3M CO
Form 10-Q
May 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

Commission file number: **1-3285**

3M COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 733-1110

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Outstanding at March 31, 2011**
Common Stock, $0.01 par value per share	710,577,360 shares

This document (excluding exhibits) contains 63 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 60.

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Form 10-Q for the Quarterly Period Ended March 31, 2011

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3M COMPANY

FORM 10-Q

For the Quarterly Period Ended March 31, 2011

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries
Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended March 31, 2011	2010
Net sales	$ 7,311	$ 6,348
Operating expenses		
Cost of sales	3,802	3,238
Selling, general and administrative expenses	1,533	1,323
Research, development and related expenses	398	342
Total operating expenses	5,733	4,903
Operating income	1,578	1,445
Interest expense and income		
Interest expense	43	48
Interest income	(10)	(6)
Total interest expense (income)	33	42
Income before income taxes	1,545	1,403
Provision for income taxes	442	448
Net income including noncontrolling interest	$ 1,103	$ 955
Less: Net income attributable to noncontrolling interest	22	25
Net income attributable to 3M	$ 1,081	$ 930
Weighted average 3M common shares outstanding basic	711.5	711.8
Earnings per share attributable to 3M common shareholders basic	$ 1.52	$ 1.31
Weighted average 3M common shares outstanding diluted	726.4	723.5
Earnings per share attributable to 3M common shareholders diluted	$ 1.49	$ 1.29
Cash dividends paid per 3M common share	$ 0.55	$ 0.525

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

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3M Company and Subsidiaries
Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)		Mar. 31, 2011		Dec. 31, 2010
Assets				
Current assets				
Cash and cash equivalents	$	2,747	$	3,377
Marketable securities current		1,285		1,101
Accounts receivable net		4,209		3,615
Inventories				
Finished goods		1,639		1,476
Work in process		1,033		950
Raw materials and supplies		817		729
Total inventories		3,489		3,155
Other current assets		915		967
Total current assets		12,645		12,215
Marketable securities non-current		360		540
Investments		160		146
Property, plant and equipment		20,785		20,253
Less: Accumulated depreciation		(13,282)		(12,974)
Property, plant and equipment net		7,503		7,279
Goodwill		7,121		6,820
Intangible assets net		2,004		1,820
Prepaid pension benefits		78		74
Other assets		1,258		1,262
Total assets	$	31,129	$	30,156
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	1,133	$	1,269
Accounts payable		1,815		1,662
Accrued payroll		479		778
Accrued income taxes		393		358
Other current liabilities		2,080		2,022
Total current liabilities		5,900		6,089
Long-term debt		4,486		4,183
Pension and postretirement benefits		1,964		2,013
Other liabilities		1,892		1,854
Total liabilities	$	14,242	$	14,139
Commitments and contingencies (Note 11)				
Equity				
3M Company shareholders equity:				
Common stock par value, $.01 par value, 944,033,056 shares issued	$	9	$	9
Additional paid-in capital		3,599		3,468
Retained earnings		26,521		25,995
Treasury stock, at cost: 233,455,696 shares at Mar. 31, 2011; 232,055,448 shares at Dec. 31, 2010		(10,398)		(10,266)

Accumulated other comprehensive income (loss)		**(3,237)**		(3,543)
Total 3M Company shareholders equity		**16,494**		15,663
Noncontrolling interest		**393**		354
Total equity	**$**	**16,887**	$	16,017
Total liabilities and equity	**$**	**31,129**	$	30,156

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

3M Company and Subsidiaries
Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Three months ended March 31, 2011	2010
Cash Flows from Operating Activities		
Net income including noncontrolling interest	**$ 1,103**	$ 955
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**289**	287
Company pension and postretirement contributions	**(61)**	(82)
Company pension and postretirement expense	**135**	88
Stock-based compensation expense	**116**	112
Deferred income taxes	**3**	26
Excess tax benefits from stock-based compensation	**(15)**	(12)
Changes in assets and liabilities		
Accounts receivable	**(469)**	(356)
Inventories	**(180)**	(190)
Accounts payable	**80**	145
Accrued income taxes (current and long-term)	**137**	317
Product and other insurance receivables and claims	**(39)**	(25)
Other net	**(366)**	(183)
Net cash provided by operating activities	**733**	1,082
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(231)**	(157)
Proceeds from sale of PP&E and other assets	**2**	3
Acquisitions, net of cash acquired	**(471)**	(17)
Purchases of marketable securities and investments	**(757)**	(1,410)
Proceeds from sale of marketable securities and investments	**363**	222
Proceeds from maturities of marketable securities	**376**	435
Other investing	**(39)**	(63)
Net cash used in investing activities	**(757)**	(987)
Cash Flows from Financing Activities		
Change in short-term debt net	**12**	(27)
Repayment of debt (maturities greater than 90 days)	**(104)**	(20)
Proceeds from debt (maturities greater than 90 days)	**107**	9
Purchases of treasury stock	**(680)**	(20)
Reissuances of treasury stock	**378**	151
Dividends paid to shareholders	**(392)**	(374)
Excess tax benefits from stock-based compensation	**15**	12
Other net		(6)
Net cash used in financing activities	**(664)**	(275)
Effect of exchange rate changes on cash and cash equivalents	**58**	(12)
Net increase (decrease) in cash and cash equivalents	**(630)**	(192)
Cash and cash equivalents at beginning of year	**3,377**	3,040

Cash and cash equivalents at end of period	**$**	**2,747**	$	2,848

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 2010 Annual Report on Form 10-K. However, as described in Note 13, during the first quarter of 2011, the Company made certain product moves between its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. The Company has begun to report comparative results under the new business segment structure with the filing of this Quarterly Report on Form 10-Q. In the second quarter of 2011, the Company plans to revise its business segment disclosures in its 2010 Annual Report on Form 10-K via a Form 8-K to reflect these impacts.

Earnings Per Share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (3.6 million average options for the three months ended March 31, 2011 and 30.2 million average options for the three months ended March 31, 2010). The conditions for conversion related to the Company s Convertible Notes were not met (refer to 3M s 2010 Annual Report on Form 10-K, Note 10 to the Consolidated Financial Statements, for more detail). If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock; however, if this occurs, the Company has the intent and ability to settle this debt security in cash. Accordingly, there was no impact on diluted earnings per share attributable to 3M common shareholders. The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

(Amounts in millions, except per share amounts)	Three months ended March 31, 2011	2010
Numerator:		
Net income attributable to 3M	**$ 1,081**	$ 930
Denominator:		
Denominator for weighted average 3M common shares outstanding basic	**711.5**	711.8
Dilution associated with the Company s stock-based compensation plans	**14.9**	11.7
Denominator for weighted average 3M common shares outstanding diluted	**726.4**	723.5
Earnings per share attributable to 3M common shareholders basic	**$ 1.52**	$ 1.31
Earnings per share attributable to 3M common shareholders diluted	**1.49**	1.29

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New Accounting Pronouncements

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements are separated in more circumstances than under pre-existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable is based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor is required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. For 3M, ASU No. 2009-13 was effective beginning January 1, 2011. 3M elected to adopt the provisions of this standard prospectively to new or materially modified arrangements beginning on the effective date. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force*, that reduces the types of transactions that fall within the scope of software revenue recognition guidance. Pre-existing software revenue recognition guidance required that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software was considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software are accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components are excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product s essential functionality, and undelivered components that relate to software that is essential to the tangible product s functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). For 3M, ASU No. 2009-14 was effective beginning January 1, 2011. 3M elected to adopt the provisions of this standard prospectively to new or materially modified arrangements beginning on the effective date. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In January 2010, the FASB issued ASU No. 2010-6, *Improving Disclosures About Fair Value Measurements*, that amends pre-existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances, and settlements relative to level 3 measurements; and clarifying, among other things, the pre-existing fair value disclosures about the level of disaggregation. For 3M, this ASU was effective for the first quarter of 2010, except for the requirement to provide level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which was effective beginning the first quarter of 2011. Since this standard impacts disclosure requirements only, its adoption did not have a material impact on 3M s consolidated results of operations or financial condition.

