.8	3.4
Other comprehensive (loss) income	(546.3)	) (0.6)	) 88.1	) (458.8)
Balance at February 1, 2015	\$(496.2)	) \$ 0.4	\$ 79.3	) \$(416.5)

The following table presents reclassifications out of AOCI to earnings:

(In millions)	Amount Reclassified from AOCI 2014	Amount Reclassified from AOCI 2013	Affected Line Item in the Consolidated Income Statements
Realized gain (loss) on effective hedges:			
Foreign currency forward exchange contracts	\$ 10.2	\$(1.1)	) Cost of goods sold
Interest rate contracts	(6.4)	) (6.3)	) Interest expense
Less: Tax effect	(1.0)	) (0.6)	) Income tax expense
Total, net of tax	\$ 4.8	) \$(6.8)	)
Amortization of retirement liability items:			
Prior service credit	\$ 0.9	\$ 0.9	Selling, general and administrative expenses
Less: Tax effect	0.3	0.3	Income tax expense
Total, net of tax	\$ 0.6	\$ 0.6	
Foreign currency translation adjustments:			
Deconsolidation of foreign subsidiaries and joint venture	\$(2.0)	) \$—	Selling, general and administrative expenses
Less: Tax effect	—	—	Income tax expense
Total, net of tax	\$(2.0)	) \$—	

## 15. LEASES

Explanation of Responses:

The Company leases retail locations, warehouses, showrooms, office space and equipment. The leases, excluding equipment leases, generally provide for the payment of real estate taxes and certain other occupancy expenses. Retail location leases generally are renewable and provide for the payment of percentage rentals based on location sales and other costs associated with the leased property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

At February 1, 2015, minimum annual rental commitments under non-cancelable leases were as follows:

(In millions)	Capital Leases	Operating Leases	Total
2015	\$6.2	\$373.3	\$379.5
2016	4.1	311.7	315.8
2017	2.9	262.4	265.3
2018	2.0	220.0	222.0
2019	1.5	229.4	230.9
Thereafter	3.6	629.0	632.6
Total minimum lease payments	\$20.3	\$2,025.8	\$2,046.1
Less: Amount representing interest	(2.2	)	
Present value of net minimum capital lease payments	\$18.1		

The Company's retail location leases represent \$1,321.6 million of the total minimum lease payments. The Company's administrative offices and showrooms located in New York, New York represent \$77.9 million of the total minimum lease payments. The Company's corporate, finance and retail administrative offices located in Bridgewater, New Jersey represent \$36.8 million of the total minimum lease payments. The Company's Calvin Klein administrative offices and showrooms located in New York, New York represent \$186.3 million of the total minimum lease payments. The Company's Tommy Hilfiger administrative offices and showrooms, most of which are located in Amsterdam, the Netherlands and New York, New York represent \$130.4 million of the total minimum lease payments.

At February 1, 2015, aggregate future minimum rentals to be received under non-cancelable capital and operating subleases were \$3.0 million and \$19.2 million, respectively.

Rent expense was as follows:

(In millions)	2014	2013	2012
Minimum	\$434.5	\$440.0	\$318.7
Percentage and other	158.8	159.8	127.6
Less: Sublease rental income	(4.9	) (5.4	) (3.4
Total	\$588.4	\$594.4	\$442.9

The gross book value of assets under capital leases, which are classified within property, plant and equipment in the Company's Consolidated Balance Sheets, amounted to \$29.3 million and \$35.0 million as of February 1, 2015 and February 2, 2014, respectively. Accumulated amortization related to assets under capital leases amounted to \$10.7 million and \$10.1 million as of February 1, 2015 and February 2, 2014, respectively. The Company includes amortization of assets under capital leases in depreciation and amortization expense. The Company did not incur any expense in percentage rentals under capital leases during the years ended February 1, 2015 and February 2, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 16. EXIT ACTIVITY COSTS

## Izod Retail Exit Costs

In connection with the Company's planned exit in 2015 of the Izod retail business, the Company incurred certain costs in 2014 related to severance and termination benefits, long-lived asset and goodwill impairments and lease/contract terminations. Such costs were as follows:

(In millions)	Total Expected to be Incurred	Costs Incurred During 2014	Liability at 2/1/15
Severance, termination benefits and other costs	\$ 15.8	\$ 2.4	\$ 2.3
Long-lived asset and goodwill impairments	17.7	17.7	—
Lease/contract termination and related costs	6.5	—	—
Total	\$ 40.0	\$ 20.1	\$ 2.3

The above charges relate to selling, general and administrative expenses of the Heritage Brands Retail segment. Please see Note 19, "Segment Data" for a further discussion on the Company's reportable segments.

Please see Note 10, "Fair Value Measurements" and Note 4, "Goodwill and Other Intangible Assets" for a further discussion of the long-lived asset and goodwill impairments reflected in the above table.

The liabilities at February 1, 2015 related to these costs were principally recorded in accrued expenses in the Company's Consolidated Balance Sheets.