In April 2010, the FASB issued ASU No. 2010-17, *Milestone Method of Revenue Recognition a consensus of the FASB Emerging Issues Task Force* that recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development arrangements. This standard requires its provisions be met in order for an entity to recognize consideration that is contingent upon achievement of a substantive milestone as revenue in its entirety in the period in which the milestone is achieved. In addition, this ASU requires disclosure of certain information with respect to arrangements that contain milestones. For 3M, this standard was effective prospectively beginning January 1, 2011. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

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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.

The impact on the consolidated balance sheet of the purchase price allocations related to acquisitions, including adjustments relative to other acquisitions within the allocation period, follows. Adjustments to previous acquisitions were not material and primarily related to changes in the preliminary allocations of purchase price of businesses acquired in the fourth quarter of 2010. The allocation of purchase price related to acquisitions in the first quarter of 2011, primarily Winterthur Technologie AG (Winterthur), is considered preliminary, largely with respect to certain acquired intangible assets and tax-related assets and liabilities.

	First Quarter 2011 Acquisition Activity		
(Millions) **Asset (Liability)**	**Winterthur Technologie AG**	**Other Acquisitions**	**Total**
Accounts receivable	$ 43	$ 37	$ 80
Inventory	76	25	101
Other current assets	6	4	10
Property, plant, and equipment	74	75	149
Purchased finite-lived intangible assets	185	28	213
Purchased goodwill	145	45	190
Accounts payable and other liabilities, net of other assets	(69)	(31)	(100)
Interest bearing debt	(79)	(2)	(81)
Deferred tax asset/(liability)	(20)	(5)	(25)
Net assets acquired	$ 361	$ 176	$ 537
Noncontrolling interest	(56)		(56)
Net assets acquired excluding noncontrolling interest	$ 305	$ 176	$ 481
Supplemental information:			
Cash paid	$ 327	$ 179	$ 506
Less: Cash acquired	32	3	35
Cash paid, net of cash acquired	$ 295	$ 176	$ 471
Non-cash	10		10
Net assets acquired excluding noncontrolling interest	$ 305	$ 176	$ 481

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-process research and development associated with these business combinations were not material. Pro forma information related to acquisitions was not included because the impact on the Company s consolidated results of operations was not considered to be material.

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.

During the three months ended March 31, 2011, 3M completed four business combinations. The purchase price paid for these business combinations (net of cash acquired) and the impact of other matters (net) during the three months ended March 31, 2011 aggregated to $471 million.

(1) In January 2011, 3M (Industrial and Transportation Business) purchased certain assets of Nida-Core Corp., a manufacturer of structural honeycomb core and fiber-reinforced foam core materials based in Port St. Lucie, Florida.

(2) In February 2011, 3M (Industrial and Transportation Business) announced that it completed its acquisition of all of the outstanding shares of Alpha Beta Enterprise Co. Ltd., a manufacturer of box sealing tape and masking tape headquartered in Taipei, Taiwan.

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(3) In February 2011, 3M (Consumer and Office Business) purchased all of the outstanding shares of Hybrivet Systems Inc., a provider of instant-read products to detect lead and other contaminants and toxins, which is based in Natick, Massachusetts.

(4) In early March 2011, 3M (Industrial and Transportation Business) acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft and cutting tools. As of the settlement date of the tendered shares (the business acquisition date), 3M owned approximately 86 percent of Winterthur shares via the tender and previous open market share purchases. The purchase price paid in the preceding table includes non-cash consideration of $10 million representing the business acquisition date fair value of shares previously owned by 3M as of December 31, 2010 and cash consideration paid, net of cash acquired, of $295 million for subsequently tendered and open market purchased shares through the business acquisition date. Following the business acquisition date, 3M also purchased additional outstanding shares of its consolidated Winterthur subsidiary, increasing 3M s ownership interest to approximately 94% as of March 31, 2011 as discussed in Note 4.

Purchased identifiable finite-lived intangible assets related to acquisitions which closed in the first three months of 2011 totaled $213 million and will be amortized on a straight-line basis over a weighted-average life of 14 years (lives ranging from 3 to 17 years). Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material.

NOTE 3. Goodwill and Intangible Assets

Purchased goodwill related to the acquisitions which closed in the first three months of 2011 totaled $191 million, $6 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which decreased goodwill by $1 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balance by business segment as of December 31, 2010 and March 31, 2011, follow:

Goodwill

(Millions)	Dec. 31, 2010 Balance	Acquisition activity	Translation and other	Mar. 31, 2011 Balance
Industrial and Transportation	$ 1,783	$ 181	$ 10	$ 1,974
Health Care	1,506	(1)	42	1,547
Consumer and Office	187	12	1	200
Display and Graphics	994		(1)	993
Safety, Security and Protection Services	1,670	(2)	41	1,709
Electro and Communications	680		18	698
Total Company	$ 6,820	$ 190	$ 111	$ 7,121

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

As discussed in Note 13, effective in the first quarter of 2011, 3M made certain product moves between its 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 to reporting units. During the first quarter of 2011, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

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Acquired Intangible Assets

For the three months ended March 31, 2011, intangible assets (excluding goodwill) acquired through business combinations increased balances by $213 million. Balances are also 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, 2011, and December 31, 2010, follow:

(Millions)	Mar. 31, 2011	Dec. 31, 2010
Patents	**$ 566**	$ 551
Other amortizable intangible assets (primarily tradenames and customer related intangibles)	**2,256**	2,016
Total gross carrying amount	**$ 2,822**	$ 2,567
Accumulated amortization patents	**(359)**	(345)
Accumulated amortization other	**(587)**	(527)
Total accumulated amortization	**$ (946)**	$ (872)
Total finite-lived intangible assets net	**$ 1,876**	$ 1,695
Non-amortizable intangible assets (tradenames)	**128**	125
Total intangible assets net	**$ 2,004**	$ 1,820

Amortization expense for acquired intangible assets for the three months ended March 31, 2011 and 2010 follows:

	Three months ended Mar. 31,	
(Millions)	2011	2010
Amortization expense	**$ 54**	$ 43

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of March 31, 2011:

(Millions)	Last 3 Quarters 2011	2012	2013	2014	2015	2016	After 2016
Amortization expense	$ 173	$ 219	$ 208	$ 185	$ 172	$ 158	$ 761

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.

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NOTE 4. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

3M Company and Subsidiaries

Three months ended Mar. 31, 2011

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2010	**$ 16,017**	**$ 3,477**	**$ 25,995**	**$ (10,266)**	**$ (3,543)**	**$ 354**
Net income	**1,103**		**1,081**			**22**
Cumulative translation adjustment	**242**				**248**	**(6)**
Defined benefit pension and postretirement plans adjustment	**76**				**76**	
Debt and equity securities - unrealized gain (loss)	**(1)**				**(1)**	
Cash flow hedging instruments - unrealized gain (loss)	**(17)**				**(17)**	
Total comprehensive income	**1,403**					
Dividends paid	**(392)**		**(392)**			
Business combination allocation to noncontrolling interest	**56**					**56**
Purchase of subsidiary shares	**(33)**					**(33)**
Stock-based compensation, net of tax impacts	**131**	**131**				
Reacquired stock	**(675)**			**(675)**		
Issuances pursuant to stock option and benefit plans	**380**		**(163)**	**543**		
Balance at March 31, 2011	**$ 16,887**	**$ 3,608**	**$ 26,521**	**$ (10,398)**	**$ (3,237)**	**$ 393**

3M Company and Subsidiaries

Three months ended Mar. 31, 2010

3M Company Shareholders

(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2009	**$ 13,302**	**$ 3,162**	**$ 23,753**	**$ (10,397)**	**$ (3,754)**	**$ 538**
Net income	**955**		**930**			**25**
Cumulative translation adjustment	**(95)**				**(94)**	**(1)**
Defined benefit pension and postretirement plans adjustment	**51**				**50**	**1**
Debt and equity securities - unrealized gain (loss)	**1**				**1**	
Cash flow hedging instruments - unrealized gain (loss)	**23**				**23**	
Total comprehensive income	**935**					
Dividends paid	**(374)**		**(374)**			
Purchase of subsidiary shares and transfers from noncontrolling interest	**(256)**	**(5)**			**27**	**(278)**
Stock-based compensation, net of tax impacts	**112**	**112**				
Reacquired stock	**(20)**			**(20)**		
Issuances pursuant to stock option and benefit plans	**152**		**(78)**	**230**		
Balance at March 31, 2010	**$ 13,851**	**$ 3,269**	**$ 24,231**	**$ (10,187)**	**$ (3,747)**	**$ 285**

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Consolidated Statement of Comprehensive Income (Loss)

(Millions)	Three months ended Mar. 31, 2011	2010
Net income including noncontrolling interest	**$ 1,103**	$ 955
Other comprehensive income, net of tax:		
Cumulative translation adjustment	**242**	(95)
Defined benefit pension and postretirement plans adjustment	**76**	51
Debt and equity securities, unrealized gain (loss)	**(1)**	1
Cash flow hedging instruments, unrealized gain (loss)	**(17)**	23
Total other comprehensive income (loss), net of tax	**300**	(20)
Comprehensive income (loss) including noncontrolling interest	**1,403**	935
Comprehensive (income) loss attributable to noncontrolling interest	**(16)**	(25)
Comprehensive income (loss) attributable to 3M	**$ 1,387**	$ 910

Accumulated Other Comprehensive Income (Loss) Attributable to 3M

(Millions)	Mar. 31, 2011	Dec. 31, 2010
Cumulative translation adjustment	**$ 622**	$ 374
Defined benefit pension and postretirement plans adjustment	**(3,803)**	(3,879)
Debt and equity securities, unrealized gain (loss)	**(7)**	(6)
Cash flow hedging instruments, unrealized gain (loss)	**(49)**	(32)
Total accumulated other comprehensive income (loss)	**$ (3,237)**	$ (3,543)

Components of Comprehensive Income (Loss) Attributable to 3M

(Millions)	Three months ended Mar. 31, 2011	2010
Net income attributable to 3M	**$ 1,081**	$ 930
Cumulative translation	**221**	(77)
Tax effect	**27**	(17)
Cumulative translation - net of tax	**248**	(94)
Defined benefit pension and postretirement plans adjustment	**119**	76
Tax effect	**(43)**	(26)
Defined benefit pension and postretirement plans adjustment - net of tax	**76**	50
Debt and equity securities, unrealized gain (loss)	**(2)**	3
Tax effect	**1**	(2)
Debt and equity securities, unrealized gain (loss) - net of tax	**(1)**	1
Cash flow hedging instruments, unrealized gain (loss)	**(27)**	36
Tax effect	**10**	(13)

Cash flow hedging instruments, unrealized gain (loss) - net of tax		**(17)**		23
Total comprehensive income (loss) attributable to 3M	**$**	**1,387**	$	910

Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassifications to earnings from accumulated other comprehensive income that related to pension and postretirement expense in the income statement were $119 million pre-tax ($76 million after-tax) for the three months ended March 31, 2011 and $76 million pre-tax ($50 million after-tax) for the three months ended March 31, 2010. These pension and postretirement expense pre-tax amounts are shown in the table in Note 8 as amortization of transition (asset) obligation, amortization of prior service cost (benefit) and amortization of net actuarial (gain) loss. Cash flow hedging instruments reclassifications are provided in Note 9. Reclassifications to earnings from accumulated other comprehensive income for debt and equity securities were not material for the first three months of 2011 and 2010. Other reclassification adjustments were not material. 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.

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Purchase of Subsidiary Shares and Transfers of Ownership Interests Involving Non-Wholly Owned Subsidiaries

As discussed in Note 2, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of that business acquisition date. Subsequent to this business acquisition date, 3M purchased additional outstanding shares of its Winterthur subsidiary increasing 3M s ownership interest from approximately 86 percent as of the business acquisition date to approximately 94 percent as of March 31, 2011. The $33 million of cash paid as a result of these additional purchases of Winterthur shares was classified as other investing activity in the consolidated statement of cash flows. These additional purchases did not result in a material transfer from noncontrolling interest to 3M Company shareholders equity.

During the second half of 2009 and the first half of 2010, 3M effected a purchase of subsidiary shares and transfers of ownership interests to align activities in Japan and to simplify the Company s ownership structure. As a result of these activities, beginning in June 2010 the Company has a wholly owned subsidiary in the region in addition to its majority owned Sumitomo 3M Limited entity (Sumitomo 3M). Because the Company retained its controlling interest in the subsidiaries involved, these activities resulted in changes to 3M Company shareholders equity and noncontrolling interest. These activities included the following:

- During the second half of 2009, a wholly owned subsidiary that, in turn, owned a portion of the Company s majority owned Sumitomo 3M, was transferred to another subsidiary (referred to herein as 3M HC) that was majority, rather than wholly, owned. Sumitomo 3M also owned a portion of 3M HC. As a result of the transaction, 3M s effective ownership in Sumitomo 3M was reduced from 75 percent to 71.5 percent. The transfer resulted in a decrease in 3M Company shareholders equity and an increase in noncontrolling interest of $81 million in the second half of 2009.