## Warnaco Integration Costs

In connection with the Company's acquisition of Warnaco during 2013 and the related integration, the Company incurred certain costs related to severance and termination benefits, inventory liquidations and lease/contract terminations. Such costs were as follows:

(In millions)	Total Expected to be Incurred	Costs Incurred During 2013	Costs Incurred During 2014	Cumulative Incurred To Date
Severance, termination benefits and other costs	\$ 160.0	\$ 131.5	\$ 23.7	\$ 155.2
Inventory liquidation costs	36.1	35.1	1.0	36.1
Lease/contract termination and related costs	80.0	42.0	25.3	67.3
Total	\$ 276.1	\$ 208.6	\$ 50.0	\$ 258.6

Of the charges for severance, termination benefits and lease/contract termination and other costs incurred during 2014, \$7.0 million relate to selling, general and administrative expenses of the Calvin Klein North America segment, \$24.7 million relate to selling, general and administrative expenses of the Calvin Klein International segment, \$10.3 million relate to selling, general and administrative expenses of the Heritage Brands Wholesale segment and \$7.0 million relate to corporate expenses not allocated to any reportable segment. Of the charges for severance, termination benefits and lease/contract termination and other costs incurred during 2013, \$34.2 million relate to selling, general and administrative expenses of the Calvin Klein North America segment, \$76.4 million relate to selling, general and administrative expenses of the Calvin Klein International segment, \$22.3 million relate to selling, general and

Explanation of Responses:

administrative expenses of the Heritage Brands Wholesale segment and \$40.6 million relate to corporate expenses not allocated to any reportable segment. The remaining charges for severance and termination benefits and lease/contract termination and other costs expected to be incurred relate principally to the aforementioned segments and corporate expenses not allocated to any reportable segment. Inventory liquidation costs incurred during 2014 and 2013 were principally included in gross margin of the Company's Calvin Klein North America and Calvin Klein International segments, respectively. Please see Note 19, "Segment Data" for a further discussion on the Company's reportable segments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The liabilities at February 1, 2015 related to these costs were principally recorded in accrued expenses in the Company's Consolidated Balance Sheets and were as follows:

(In millions)	Liability at 2/4/14	Costs Incurred During 2014	Costs Paid During 2014	Liability at 2/1/15
Severance, termination benefits and other costs	\$ 33.6	\$ 23.7	\$ 43.3	\$ 14.0
Lease/contract termination and related costs	15.3	25.3	33.0	7.6
Total	\$ 48.9	\$ 49.0	\$ 76.3	\$ 21.6

#### Tommy Hilfiger Integration and Exit Costs

In connection with the Company's acquisition and integration of Tommy Hilfiger and the related restructuring, the Company incurred certain costs related to severance and termination benefits, long-lived asset impairments, inventory liquidations and lease/contract terminations, including costs associated with the exit of certain Tommy Hilfiger product categories. All expected costs related to this acquisition and integration and the related restructuring were incurred by the end of 2012. Such costs were as follows:

(In millions)	Incurred During 2012	Cumulative Incurred
Severance, termination benefits and other costs	\$ 1.3	\$ 33.5
Long-lived asset impairments	0.3	11.3
Inventory liquidation costs	—	10.2
Lease/contract termination and related costs	11.5	39.2
Total	\$ 13.1	\$ 94.2

Of the charges for severance, termination benefits, asset impairments and lease/contract termination and other costs incurred in 2012, \$0.4 million relate to selling, general and administrative expenses of the Tommy Hilfiger North America segment, \$10.4 million relate to selling, general and administrative expenses of the Tommy Hilfiger International segment and \$2.3 million relate to corporate expenses not allocated to any reportable segment. Please see Note 19, "Segment Data" for a further discussion on the Company's reportable segments.

Substantially all of these costs had been paid by February 2, 2014.

#### 17. NET INCOME PER COMMON SHARE

In 2012, the Company utilized the two-class method of calculating basic net income per common share, as holders of the Company's Series A convertible preferred stock participated in dividends with holders of the Company's common stock prior to the conversion in 2012 of such convertible preferred stock into common stock. Net losses were not allocated to holders of the Series A convertible preferred stock.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company computed its basic and diluted net income per common share as follows:

(In millions, except per share data)	2014	2013	2012
Net income attributable to PVH Corp.	\$439.0	\$143.5	\$433.8
Less:			
Common stock dividends paid to holders of Series A convertible preferred stock	—	—	(0.4 )
Allocation of income to Series A convertible preferred stock	—	—	(12.2 )
Net income available to common stockholders for basic net income per common share	439.0	143.5	421.2
Add back:			
Common stock dividends paid to holders of Series A convertible preferred stock	—	—	0.4
Allocation of income to Series A convertible preferred stock	—	—	12.2
Net income available to common stockholders for diluted net income per common share	\$439.0	\$143.5	\$433.8
Weighted average common shares outstanding for basic net income per common share	82.4	81.2	70.4
Weighted average impact of dilutive securities	0.9	1.4	1.4
Weighted average impact of assumed convertible preferred stock conversion	—	—	2.1
Total shares for diluted net income per common share	83.3	82.6	73.9
Basic net income per common share attributable to PVH Corp.	\$5.33	\$1.77	\$5.98
Diluted net income per common share attributable to PVH Corp.	\$5.27	\$1.74	\$5.87

Potentially dilutive securities excluded from the calculation of diluted net income per common share were as follows:

(In millions)	2014	2013	2012
Weighted average potentially dilutive securities	0.4	0.3	0.3

Shares underlying contingently issuable awards that have not met the necessary conditions as of the end of a reporting period are not included in the calculation of diluted net income per common share for that period. The Company had contingently issuable awards outstanding that did not meet the performance conditions as of February 1, 2015, February 2, 2014 and February 3, 2013 and, therefore, were excluded from the calculation of diluted net income per common share for each applicable year. The maximum number of potentially dilutive shares that could be issued upon vesting for such awards was 0.9 million, 0.7 million and 0.1 million as of February 1, 2015, February 2, 2014 and February 3, 2013, respectively. These amounts were also excluded from the computation of weighted average antidilutive securities in the table above.

## 18. NONCASH INVESTING AND FINANCING TRANSACTIONS

Omitted from the Consolidated Statement of Cash Flows for 2014 were capital expenditures related to property, plant and equipment of \$17.0 million, which will not be paid until 2015. The Company paid \$13.6 million in cash during 2014 related to property, plant and equipment that was acquired in 2013. This amount was omitted from the Consolidated Statement of Cash Flows for 2013. The Company paid \$4.2 million in cash during 2013 related to

Explanation of Responses:

property, plant and equipment that was acquired in 2012. This amount was omitted from the Consolidated Statement of Cash Flows for 2012.