- During the first quarter of 2010, majority owned 3M HC which, as a result of the transfer above owned a portion of the Company s majority owned Sumitomo 3M, transferred this interest to Sumitomo 3M. In addition, Sumitomo 3M purchased a portion of its shares held by its noncontrolling interest, Sumitomo Electric Industries, Ltd. (SEI), by paying cash of 5.8 billion Japanese Yen and entering into a note payable to SEI of 17.4 billion Japanese Yen (approximately $63 million and $188 million, respectively, based on applicable exchange rates at that time). As a result of these transactions, 3M s effective ownership in Sumitomo 3M was increased from 71.5 percent to 75 percent. The cash paid as a result of the purchase of Sumitomo 3M shares from SEI was classified as an investing activity in the consolidated statement of cash flows. The remainder of the purchase financed by the note payable to SEI was considered non-cash investing and financing activity in the first quarter of 2010. These transactions resulted in an increase in 3M Company shareholders equity of $22 million and a decrease in noncontrolling interest of $278 million in the first quarter of 2010.

- During the second quarter of 2010, majority owned Sumitomo 3M transferred its interest in 3M HC to 3M HC. As a result of this transaction, 3M HC became wholly owned by the Company. The transfer resulted in an increase in 3M Company shareholders equity and a decrease in noncontrolling interest of $24 million in the second quarter of 2010.

The following table summarizes the effects of the 2010 transactions on equity attributable to 3M Company shareholders for the three months ended March 31, 2010.

(Millions)		Three months ended Mar. 31, 2010
Net income attributable to 3M	$	**930**
Transfers from noncontrolling interest		**22**
Change in 3M Company shareholders equity from net income attributable to 3M and transfers from noncontrolling interest	$	**952**

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 2003.

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. Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2010 and 2011. It is anticipated that the IRS will complete its examination of the Company for 2010 by the end of the first quarter of 2012, and for 2011 by the end of the first quarter of 2013. As of March 31, 2011, the IRS has not proposed any significant adjustments to the Company s tax positions for which the Company is not adequately reserved.

During the first quarter of 2010, the Company paid the agreed upon assessments for the 2005 tax year. During the second quarter of 2010, the Company paid the agreed upon assessments for the 2008 tax year. Payments relating to other proposed assessments arising from the 2005 through 2011 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 the 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, 2011 and December 31, 2010, respectively, are $358 million and $394 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately $2 million of benefit and $4 million of expense for the three months ended March 31, 2011 and March 31, 2010, respectively. At March 31, 2011 and December 31, 2010, accrued interest and penalties in the consolidated balance sheet on a gross basis were $54 million and $52 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.

The effective tax rate for the first quarter of 2011 was 28.6 percent, compared to 31.9 percent in the first quarter of 2010, a decrease of 3.3 percent. The first quarter of 2010 includes a one-time income tax charge of $84 million as a result of the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010, which increased the first-quarter 2010 effective tax rate by approximately 6 percent. Since future anticipated retiree health care liabilities and related tax subsidies were already reflected in 3M s financial statements, the change in law resulted in a reduction of the value of the company s deferred tax asset related to the subsidy. Other factors on a combined basis increased the effective tax rate for the first quarter of 2011 when compared to the first quarter of 2010 by 2.7 percent, with the most significant item related to international taxes. This was due primarily to the one-time 2010 tax benefits resulting from the corporate alignment transactions that allowed the Company to increase its ownership of a foreign subsidiary. These transactions are described in the section of Note 4 entitled Purchase of Subsidiary Shares and Transfers of Ownership Interests Involving Non-Wholly Owned Subsidiaries . In addition, the Company s effective tax rate benefited during the first quarter of 2011 from the reinstatement of the research and development credit and adjustments to its income tax reserves.

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exits. As of both March 31, 2011 and December 31, 2010, the Company had valuation allowances of $128 million on its deferred tax assets.

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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)	Mar. 31, 2011	Dec. 31, 2010
U.S. government agency securities	$ 247	$ 246
Foreign government agency securities	37	52
Corporate debt securities	248	280
Commercial paper	30	55
Certificates of deposit	15	
U.S. treasury securities	30	55
U.S. municipal securities	13	20
Asset-backed securities:		
Automobile loan related	423	253
Credit card related	163	79
Equipment lease related	17	24
Other	39	8
Asset-backed securities total	642	364
Other securities	23	29
Current marketable securities	**$ 1,285**	$ 1,101
U.S. government agency securities	$ 33	$ 63
Foreign government agency securities	3	3
Corporate debt securities	134	192
U.S. treasury securities	64	44
U.S. municipal securities	3	3
Asset-backed securities:		
Automobile loan related	91	144
Credit card related	17	70
Equipment lease related	8	14
Asset-backed securities total	116	228
Auction rate securities	7	7
Non-current marketable securities	**$ 360**	$ 540
Total marketable securities	**$ 1,645**	$ 1,641

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, 2011, gross unrealized losses totaled approximately $7 million (pre-tax), while gross unrealized gains totaled approximately $4 million (pre-tax). At December 31, 2010, gross unrealized losses totaled approximately $9 million (pre-tax), while gross unrealized gains totaled approximately $5 million (pre-tax). Gross realized gains and losses on sales or maturities of marketable securities for the first three months of 2011 and 2010 were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

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

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The balances at March 31, 2011 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)		Mar. 31, 2011
Due in one year or less	$	762
Due after one year through three years		825
Due after three years through five years		39
Due after five years		19
Total marketable securities	$	1,645

3M has a diversified marketable securities portfolio of $1.645 billion as of March 31, 2011. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $758 million) are primarily comprised of interests in automobile loans and credit cards. At March 31, 2011, the asset-backed securities credit ratings were AAA or A-1+, with the exception of two securities rated AA+ with a fair market value of less than $1 million.

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 is $7 million at both March 31, 2011 and December 31, 2010. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $6 million (pre-tax) at both March 31, 2011 and December 31, 2010. As of March 31, 2011, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 10 for a table that reconciles the beginning and ending balances of auction rate securities.

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

As disclosed in 3M s 2010 Annual Report on Form 10-K, in the fourth quarter of 2010, the Company entered into a 100.5 million Canadian Dollar loan, with four equal installments due in April 2011, July 2011, October 2011 and January 2012. At December 31, 2010, the floating interest rate on this loan was 1.8%. During March 2011, this loan agreement was amended to increase the loan amount to 201 million Canadian Dollars and to allow for repayment of the total loan in July 2012, instead of in four equal installments. However, 3M has the option to repay the principal amount of this loan before July 2012. All other terms and conditions of the loan agreement remain in full force.

As also disclosed in 3M s 2010 Annual Report on Form 10-K, during the first quarter of 2010, the Company entered into a floating rate note payable of 17.4 billion Japanese Yen (approximately $188 million based on exchange rates at that time) in connection with the purchase of additional interest in the Company s Sumitomo 3M Limited subsidiary as discussed in Note 4. This note is due in three equal installments of 5.8 billion Japanese Yen, with one installment paid on September 30, 2010, one installment paid on March 30, 2011, and the remaining installment due on September 30, 2011. Interest accrues on the note based on the three-month Tokyo Interbank Offered Rate (TIBOR) plus 40 basis points.

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NOTE 8. Pension and Postretirement Benefit Plans

Components of net periodic benefit cost and other supplemental information for the three months ended March 31, 2011 and 2010 follows:

Benefit Plan Information

	Three months ended March 31,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International			
(Millions)	2011	2010	2011	2010	2011	2010
Net periodic benefit cost (benefit)						
Service cost	**$ 51**	$ 50	**$ 28**	$ 28	**$ 15**	$ 14
Interest cost	**158**	160	**62**	62	**23**	22
Expected return on plan assets	**(232)**	(232)	**(70)**	(71)	**(19)**	(21)
Amortization of transition (asset) obligation						
Amortization of prior service cost (benefit)	**3**	3	**(3)**	(1)	**(18)**	(23)
Amortization of net actuarial (gain) loss	**83**	55	**28**	21	**26**	21
Net periodic benefit cost (benefit)	**$ 63**	$ 36	**$ 45**	$ 39	**$ 27**	$ 13
Settlements, curtailments, special termination benefits and other						
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$ 63**	$ 36	**$ 45**	$ 39	**$ 27**	$ 13

For the three months ended March 31, 2011, contributions totaling $39 million were made to the Company s U.S. and international pension plans and $22 million to its postretirement plans. In 2011, the Company expects to contribute in the range of $400 million to $600 million to its U.S. and international pension and postretirement plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2011. Therefore, the amount of the anticipated discretionary pension contribution could vary significantly depending on the U.S. plans funded status and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M s annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

3M was informed during the first quarter of 2009 that the general partners of WG Trading Company, in which 3M s benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver s proposed distribution plan. In April 2011, the 3M benefit plans received their share under the court-ordered distribution plan. 3M and six other limited partners of WG Trading Company have appealed the court's order to the United States Court of Appeals for the Second Circuit. 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 2010 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.

NOTE 9. Derivatives

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

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 10. References to information regarding derivatives and/or hedging instruments associated with the Company s long-term debt are also made in Note 10 to the Consolidated Financial Statements in 3M s 2010 Annual Report on Form 10-K.

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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 month periods ended March 31, 2011 and 2010. 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, 2011, 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, 2011 was approximately $3.5 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 month periods ended March 31, 2011 and 2010. The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges at March 31, 2011 was $34 million.

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, 2011 (Millions)	**Pretax Gain (Loss) Recognized in Other Comprehensive Income on**	**Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other**	**Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income**

Derivatives in Cash Flow Hedging Relationships	Effective Portion of Derivative Amount		Comprehensive Income Location		Amount	Location		Amount
Foreign currency forward/option contracts	$	(34)	Cost of sales	$	(6)	Cost of sales	$	
Foreign currency forward contracts		8	Interest expense		10	Interest expense		
Commodity price swap contracts		(1)	Cost of sales		(4)	Cost of sales		
Total	$	(27)		$			$	

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Three months ended March 31, 2010 (Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income Location	Amount	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Location	Amount
Foreign currency forward/option contracts	$ 3	Cost of sales	$ (40)	Cost of sales	$
Foreign currency forward contracts	(5)	Interest expense	(5)	Interest expense	
Commodity price swap contracts	(9)	Cost of sales	(2)	Cost of sales	
Total	$ (11)		$ (47)		$

As of March 31, 2011, the Company had a balance of $49 million associated with the after tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. 3M expects to reclassify to earnings over the next 12 months a majority of this balance (with the impact offset by cash flows from underlying hedged items).

Fair Value Hedges:

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

Fair Value Hedging - Interest Rate Swaps: The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company s interest rate swaps at March 31, 2011 was $1.1 billion.

At March 31, 2011, 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, will be amortized over this debt s remaining life. The Company also has two fixed-to-floating interest rate swaps with an aggregate notional amount of $800 million designated as fair value hedges of the fixed interest rate obligation under its $800 million, three-year, 4.50% notes issued in October 2008.

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, 2011 (Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income Location	 Amount	Gain (Loss) on Hedged Item Recognized in Income Location	 Amount
Interest rate swap contracts	Interest expense	$ (10)	Interest expense	$ 10
Total		$ (10)		$ 10

Three months ended March 31, 2010 (Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income Location	 Amount	Gain (Loss) on Hedged Item Recognized in Income Location	 Amount
Interest rate swap contracts	Interest expense	$ 8	Interest expense	$ (8)
Total		$ 8		$ (8)

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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, 2011, 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, 2011 (Millions) Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
		Amount	Location	Amount
Foreign currency denominated debt	$	(85)	N/A	$
Total	$	(85)		$

Three months ended March 31, 2010 (Millions) Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
		Amount	Location	Amount
Foreign currency denominated debt		90	N/A	
Total	$	90		$

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and 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 $975 million as of March 31, 2011. 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:

(Millions)	Three months ended Mar. 31, 2011 Gain (Loss) on Derivative Recognized in Income			Three months ended Mar. 31, 2010 Gain (Loss) on Derivative Recognized in Income		
Derivatives Not Designated as Hedging Instruments	**Location**		**Amount**	**Location**		**Amount**
Foreign currency forward/option contracts	Cost of sales	$	(12)	Cost of sales	$	(1)
Foreign currency forward contract	Interest expense		16	Interest expense		7
Total		$	4		$	6

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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.

March 31, 2011 **(Millions)** **Fair Value of Derivative Instruments**	**Assets** **Location**		**Amount**	**Liabilities** **Location**		**Amount**
Derivatives designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	29	Other current liabilities	$	57
Commodity price swap contracts	Other current assets			Other current liabilities		2
Interest rate swap contracts	Other assets		28	Other liabilities		
Total derivatives designated as hedging instruments		$	57		$	59
Derivatives not designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	4	Other current liabilities	$	44
Total derivatives not designated as hedging instruments		$	4		$	44
Total derivative instruments		$	61		$	103

December 31, 2010 **(Millions)** **Fair Value of Derivative Instruments**	**Assets** **Location**		**Amount**	**Liabilities** **Location**		**Amount**
Derivatives designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	26	Other current liabilities	$	48
Commodity price swap contracts	Other current assets			Other current liabilities		5
Interest rate swap contracts	Other assets		39	Other liabilities		
Total derivatives designated as hedging instruments		$	65		$	53
Derivatives not designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	12	Other current liabilities	$	34
Total derivatives not designated as hedging instruments		$	12		$	34
Total derivative instruments		$	77		$	87

Additional information with respect to the fair value of derivative instruments is included in Note 10.

Currency Effects and Credit Risk

Currency Effects: 3M estimates that year-on-year currency effects, including hedging impacts, increased net income attributable to 3M by approximately $47 million for the for the three months ended March 31, 2011. 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, which 3M estimates increased net income attributable to 3M by approximately $16 million for the three months ended March 31, 2011.

Credit risk: 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

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credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties. 3M has credit support agreements in place with two of its primary derivatives counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by these agreements exceeds specified thresholds, thus limiting credit exposure for both parties.

NOTE 10. Fair Value Measurements

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

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

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis for the three month periods ended March 31, 2011 and 2010.