Omitted from purchases of property, plant and equipment in the Consolidated Statement of Cash Flows for 2014, 2013 and 2012 were \$4.2 million, \$7.5 million and \$18.2 million, respectively, of assets acquired through capital leases.

The Company recorded increases to goodwill of \$50.5 million, \$51.0 million and \$51.7 million during 2014, 2013 and 2012, respectively, related to liabilities incurred for contingent purchase price payments to Mr. Calvin Klein. Such amounts are not due or paid in cash until 45 days subsequent to the Company's applicable quarter end. As such, during 2014, 2013 and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2012, the Company paid \$51.1 million, \$52.8 million and \$51.0 million, respectively, in cash related to contingent purchase price payments to Mr. Calvin Klein that were recorded as additions to goodwill during the periods the liabilities were incurred.

During the first quarter of 2014, the Company recorded a loss of \$17.5 million to write-off previously capitalized debt issuance costs in connection with the amendment and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020.

Omitted from investments in unconsolidated affiliates in the Consolidated Statement of Cash Flows for 2014 were noncash increases in the investment balances related to the Company's Calvin Klein Australia joint venture and Calvin Klein India joint venture of \$3.7 million and \$6.2 million, respectively, resulting from the deconsolidation of these entities during the first quarter of 2014. Please see Note 5, "Investments in Unconsolidated Affiliates," and Note 6, "Redeemable Non-Controlling Interest," for a further discussion.

During the first quarter of 2013, the Company recorded a loss of \$5.8 million to write-off previously capitalized debt issuance costs in connection with the modification and extinguishment of the 2011 facilities.

During the first quarter of 2013, the Company issued 7.7 million shares of its common stock, par value \$1.00 per share (of which 416 thousand shares were issued from treasury stock), as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition, which resulted in an increase in common stock of \$7.3 million, an increase in additional paid in capital of \$888.9 million and a decrease in treasury stock of \$30.3 million. In addition, the Company issued awards valued at \$39.8 million to replace outstanding stock awards made by Warnaco to its employees, which for accounting purposes are included in the total acquisition consideration. Also included in the acquisition consideration was the elimination of a \$9.2 million pre-acquisition liability to Warnaco.

During 2012, the holders of the Company's Series A convertible preferred stock converted an aggregate of 8 thousand shares of such convertible preferred stock into 4.2 million shares of the Company's common stock, resulting in a decrease in Series A convertible preferred stock of \$188.6 million, an increase in common stock of \$4.2 million, and an increase in additional paid in capital of \$184.4 million. Please see Note 12, "Stockholders' Equity."

#### 19. SEGMENT DATA

The Company manages its operations through its operating divisions, which are presented as six reportable segments: (i) Calvin Klein North America; (ii) Calvin Klein International; (iii) Tommy Hilfiger North America; (iv) Tommy Hilfiger International; (v) Heritage Brands Wholesale; and (vi) Heritage Brands Retail.

**Calvin Klein North America Segment** - This segment consists of the Company's Calvin Klein North America division. This segment derives revenue principally from (i) marketing Calvin Klein branded apparel and related products at wholesale in North America, primarily to department and specialty stores; (ii) operating retail stores, which are primarily located in premium outlet centers in North America, and an e-commerce website in the United States, which sell Calvin Klein branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the brand names Calvin Klein Collection, Calvin Klein (platinum label) and Calvin Klein (white label) for a broad array of products and retail services in North America.

**Calvin Klein International Segment** - This segment consists of the Company's Calvin Klein International division. This segment derives revenue principally from (i) marketing Calvin Klein branded apparel and related products at wholesale principally in Europe, Asia and Brazil, primarily to department and specialty stores, franchisees of Calvin

Klein, distributors and licensees; (ii) operating retail stores and e-commerce websites in Europe, Asia and Brazil, which sell Calvin Klein branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the brand names Calvin Klein Collection, Calvin Klein (platinum label) and Calvin Klein (white label) for a broad array of products and retail services outside of North America. This segment also includes the Company's proportionate share of the net income or loss of its investments in unconsolidated Calvin Klein foreign affiliates in Australia and India.

Tommy Hilfiger North America Segment - This segment consists of the Company's Tommy Hilfiger North America division. This segment derives revenue principally from (i) marketing Tommy Hilfiger branded apparel and related products

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

at wholesale in North America, primarily to department stores, principally Macy's and Hudson's Bay; and (ii) operating retail stores, which are primarily located in premium outlet centers in North America, and an e-commerce website, which sell Tommy Hilfiger branded apparel, accessories and related products. This segment also derives revenue from licensing and similar arrangements relating to the use by third parties of the Tommy Hilfiger brand name for a broad array of products in North America.

Tommy Hilfiger International Segment - This segment consists of the Company's Tommy Hilfiger International division. This segment derives revenue principally from (i) marketing Tommy Hilfiger branded apparel and related products at wholesale principally in Europe, primarily to department and specialty stores, franchisees of Tommy Hilfiger, distributors and licensees; and (ii) operating retail stores in Europe and Japan and an international e-commerce website, which sell Tommy Hilfiger branded apparel, accessories and related products. This segment also includes the Company's proportionate share of the net income or loss of its investments in unconsolidated Tommy Hilfiger foreign affiliates in Brazil, China and India. This segment also derives revenue from licensing and similar arrangements relating to the use by third parties of the Tommy Hilfiger brand name for a broad array of products outside of North America.