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:

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.

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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 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 Mar. 31, 2011	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$ 280	$	$ 280	$
Foreign government agency securities	40		40	
Corporate debt securities	382		382	
Certificates of deposit	15		15	
Commercial paper	30		30	
Asset-backed securities:				
Automobile loan related	514		514	
Credit card related	180		180	
Equipment lease related	25		25	
Other	39		39	
U.S. treasury securities	94	94		

U.S. municipal securities	16		16	
Auction rate securities	7			7
Other securities	23		23	
Investments	9	9		
Derivative instruments assets:				
Foreign currency forward/option contracts	33	33		
Interest rate swap contracts	28		28	
Liabilities:				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	101	101		
Commodity price swap contracts	2	2		

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(Millions) Description	Fair Value at Dec. 31, 2010	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$ 309	$	$ 309	$
Foreign government agency securities	55		55	
Corporate debt securities	472		472	
Commercial paper	55		55	
Asset-backed securities:				
Automobile loan related	397		397	
Credit card related	149		149	
Equipment lease related	38		38	
Other	8		8	
U.S. treasury securities	99	99		
U.S. municipal securities	23		23	
Auction rate securities	7			7
Other securities	29		29	
Investments	21	21		
Derivative instruments assets:				
Foreign currency forward/option contracts	38	36	2	
Interest rate swap contracts	39		39	
Liabilities:				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	82	82		
Commodity price swap contracts	5	5		

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 Mar. 31, 2011	2010
Beginning balance	**$ 7**	$ 5
Total gains or (losses):		
Included in earnings		
Included in other comprehensive income		1
Purchases, issuances, and settlements		
Transfers in and/or out of Level 3		
Ending balance (March 31)	**7**	6
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 11 in 3M s 2010 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, 2011 and 2010.

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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. The Company utilized third-party quotes to estimate fair values for its long-term debt. Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

	Mar. 31, 2011		Dec. 31, 2010	
(Millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, excluding current portion	**$ 4,486**	**$ 4,736**	$ 4,183	$ 4,466

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, 2011 and December 31, 2010 due to the low interest rates and tightening of 3M s credit spreads.

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NOTE 11. Commitments and Contingencies

Legal Proceedings:

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information can be found in Note 14 Commitments and Contingencies in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, 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), 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 reserves and the related insurance receivables:

Liability and Receivable Balances (Millions)	**Mar. 31, 2011**	**Dec. 31, 2010**
Respirator mask/asbestos liabilities	$ 123	$ 126
Respirator mask/asbestos insurance receivables	121	122
Environmental remediation liabilities	$ 30	$ 24
Environmental remediation insurance receivables	15	15
Other environmental liabilities	$ 85	$ 90

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, 2011, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,200 individual claimants compared to approximately 2,148 individual claimants with actions pending at December 31, 2010.

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 claimants 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, while remaining relatively constant and consistent with historical experience, 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. This case is being appealed by the plaintiffs and briefing is complete and the parties are waiting for the court to set a hearing date for oral argument.

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

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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 State of West Virginia has recently asked the Court to set a case management conference in the near future. 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 costs of aggressively defending itself and the greater cost of resolving claims of persons with malignant conditions, the Company increased its reserves in the first quarter of 2011 for respirator mask/asbestos liabilities by $4 million. As of March 31, 2011, the Company had reserves for respirator mask/asbestos liabilities of $92 million (excluding Aearo reserves). The Company can not estimate the amount or range of amounts by which the liability may exceed the reserve 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, 2011, the Company s receivable for insurance recoveries related to the respirator mask/asbestos litigation was $121 million. The Company increased its receivables for insurance recoveries by $1 million in the first quarter of 2011 related to this litigation.

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.

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. These insurers represent approximately $14 million of the $121 million insurance recovery receivable referenced in the above table. 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. A significant number of the insurer defendants named in the amended complaint have been dismissed because of settlements they

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have reached with 3M regarding the matters at issue in the lawsuit. The case is currently in the discovery phase. Trial is scheduled to begin in June, 2012.

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 manufactures and sells various products, including personal protection equipment, such as eye, ear, head, face, fall and certain respiratory protection products.

As of March 31, 2011, 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, 2011, the Company, through its Aearo subsidiary, has recorded $31 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 an annual fee of $400,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, asbestos and silica-related product liability claims for respirators manufactured prior to July 11, 1995. Because the date of manufacture for a particular respirator allegedly used in the past is often difficult to determine, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators while exposed to asbestos or silica or products containing asbestos or silica 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 while exposed to asbestos, silica or other occupational dusts on or after January 1, 1997.

To date, Aearo has elected to pay the annual 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.

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 reserved amount.

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 can not estimate the amount or range of amounts by which Aearo s liability may exceed the reserve 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

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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 reserve.

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 perfluorooctanoic acid or PFOA and perfluorooctane sulfonate or PFOS and other perfluorooctanyl compounds. As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds, and through changes to its manufacturing process at the end of 2008, no longer uses such compounds in its manufacturing process.

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 2011. 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 has proposed to have public water suppliers monitor for six PFCs to determine the extent of their occurrence.

In late 2008 and early 2009, the EPA undertook testing of private wells and soils at certain agricultural sites in Alabama where wastewater treatment sludge was applied from the municipal wastewater treatment plant in Decatur, Alabama that received wastewater from numerous industrial sources. In this same timeframe, the EPA also issued provisional health advisory values for drinking water for PFOA of 0.4 parts per billion (ppb) and PFOS of 0.2 ppb. The EPA has been working with local industry, including 3M, and the Decatur utility to identify and test private wells in the area, and to connect to municipal water any private wells used for drinking water that exceed the EPA s provisional health advisory levels. EPA s and the industry s testing of public drinking water supplies in the area indicate that the levels of PFOA and PFOS in municipal water supplies are well below the provisional health advisories. 3M and other companies have completed a survey of properties near the sites where wastewater treatment sludge was applied to identify any additional private drinking water wells not already identified by the EPA, and have connected a small number of wells that exceeded the provisional health advisory levels for PFOS and PFOA to municipal water. 3M and the other companies have continued to monitor those few wells that showed levels of PFOS or PFOA above detection levels but below the EPA s provisional health advisory levels.

The Agency for Toxic Substances and Disease Registry (ATSDR) has completed a bio-monitoring study evaluating PFC blood levels in volunteers living near the sludge application fields. The Company expects ATSDR to release its report in 2011.

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 Decatur facility (unrelated to the work described above involving the wastewater treatment sludge) as well as at three local landfills used by the facility.

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 2011 and is expected to be completed in 2015.

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 perfluorinated

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compounds 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 perfluorinated compounds 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 to be safe for people to drink for a lifetime) for any perfluorinated compounds as a result of contamination from these sites; (iii) remediating any source of other PFCs at these sites that is not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about 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 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 among those recommended by the Company. Remediation work will continue at all three sites in 2011.

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 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 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 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, 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, Inc. who have had PFOA, PFOS and other perfluorochemicals released or deposited on their property. In March 2010, the Alabama Supreme Court ordered the case transferred from Franklin County to Morgan County. In May, 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the first case filed there.