Heritage Brands Wholesale Segment - This segment consists of the Company's Heritage Brands wholesale division. This segment derives revenue primarily from the marketing to department, chain and specialty stores in North America of (i) dress shirts, neckwear and underwear under various owned and licensed brand names, including several private label brands; (ii) men's sportswear principally under the brand names Van Heusen, IZOD and ARROW; (iii) swimwear, fitness apparel, swim accessories and related products under the brand name Speedo beginning in the first quarter of 2013; and (iv) women's intimate apparel under the brand names Warner's and Olga beginning in the first quarter of 2013. This segment also derived revenue through the second quarter of 2012 from marketing men's sportswear under the brand name Timberland and through the third quarter of 2012 from marketing women's sportswear under the brand name IZOD.

Heritage Brands Retail Segment - This segment consists of the Company's Heritage Brands retail division. This segment derives revenue principally from operating retail stores, primarily located in outlet centers in North America, which sell apparel, accessories and related products under the brand names Van Heusen and IZOD. This segment also derived revenue through the third quarter of 2013 under the brand names Bass and G.H. Bass & Co., principally from operating outlet stores. During the fourth quarter of 2014, the Company announced its plan to exit its Izod retail business in 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables present summarized information by segment:

(In millions)	2014	2013	2012	
Revenue – Calvin Klein North America				
Net sales	\$1,391.1	\$1,316.8	\$714.8	
Royalty revenue	115.6	113.9	137.0	
Advertising and other revenue	44.1	41.9	55.3	
Total	1,550.8	1,472.6	907.1	
Revenue – Calvin Klein International				
Net sales	1,198.8	1,186.9	(1) 45.1	
Royalty revenue	78.6	76.8	140.4	
Advertising and other revenue	30.6	30.3	57.7	
Total	1,308.0	1,294.0	243.2	
Revenue – Tommy Hilfiger North America				
Net sales	1,595.6	1,505.6	1,399.3	
Royalty revenue	30.2	27.6	22.4	
Advertising and other revenue	10.0	9.0	8.1	
Total	1,635.8	1,542.2	1,429.8	
Revenue – Tommy Hilfiger International				
Net sales	1,886.1	1,834.9	1,732.2	
Royalty revenue	56.2	51.7	50.0	
Advertising and other revenue	3.7	4.5	5.0	
Total	1,946.0	1,891.1	1,787.2	
Revenue – Heritage Brands Wholesale				
Net sales	1,425.1	1,420.3	991.8	
Royalty revenue	17.2	16.4	15.4	
Advertising and other revenue	2.7	2.8	4.9	
Total	1,445.0	1,439.5	1,012.1	
Revenue – Heritage Brands Retail				
Net sales	352.4	541.7	(2) 657.6	(2)
Royalty revenue	2.7	4.3	4.8	
Advertising and other revenue	0.5	1.0	1.2	
Total	355.6	547.0	663.6	
Total Revenue				
Net sales	7,849.1	7,806.2	5,540.8	
Royalty revenue	300.5	290.7	370.0	
Advertising and other revenue	91.6	89.5	132.2	
Total <sup>(3)</sup>	\$8,241.2	\$8,186.4	\$6,043.0	

(1) Includes \$30.0 million of sales returns from certain wholesale customers in Asia in connection with the Company's initiative to reduce excess inventory levels.

Explanation of Responses:

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(2) Includes net sales of \$175.6 million and \$269.2 million in 2013 and 2012, respectively, related to the Bass business, which was sold in the fourth quarter of 2013.

(3) No single customer accounted for more than 10% of the Company's revenue in 2014, 2013 and 2012.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(In millions)	2014		2013		2012
Income before interest and taxes – Calvin Klein North America	\$225.6	(2)	\$167.0	(6)	\$182.1
Income (loss) before interest and taxes – Calvin Klein International	118.7	(2)(4)	(60.7	) (6)	102.5
Income before interest and taxes – Tommy Hilfiger North America	242.9		242.5	(8)	200.1 (10)
Income before interest and taxes – Tommy Hilfiger International	261.2		260.5	(8)	220.8 (10)
Income before interest and taxes – Heritage Brands Wholesale	96.6	(2)	114.4	(6)	101.1
(Loss) income before interest and taxes – Heritage Brands Retail	(24.8	) (3)	(24.4	) (7)	13.5
Loss before interest and taxes – Corporate <sup>(1)</sup>	(390.3	) (2)(5)	(185.9	) (6)(9)	(159.8) (10)(11)
Income before interest and taxes	\$529.9		\$513.4		\$660.3

Includes corporate expenses not allocated to any reportable segments, as well as the Company's proportionate share of the net income or loss of its investment in Kingdom Holding 1 B.V., the parent company of the Karl Lagerfeld brand. Corporate expenses represent overhead operating expenses and include expenses for senior corporate (1) management, corporate finance, information technology related to corporate infrastructure and actuarial gains and losses from the Company's pension and other postretirement plans. Actuarial (losses) gains from the Company's pension and other postretirement plans totaled \$(138.9) million, \$52.5 million and \$(28.1) million in 2014, 2013 and 2012, respectively.

Income (loss) before interest and taxes for 2014 includes costs of \$139.4 million associated with the Company's (2) integration of Warnaco and the related restructuring. Such costs were included in the Company's segments as follows: \$14.0 million in Calvin Klein North America; \$51.1 million in Calvin Klein International; \$17.7 million in Heritage Brands Wholesale and \$56.6 million in corporate expenses not allocated to any reportable segments.

Loss before interest and taxes for 2014 includes costs of \$21.0 million associated with the exit of the Company's (3) Izod retail business, the majority of which was noncash impairment charges.

Income before interest and taxes for 2014 includes a net gain of \$8.0 million associated with the deconsolidation of (4) certain Calvin Klein subsidiaries in Australia and the Company's previously consolidated Calvin Klein joint venture in India. Please refer to Note 5, "Investments in Unconsolidated Affiliates" and Note 6, "Redeemable Non-Controlling Interest" for a further discussion.

Loss before interest and taxes for 2014 includes costs of \$93.1 million associated with the Company's amendment (5) and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020. Please refer

to Note 7, "Debt," for a further discussion.

Income (loss) before interest and taxes for 2013 includes costs of \$469.7 million associated with the Company's acquisition and integration of Warnaco and the related restructuring. Such costs were included in the Company's (6) segments as follows: \$87.7 million in Calvin Klein North America; \$237.5 million in Calvin Klein International; \$43.9 million in Heritage Brands Wholesale and \$100.6 million in corporate expenses not allocated to any reportable segments.

(7) Loss before interest and taxes for 2013 includes a loss of \$20.2 million associated with the sale of substantially all of the assets of the Company's Bass business.

Income before interest and taxes for 2013 includes income of \$24.3 million related to the amendment of an unfavorable contract. At the time of the Tommy Hilfiger acquisition in 2010, a liability was recorded for such (8) unfavorable contract. The amendment executed in the third quarter of 2013 adjusted the contract terms thereby reducing the amount by which the contract was unfavorable and resulted in a reduction of the liability, amounting to \$24.3 million. Such income was included in the Company's segments as follows: \$12.0 million in Tommy Hilfiger North America and \$12.3 million in Tommy Hilfiger International.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(9) Loss before interest and taxes for 2013 includes costs of \$40.4 million associated with the Company's debt modification and extinguishment. Please refer to Note 7, "Debt," for a further discussion.

(10) Income (loss) before interest and taxes for 2012 includes costs of \$20.5 million associated with the Company's integration of Tommy Hilfiger and the related restructuring. Such costs were included in the Company's segments as follows: \$0.4 million in Tommy Hilfiger North America; \$15.4 million in Tommy Hilfiger International and \$4.7 million in corporate expenses not allocated to any reportable segments.

(11) Loss before interest and taxes for 2012 includes costs of \$42.6 million associated with the Company's acquisition of Warnaco.

Intersegment transactions primarily consist of transfers of inventory principally from the Heritage Brands Wholesale segment to the Heritage Brands Retail segment and the Calvin Klein North America segment. These transfers are recorded at cost plus a standard markup percentage. Such markup percentage on ending inventory is eliminated principally in the Heritage Brands Retail segment and the Calvin Klein North America segment.

(In millions)	2014	2013	2012	
Identifiable Assets				
Calvin Klein North America	\$1,834.9	\$1,792.1	\$752.0	
Calvin Klein International	2,819.9	2,975.7	584.9	
Tommy Hilfiger North America	1,258.6	1,207.2	1,139.4	
Tommy Hilfiger International	3,255.8	3,741.4	3,420.8	
Heritage Brands Wholesale	1,342.7	1,399.5	555.6	
Heritage Brands Retail	91.9	128.2	175.7	
Corporate	328.0	331.5	1,103.3	(1)
Total	\$10,931.8	\$11,575.6	\$7,731.7	
Depreciation and Amortization				
Calvin Klein North America	\$38.0	\$61.8	\$16.5	
Calvin Klein International	58.6	100.9	2.3	
Tommy Hilfiger North America	31.9	29.5	26.4	
Tommy Hilfiger International	87.4	82.6	72.6	
Heritage Brands Wholesale	14.6	19.0	7.1	
Heritage Brands Retail	7.2	11.2	10.7	
Corporate	7.0	8.6	4.8	
Total	\$244.7	\$313.6	\$140.4	
Identifiable Capital Expenditures <sup>(2)</sup>				
Calvin Klein North America	\$52.1	\$35.5	\$32.6	
Calvin Klein International	49.9	42.7	3.1	
Tommy Hilfiger North America	38.9	47.0	47.0	
Tommy Hilfiger International	93.2	91.7	88.4	
Heritage Brands Wholesale	10.2	7.4	5.1	
Heritage Brands Retail	8.2	14.3	28.1	
Corporate	6.7	7.9	4.7	
Total	\$259.2	\$246.5	\$209.0	

(1)

Explanation of Responses:

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Corporate at February 3, 2013 included \$700.0 million of cash that arose from senior notes that were issued to fund a portion of the consideration for the Warnaco acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Capital expenditures in 2014 include \$17.0 million of accruals that will not be paid until 2015. Capital expenditures in 2013 include \$13.6 million of accruals that were not paid until 2014. Capital expenditures in 2012 include \$4.2 million of accruals that were not paid until 2013.

Property, plant and equipment, net based on the location where such assets are held, was as follows:

(In millions)	2014	2013	2012
Domestic	\$388.6	\$373.1	\$321.2
Canada	38.3	36.8	41.9
Europe	230.2	224.2	171.6
Asia	53.1	63.9	26.6
Other foreign	15.5	14.1	—
Total	\$725.7	\$712.1	\$561.3

Revenue, based on location of origin, was as follows:

(In millions)	2014	2013	2012
Domestic	\$4,404.8	\$4,433.9	\$3,662.1
Canada	468.5	454.0	329.7
Europe	2,304.9	2,261.4	1,643.9
Asia	779.3	742.3	355.0
Other foreign	283.7	294.8	52.3
Total	\$8,241.2	\$8,186.4	\$6,043.0

## 20. GUARANTEES

The Company guaranteed to a landlord the payment of rent and related costs by the tenant currently occupying space previously leased by the Company. The maximum amount guaranteed as of February 1, 2015 was approximately \$3.6 million, which is subject to exchange rate fluctuation. The Company has the right to seek recourse of approximately \$2.3 million as of February 1, 2015, which is subject to exchange rate fluctuation. The guarantee expires on May 19, 2016. The estimated fair value of this guarantee obligation was immaterial as of February 1, 2015 and February 2, 2014.