In March 2011, several residents of Lawrence County, Alabama, filed a lawsuit in the Circuit Court of Lawrence County seeking unspecified compensatory and punitive damages and other relief for alleged personal injuries due to the exposure to PFCs. The named defendants in the case include the City of Decatur, Alabama, 3M, Dyneon LLC, Daikin America, Inc., Toray Industries, Inc. and two of its US subsidiaries, Synagro-WWT, Inc., Synagro South, LLC and Biological Processors of America. According to the complaint, Synagro acquired wastewater treatment sludge that allegedly contained PFOA, PFOS and other perfluorochemicals from the Decatur utilities wastewater treatment plant, and made it into a fertilizer that it sold to farmers who applied it to their farmland in Morgan, Limestone and Lawrence counties, including land adjacent to the plaintiffs residence.

On December 30, 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 under common law claims of trespass, nuisance, and negligence with respect to the presence of PFC s 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

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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. On January 14, 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 has not yet ruled on whether the City of Lake Elmo will be a party to this lawsuit.

In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint seeking contribution towards the cost of cleaning up a 17-mile stretch of the Passaic River in New Jersey. After commencing an enforcement action in 1990, the State of New Jersey filed suit against Maxus Energy, Tierra Solutions, Occidental Chemical and two other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of the Passaic. The third-party complaint seeks to spread those costs among the third-party defendants, including the Company. Based on the cleanup remedy currently proposed by the EPA, the total costs at issue could easily exceed $1 billion. The Company s recent involvement in the case appears to relate to its past disposal of industrial waste at two commercial waste disposal facilities in New Jersey. Whether, and to what extent, the Company may be required to contribute to the costs at issue in the case remains to be determined. The Company does not yet have a basis for estimating its potential exposure in this case, although the Company currently believes its allocable share, if any, is likely to be a fraction of one percent of the total costs.

The Company has not recorded any liabilities for the Company s environmental litigation described in this section because the Company believes that liability is not probable and estimable at this time. Because of the limited activity in these cases, the Company is not able to estimate a possible loss or range of loss, with the exception of the Passaic River litigation, where the Company indicated that its 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, 2011, the Company had recorded liabilities of $30 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 $15 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, 2011, the Company had recorded liabilities of $85 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 and Lake Elmo, Minnesota, as well as presence in the soil and groundwater at the Company s manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur over the next five years.

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 on-going, the Company cannot estimate a possible loss or range of loss in excess of the associated established reserves for the reasons described above.

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Employment Litigation

In January 2011, 3M reached an agreement in principle with plaintiffs counsel to resolve the *Whitaker and Garcia* lawsuits. The *Whitaker* settlement agreement was signed by all parties in March 2011. The court granted preliminary approval of the settlement on April 6, 2011 and provisionally certified a class for settlement purposes only. The final approval hearing is scheduled in December 2011. The *Garcia* settlement agreement is in the process of being signed by the parties and is not subject to further court review or approval. 3M is currently in discussions with the Equal Employment Opportunity Commission to resolve related charges described below. If finalized and approved by the court, administration of the settlement agreements will take several months to complete. The amount of the proposed settlements is not material to the Company s consolidated results of operations or financial condition. The background of this litigation is set forth below.

Whitaker Lawsuit:

As previously reported, in December, 2004, one current and one former employee of the Company filed a purported class action in the District Court of Ramsey County, Minnesota, seeking to represent a class of all current and certain former salaried employees employed by the Company in Minnesota below a certain salary grade who were age 46 or older at any time during the applicable period to be determined by the Court (the Whitaker lawsuit). The complaint alleges the plaintiffs suffered various forms of employment discrimination on the basis of age in violation of the Minnesota Human Rights Act and seeks injunctive relief, unspecified compensatory damages (which they seek to treble under the statute), including back and front pay, punitive damages (limited by statute to $8,500 per claimant) and attorneys fees. In January 2006, the plaintiffs filed a motion to join four additional named plaintiffs. This motion was unopposed by the Company and the four plaintiffs were joined in the case, although one plaintiff s claim was dismissed following an individual settlement. On April 11, 2008, the Court granted the plaintiffs motion to certify the case as a class action. On April 28, 2009, the Minnesota Court of Appeals reversed the District Court s class certification decision, finding that the District Court had not required plaintiffs to meet the proper legal standards for certification of a class under Minnesota law and incorrectly had deferred resolving certain factual disputes that were relevant to the class certification requirements. The Court of Appeals remanded the case to the District Court for further proceedings in line with the evidentiary standards defined in its opinion. The trial court took expert testimony and held a hearing on the class certification question and had the matter under advisement when the parties reached a tentative settlement which rendered the certification issues moot.

Garcia Lawsuit

The Company was served on May 7, 2009 with a purported class action/collective action age discrimination lawsuit, which was filed in United States District Court for the Northern District of California, San Jose Division (the *Garcia* lawsuit). The case was subsequently transferred to the U.S. District Court for the District of Minnesota.

In this case, five former and one current employee of the Company are seeking to represent all current and former salaried employees employed by the Company in the United States during the liability period, which plaintiffs define as 2001 to the present. In addition to the six named plaintiffs, there are approximately 86 other current or former employees who have signed opt-in forms, seeking to join the action. The *Garcia* lawsuit expressly excludes those persons encompassed within the proposed class in the *Whitaker* lawsuit. The same firm, joined by additional California counsel and local Minnesota counsel for the *Garcia* lawsuit, represents the plaintiffs in both cases.

The allegations of the complaint in the Garcia lawsuit are similar to those in the *Whitaker* lawsuit. Plaintiffs claim that they and other similarly situated employees suffered various forms of employment discrimination on the basis of age in violation of the federal Age Discrimination in Employment Act. In regard to these claims, plaintiffs seek to represent all persons who were 46 or older when employed by 3M in the United States in a salaried position below the level of director, or salary grade 18, during the liability period. Because federal law protects persons age 40 and older from age discrimination, with respect to their claim of disparate impact only, plaintiffs also propose an alternative definition of similarly situated persons that would begin at age 40. On behalf of this group, plaintiffs seek injunctive relief, unspecified compensatory damages including back and front pay, benefits, liquidated damages and attorneys fees.

Certain of the plaintiffs and putative class members employment terminated under circumstances in which they were eligible for group severance plan benefits and in connection with those plans they signed waivers of claims, including age discrimination claims. Plaintiffs claim the waivers of age discrimination claims were invalid in various respects. This subset of release-signing plaintiffs seeks a declaration that the waivers of age discrimination claims are invalid, other injunctive, but non-monetary, remedies, and attorneys fees.