In connection with the sale of substantially all of the assets of Company's Bass business in the fourth quarter of 2013, the Company guaranteed lease payments for substantially all Bass retail stores included in the sale pursuant to the terms of noncancelable leases expiring on various dates through 2022. These guarantees include minimum rent payments and relate to leases that commenced prior to the sale of the Bass assets. In certain instances, the Company's guarantee remains in effect when an option is exercised to extend the term of the lease. The maximum amount guaranteed for all leases as of February 1, 2015 was \$58.6 million and the Company has the right to seek recourse from the buyer of the Bass assets for the full amount. The estimated fair value of these guarantee obligations as of February 1, 2015 and February 2, 2014 was \$3.0 million and \$4.1 million, respectively, which was included in accrued expenses and other liabilities in the Company's Consolidated Balance Sheets. Please see Note 10, "Fair Value Measurements," for a further discussion.

The Company has certain other guarantees whereby it guaranteed the payment of amounts on behalf of certain other parties, none of which are material individually or in the aggregate.

Explanation of Responses:

21. OTHER COMMENTS

Included in accrued expenses on the Company's Consolidated Balance Sheets are certain wholesale sales allowance accruals of \$104.8 million and \$91.6 million as of February 1, 2015 and February 2, 2014, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company's asset retirement obligations are included in other liabilities on the Company's Consolidated Balance Sheets and relate to the Company's obligation to dismantle or remove leasehold improvements from leased office, retail store or warehouse locations at the end of a lease term in order to restore a facility to a condition specified in the lease agreement. The Company records the fair value of the liability for asset retirement obligations in the period in which it is legally or contractually incurred. Upon initial recognition of the asset retirement liability, an asset retirement cost is capitalized by increasing the carrying amount of the asset by the same amount as the liability. In periods subsequent to initial measurement, the asset retirement cost is recognized as expense through depreciation over the asset's useful life. Changes in the liability for the asset retirement obligations are recognized for the passage of time and revisions to either the timing or the amount of estimated cash flows. Accretion expense is recognized in selling, general and administrative expenses for the impacts of increasing the discounted fair value to its estimated settlement value.

The following table presents the activity related to the Company's asset retirement obligations for each of the last two years:

(In millions)	2014	2013
Balance at beginning of year	\$16.5	\$12.5
Business acquisitions	—	2.2
Liabilities incurred	2.7	2.5
Liabilities settled (payments)	(1.6	) (0.9
Accretion expense	0.4	0.5
Revisions in estimated cash flows	(0.1	) 0.4
Currency translation adjustment	(1.7	) (0.7
Balance at end of year	\$16.2	\$16.5

The Company is a party to certain litigation which, in management's judgment, based in part on the opinions of legal counsel, will not have a material adverse effect on the Company's financial position.

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## PVH CORP.

## SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

(In millions, except per share data)

The following table sets forth selected quarterly financial data (unaudited) for the corresponding thirteen week periods of the fiscal years presented:

	1 <sup>st</sup> Quarter		2 <sup>nd</sup> Quarter		3 <sup>rd</sup> Quarter		4 <sup>th</sup> Quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
Total revenue	(1),(2),(3) \$1,963.7	(8),(9),(10) \$1,910.2	(1),(4) \$1,975.6	(8),(11) \$1,964.8	(1),(4),(5) \$2,233.1	(8),(11),(12),(13) \$2,259.1	(1),(4),(6),(7) \$2,068.8	(8),(11),(13),(14),(15) \$2,052.3
Gross profit	1,033.2	951.9	1,054.7	1,026.1	1,167.5	1,171.8	1,071.3	1,069.5
Net income (loss) attributable to PVH Corp.	35.3	(10.3 )	126.5	(5.4 )	225.7	196.7	51.5	(37.5 )
Basic net income (loss) per common share attributable to PVH Corp.	0.43	(0.13 )	1.54	(0.07 )	2.74	2.41	0.62	(0.46 )
Diluted net income (loss) per common share attributable to PVH Corp.	0.42	(0.13 )	1.52	(0.07 )	2.71	2.37	0.62	(0.46 )
Price range of stock per common share								
High	128.70	125.50	133.89	134.98	130.00	134.57	129.17	138.94
Low	114.10	102.72	107.50	107.09	107.05	114.52	109.00	119.70

The first, second, third and fourth quarters of 2014 include pre-tax costs of \$32.6 million, \$44.0 million, \$29.1 million and \$33.7 million, respectively, associated with the Company's acquisition and integration of Warnaco and the related restructuring.

(2) The first quarter of 2014 includes a net gain of \$8.0 million associated with the deconsolidation of certain Calvin Klein subsidiaries in Australia and the Company's previously consolidated Calvin Klein joint venture in India.

(3) The first quarter of 2014 includes pre-tax costs of \$93.1 million associated with the Company's amendment and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020.

(4) The second, third and fourth quarters of 2014 include tax benefits of \$30.0 million, \$15.3 million and \$36.6 million, respectively, associated with discrete items related to the resolution of uncertain tax positions.

(5) The third quarter of 2014 includes a tax benefit of \$9.6 million associated with non-recurring discrete items related to the Warnaco integration.

(6)

The fourth quarter of 2014 includes pre-tax costs of \$21.0 million associated with the exit of the Company's Izod retail business, the majority of which was noncash impairment charges.

(7) The fourth quarter of 2014 includes a pre-tax actuarial loss of \$138.9 million from the Company's pension and other postretirement plans.

(8) The first, second, third and fourth quarters of 2013 include pre-tax costs of \$182.5 million, \$127.6 million, \$61.0 million and \$98.6 million, respectively, associated with the Company's acquisition and integration of Warnaco and the related restructuring.

(9) The first quarter of 2013 includes pre-tax interest expense of \$0.8 million incurred prior to the Warnaco acquisition closing date related to the \$700.0 million of senior notes issued to fund a portion of the consideration for the acquisition.

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- (10) The first quarter of 2013 includes pre-tax costs of \$40.4 million associated with the Company's debt modification and extinguishment.
- (11) The second, third and fourth quarters of 2013 include a tax expense (benefit) of \$28.0 million, \$(27.5) million, and \$4.7 million, respectively, associated with non-recurring discrete items related to the Warnaco integration.
- (12) The third quarter of 2013 includes pre-tax income of \$24.3 million due to the amendment of an unfavorable contract, which resulted in the reduction of a liability recorded at the time of the Tommy Hilfiger acquisition.
- (13) The third and fourth quarters of 2013 include pre-tax losses of \$19.5 million and \$0.7 million, respectively, associated with the sale of substantially all of the assets of the Company's Bass business.
- (14) The fourth quarter of 2013 includes a pre-tax actuarial gain of \$52.5 million on pension and other postretirement plans.  
The fourth quarter of 2013 includes a tax expense of \$120.0 million related to an increase to the Company's
- (15) previously established liability for an uncertain tax position related to European and United States transfer pricing arrangements.

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for the preparation and integrity of the consolidated financial statements appearing in this Annual Report on Form 10-K. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include certain amounts based on management's best judgments and estimates.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the underlying transactions, including the acquisition and disposition of assets; (ii) provide reasonable assurance that the Company's assets are safeguarded and transactions are executed in accordance with management's authorization and are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Company's Board of Directors, composed solely of directors who are independent in accordance with New York Stock Exchange listing standards, the Securities Exchange Act of 1934, the Company's Corporate Governance Guidelines and the Committee's charter, meets periodically with the Company's independent auditors, the Company's internal auditors and management to discuss internal control over financial reporting, auditing and financial reporting matters. Both the independent auditors and the Company's internal auditors periodically meet alone with the Audit Committee and have free access to the Committee.

Management assessed the effectiveness of the Company's internal control over financial reporting as of February 1, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework). Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of February 1, 2015.

The Company's independent auditors, Ernst & Young LLP, a registered public accounting firm, are appointed by the Audit Committee, subject to ratification by the Company's stockholders. Ernst & Young LLP have audited and reported on the consolidated financial statements of the Company and the effectiveness of the Company's internal control over financial reporting. The reports of the independent auditors are contained in this Annual Report on Form 10-K.

/s/ EMANUEL CHIRICO

/s/ MICHAEL SHAFFER

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Emanuel Chirico  
Chairman and Chief Executive Officer  
April 1, 2015

Michael Shaffer  
Executive Vice President and Chief  
Operating & Financial Officer  
April 1, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PVH Corp.

We have audited PVH Corp.'s internal control over financial reporting as of February 1, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PVH Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PVH Corp. maintained, in all material respects, effective internal control over financial reporting as of February 1, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PVH Corp. as of February 1, 2015 and February 2, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and redeemable non-controlling interest and cash flows for each of the three years in the period ended February 1, 2015 and our report dated April 1, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
New York, New York

Explanation of Responses:

April 1, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PVH Corp.

We have audited the accompanying consolidated balance sheets of PVH Corp. as of February 1, 2015 and February 2, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and redeemable non-controlling interest and cash flows for each of the three years in the period ended February 1, 2015. Our audits also included the financial statement schedule included in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PVH Corp. at February 1, 2015 and February 2, 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 1, 2015 in conformity with U.S generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PVH Corp.'s internal control over financial reporting as of February 1, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 1, 2015, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York  
April 1, 2015

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## PVH CORP.

## FIVE YEAR FINANCIAL SUMMARY

(In millions, except per share data, percents and ratios)

	2014 <sup>(1)</sup>	2013 <sup>(2)</sup>	2012 <sup>(3)</sup>	2011 <sup>(4)</sup>	2010 <sup>(5)</sup>	
Summary of Operations						
Revenue	\$8,241.2	\$8,186.4	\$6,043.0	\$5,890.6	\$4,636.8	
Cost of goods sold, expenses and other income items	7,711.3	7,673.0	5,382.7	5,399.4	4,433.8	
Income before interest and taxes	529.9	513.4	660.3	491.2	203.0	
Interest expense, net	138.5	184.7	117.2	128.1	126.8	
Income tax (benefit) expense	(47.5 )	185.3	109.3	87.4	21.8	
Net loss attributable to redeemable non-controlling interest	(0.1 )	(0.1 )	—	—	—	
Net income attributable to PVH Corp.	\$439.0	\$143.5	\$433.8	\$275.7	\$54.4	
Per Share Statistics						
Basic net income per common share attributable to PVH Corp.	\$5.33	\$1.77	\$5.98	\$3.86	\$0.83	
Diluted net income per common share attributable to PVH Corp.	5.27	1.74	5.87	3.78	0.81	
Dividends paid per common share	0.15	0.15	0.15	0.15	0.15	
Stockholders' equity per equivalent common share <sup>(6)</sup>	52.89	52.76	44.61	37.59	34.28	
Financial Position						
Current assets	\$2,901.2	\$2,998.6	\$2,437.0	\$1,739.2	\$1,835.3	
Current liabilities (including short-term borrowings and current portion of long-term debt)	1,428.6	1,552.4	1,162.4	1,043.9	931.3	
Working capital	1,472.6	1,446.2	1,274.6	695.3	904.0	
Total assets	10,931.8	11,575.6	7,731.7	6,752.4	6,784.4	
Capital leases	18.1	25.3	31.1	26.8	24.9	
Long-term debt	3,438.7	3,878.2	2,211.6	1,832.9	2,364.0	
Stockholders' equity	4,364.3	4,335.2	3,252.6	2,715.4	2,442.5	
Other Statistics						
Total debt to total capital <sup>(7)</sup>	45.0	% 48.0	% 41.9	% 41.7	% 49.5	%
Net debt to net capital <sup>(8)</sup>	41.4	% 44.0	% 30.8	% 38.6	% 43.7	%
Current ratio	2.0	1.9	2.1	1.7	2.0	