EEOC Age-Discrimination Charges

Six former employees and one current employee, all but one of whom are plaintiffs in the *Garcia* lawsuit, have also filed age discrimination charges against the Company with the U.S. Equal Employment Opportunity Commission and various pertinent state agencies, alleging age discrimination similar to the *Whitaker* and *Garcia* lawsuits and claiming that a class of similarly situated persons exists. Of these, three former employees filed charges in 2005 in Minnesota, Texas, and California. These

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filings include allegations that the release of claims signed by certain former employees in the purported class defined in the charges is invalid for various reasons and assert age discrimination claims on behalf of certain current and former salaried employees in states other than Minnesota and New Jersey. In 2006, a current employee filed an age discrimination charge against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in Missouri, asserting claims on behalf of a class of all current and certain former salaried employees who worked in Missouri and other states other than Minnesota and New Jersey. In 2007, a former employee filed an age discrimination charge against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in California, asserting claims on behalf of a class of all current and certain former salaried employees who worked in California. In January 2009, two former employees filed age discrimination charges against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in Minnesota. The filings include allegations that the release of claims signed by certain former employees in the purported class defined in the charges is invalid for various reasons and assert age discrimination claims on behalf of certain current and former salaried employees in states other than Minnesota. The same law firm represents the plaintiffs in the *Whitaker* lawsuit as well as the claimants in each of these EEOC proceedings.

Compliance Matters

On November 12, 2009, the Company contacted the Department of Justice (DOJ) and Securities and Exchange Commission (SEC) to voluntarily disclose that the Company was conducting an internal investigation as a result of reports it received about its subsidiary in Turkey, alleging bid rigging and bribery and other inappropriate conduct in connection with the supply of certain reflective and other materials and related services to Turkish government entities. The Company also contacted certain affected government agencies in Turkey. The Company continues to cooperate with the DOJ and SEC in the Company s ongoing investigation of this matter. The Company retained outside counsel to conduct an assessment of its policies, practices, and controls and to evaluate its overall compliance with the Foreign Corrupt Practices Act, including an ongoing review of our practices in certain other countries. The Company cannot predict at this time the outcome of its investigation or what regulatory actions may be taken or what other consequences may result.

Other Matters

Commercial Litigation

In September 2010, various parties, on behalf of a purported class of shareholders of Cogent, Inc. (Cogent), commenced three lawsuits against the Company, Cogent, and its directors in the Delaware Court of Chancery. Plaintiffs allege that 3M, in connection with its tender offer for Cogent shares, aided and abetted the breach of fiduciary duties by Cogent directors and seek an unspecified amount of damages. The three cases were consolidated, expedited discovery was conducted, and Plaintiffs motion for a preliminary injunction to enjoin the transaction was denied on October 1, 2010. On November 15, 2010, plaintiffs filed an amended complaint that added directors of Cogent, Inc. appointed by 3M, as named defendants, and asserted additional claims of breach of fiduciary duties in connection with the transaction and a subsequent offering period. 3M has moved to dismiss all claims, which motion is scheduled to be heard by the Court in late April. The transaction closed on December 1, 2010.

In September 2010, various parties, again on behalf of a purported class of Cogent shareholders, commenced six lawsuits against the Company, Cogent and its directors in the Los Angeles Superior Court for the State of California that contained similar claims that 3M had aided and abetted the breach of fiduciary duties by Cogent directors. The parties have reached a resolution of these matters. A separate lawsuit was commenced in September 2010 by an individual, again on behalf of a purported class of Cogent shareholders, against Cogent and its directors in the United States District Court for the Central District of California that raised similar claims; plaintiff later filed an amended complaint that also named the Company. The plaintiff has voluntarily dismissed that lawsuit.

Separately, several purported holders of Cogent shares, representing a total of approximately 5.8 million shares, have asserted appraisal rights under Delaware law. The Company has answered the appraisal petition and is defending this matter vigorously.

3M filed suit against Avery Dennison Corporation in the United States District Court for the District of Minnesota in June 2010, alleging that Avery s OmniCube full cube retroreflective sheeting products, which are used for highway signage, infringe a number of 3M patents. 3M also sought a declaratory judgment from the District Court in Minnesota that 3M s Diamond Grade DG3 full cube retroreflective sheeting does not infringe two Avery patents. In October 2010, Avery Dennison filed a lawsuit against the Company in the United States District Court for the Central District of California, alleging that 3M monopolized or attempted to monopolize the markets for Type XI retroreflective sheeting and for broad high performance sheeting in violation of the Sherman Act, as well as other claims. Avery alleges that 3M manipulated the standards-setting process of the American Society for Testing and Materials (ASTM), a private organization responsible for creating standards for, among other things, retroreflective sheeting used for highway signage; entered into illegal and anticompetitive contracts; and engaged in other anticompetitive acts including false advertising and disparagement. 3M moved to transfer the antitrust case to the United States District Court for the District of Minnesota, which motion was granted in February 2011. In the

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patent case, 3M s motion to preliminarily enjoin the sales of Avery s OmniCube retroreflective sheeting was denied in December 2010. The District Court also granted Avery s motion to dismiss 3M s declaratory judgment suit in March 2011. 3M has appealed the dismissal of the declaratory judgment lawsuit. In the meantime, 3M s patent infringement lawsuit against Avery and Avery s antitrust suit against 3M are moving forward in the Minnesota Court.

In December 2010, Meda AB filed a lawsuit in the Supreme Court of the State of New York, County of New York, alleging breach of certain representations and warranties contained in the October 2006 acquisition agreement pursuant to which Meda AB acquired the Company s European pharmaceutical business. The lawsuit seeks to recover an amount to be determined at trial, but not less than $200 million, in compensatory damages alleging that 3M failed to disclose, during the due diligence period, certain pricing arrangements between 3M s French subsidiary and the French government agency that determines the eligible levels of reimbursement for prescription pharmaceuticals. As previously stated, the damage amounts specified in complaints are not a meaningful factor in any assessment of the Company s potential liability. The Company believes it has a number of legal and factual defenses to this claim and will vigorously defend it.

In December 2008, the investors that sold Acolyte Biomedica, Ltd. to the Company s subsidiary in the United Kingdom filed suit in London s High Court seeking damages for breach of the acquisition agreement, including damages of 40 million pounds sterling for loss of potential earnout payments under the acquisition agreement. Notwithstanding significant investments and efforts by the Company to support the sales of BacLite, a methicillin-resistant staphlococcus aureus (MRSA) screening device, the product was not a commercial success. A five week trial in London s High Court is scheduled to start June 13, 2011.

No liability has been recorded for the Company s commercial litigation described in this section because the Company believes that liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

NOTE 12. Stock-Based Compensation

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 28 percent of the 2011 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter. The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 22,050,326 as of March 31, 2011.

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units and the General Employees Stock Purchase Plan (GESPP), are provided in the following table. The income tax benefits shown in the table can fluctuate by period due to the amount of employee disqualifying dispositions related to Incentive Stock Options (ISOs). The Company last granted ISOs in 2002.

Stock-Based Compensation Expense

(Millions)	Three months ended March 31, 2011	2010
Cost of sales	**$ 14**	$ 14
Selling, general and administrative expenses	**87**	82
Research, development and related expenses	**15**	16
Stock-based compensation expenses	**$ 116**	$ 112
Income tax benefits	**$ (41)**	$ (36)
Stock-based compensation expenses, net of tax	**$ 75**	$ 76

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The following table summarizes stock option activity during the three months ended March 31, 2011:

Stock Option Program

	Number of Options	Exercise Price*	Remaining Contractual	Aggregate Intrinsic Value