2014 includes (a) pre-tax costs of \$139.4 million associated with the Company's integration of Warnaco and the related restructuring; (b) a net gain of \$8.0 million associated with the deconsolidation of certain Calvin Klein subsidiaries in Australia and the Company's previously consolidated Calvin Klein joint venture in India; (c) pre-tax costs of \$93.1 million associated with the Company's amendment and restatement of its senior secured credit facilities and redemption of its 7 3/8% senior notes due 2020; (d) pre-tax costs of \$21.0 million associated with the exit of the Company's Izod retail business; (e) a pre-tax actuarial loss of \$138.9 million on pension and other postretirement plans; and (f) discrete tax benefits of \$91.5 million primarily related to Warnaco integration activities and the resolution of uncertain tax positions.

<sup>(2)</sup> 2013 includes (a) pre-tax costs of \$469.7 million associated with the Company's acquisition and integration of Warnaco and the related restructuring; (b) pre-tax costs of \$40.4 million associated with the Company's debt modification and extinguishment; (c) pre-tax income of \$24.3 million due to the amendment of an unfavorable

contract; (d) a pre-tax loss of \$20.2 million associated with the sale of substantially all of the assets of the Company's Bass business; (e) a pre-tax actuarial gain of \$52.5 million on pension and other postretirement plans; (f) pre-tax interest expense of \$0.8 million incurred prior to the Warnaco acquisition closing date related to the \$700.0 million of senior notes issued to fund the acquisition; (g) a net tax expense of \$5.2 million associated with non-recurring discrete items related to the Warnaco acquisition; and (h) a tax expense of \$120.0 million related to an increase to the Company's previously established liability for an uncertain tax position related to European and United States transfer pricing arrangements.

2012 includes (a) pre-tax costs of \$20.5 million associated with the Company's integration of Tommy Hilfiger and the related restructuring; (b) pre-tax costs of \$42.6 million associated with the Company's acquisition of Warnaco; (3) (c) a pre-tax actuarial loss of \$28.1 million on pension and other postretirement plans; (d) pre-tax interest expense of \$3.7 million incurred in the fourth quarter related to the \$700.0 million of senior notes issued that quarter; and (e) a tax benefit of \$14.0 million resulting from the recognition of previously unrecognized net operating loss assets and tax credits.

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2011 includes (a) pre-tax costs of \$69.5 million associated with the Company's integration of Tommy Hilfiger and the related restructuring; (b) pre-tax costs of \$8.1 million related to the Company's negotiated early termination of its license to market sportswear under the Timberland brand and its exit of the Izod women's wholesale sportswear (4) business; (c) a pre-tax expense of \$20.7 million recorded in connection with the Company's reacquisition of the rights to the Tommy Hilfiger trademarks in India that had been subject to a perpetual license; (d) pre-tax costs of \$16.2 million associated with the Company's modification of its senior secured credit facility; (e) a pre-tax actuarial loss of \$76.1 million on pension and other postretirement plans; and (f) a tax benefit of \$5.4 million resulting from the revaluation of certain deferred tax liabilities in connection with a decrease in the tax rate in Japan.

2010 includes (a) pre-tax costs of \$338.3 million associated with the Company's acquisition and integration of Tommy Hilfiger, including transaction, restructuring and debt extinguishment costs and the effects of hedges against Euro to United States dollar exchange rates related to the purchase price; (b) pre-tax costs of \$6.6 million (5) associated with the Company's exit from its United Kingdom and Ireland Van Heusen dresswear and accessories business; (c) a pre-tax actuarial loss of \$4.5 million on pension and other postretirement plans; and (d) a tax benefit of \$8.9 million related to the lapse of the statute of limitations with respect to certain previously unrecognized tax positions.

Stockholders' equity per equivalent common share is calculated by dividing stockholders' equity by the sum of (6) common shares outstanding and the number of common shares that the Company's Series A convertible preferred shares were convertible into for the applicable years, as such convertible preferred stock was classified within stockholders' equity in the Company's Consolidated Balance Sheets.

(7) Total capital equals interest-bearing debt (including capital leases) and stockholders' equity.

(8) Net debt and net capital are total debt (including capital leases) and total capital reduced by cash.

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## SCHEDULE II

## PVH CORP.

## VALUATION AND QUALIFYING ACCOUNTS

(In millions)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended February 1, 2015					
Allowance for doubtful accounts	\$26.4	\$5.4	\$—	\$12.8	(c) \$19.0
Allowance/accrual for operational chargebacks and customer markdowns (a)	250.6	547.0	—	524.3	273.3
Total	277.0	552.4	—	537.1	292.3
Year Ended February 2, 2014					
Allowance for doubtful accounts	\$16.1	\$12.0	\$3.7	(b) \$5.4	(c) \$26.4
Allowance/accrual for operational chargebacks and customer markdowns (a)	151.1	498.1	28.2	(b) 426.8	250.6
Total	167.2	510.1	31.9	432.2	277.0
Year Ended February 3, 2013					
Allowance for doubtful accounts	\$15.8	\$6.3	\$—	\$6.0	(c) \$16.1
Allowance/accrual for operational chargebacks and customer markdowns (a)	163.1	321.0	—	333.0	151.1
Total	178.9	327.3	—	339.0	167.2

(a) Contains activity associated with the wholesale sales allowance accrual included in accrued expenses. Please see Note 21, "Other Comments" for specified amounts.

(b) Principally due to the acquisition of Warnaco in 2013.

(c) Principally accounts written off as uncollectible, net of recoveries.

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