3M CO
Form 10-Q
October 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

Commission file number 1-3285

3M COMPANY

State of Incorporation: **Delaware** I.R.S. Employer Identification No. **41-0417775**

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

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer 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.

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

This document (excluding exhibits) contains 50 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 48.

3M COMPANY

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

TABLE OF CONTENTS

		PAGE
PART I	FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	3
	Index to Financial Statements:	
	Consolidated Statement of Income	3
	Consolidated Balance Sheet	4
	Consolidated Statement of Cash Flows	5
	Notes to Consolidated Financial Statements	6
	Note 1. Basis of Presentation	6
	Note 2. Acquisition and Divestitures	7
	Note 3. Goodwill and Intangible Assets	8
	Note 4. Restructuring Actions and Other Exit Activities	10
	Note 5. Supplemental Comprehensive Income and Accumulated Other Comprehensive Income (AOCI) Information	13
	Note 6. Income Taxes	13
	Note 7. Derivatives and Other Financial Instruments	14
	Note 8. Marketable Securities	15
	Note 9. Long-Term Debt and Short-Term Borrowings	16
	Note 10. Pension and Postretirement Benefit Plans	17
	Note 11. Commitments and Contingencies	18
	Note 12. Management Stock Ownership Program (MSOP) and General Employees Stock Purchase Plan (GESPP)	22
	Note 13. Business Segments	25
	Note 14. Review Report of Independent Registered Public Accounting Firm	27
	Report of Independent Registered Public Accounting Firm	28
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	29
	Index to Management s Discussion and Analysis:	
	Overview	29
	Results of Operations	31
	Critical Accounting Estimates	34
	Performance by Business Segment	34
	Financial Condition and Liquidity	42
	Forward-Looking Statements	45
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	46
ITEM 4.	Controls and Procedures	46
PART II	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	47
ITEM 1A.	Risk Factors	47
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
ITEM 3.	Defaults Upon Senior Securities	48
ITEM 4.	Submission of Matters to a Vote of Security Holders	48
ITEM 5.	Other Information	48
ITEM 6.	Exhibits	48

3M COMPANY

FORM 10-Q

For the Quarterly Period Ended September 30, 2007

PART I. Financial Information

Item 1. Financial Statements.

Consolidated Statement of Income

(Unaudited)

3M Company and Subsidiaries

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

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

Consolidated Balance Sheet

(Unaudited)

3M Company and Subsidiaries

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

Unearned compensation		**(96)**		(138)
Accumulated other comprehensive income (loss)		**(1,353)**		(1,873)
Stockholders equity net		**10,970**		9,959
Total liabilities and stockholders equity	**$**	**24,355**	$	21,294

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

Consolidated Statement of Cash Flows

(Unaudited)

3M Company and Subsidiaries

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

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

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

3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Basis of Presentation

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

As described in 3M s Current Report on Form 8-K dated May 25, 2007 (which updated 3M s 2006 Annual Report on Form 10-K) and 3M s Quarterly Report on Form 10-Q for the period ended March 31, 2007, during the first quarter of 2007 the Company reorganized its business segments (refer to Note 13). This Quarterly Report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes included in its Current Report on Form 8-K dated May 25, 2007.

Significant Accounting Policies

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

Earnings Per Share Computations

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

New Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 155, Hybrid Instruments. SFAS No. 155 amends SFAS No. 133 and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 also resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company adopted SFAS No. 155 effective January 1, 2007; however, there was no material impact.

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

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

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

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

NOTE 2. Acquisitions and Divestitures

Divestitures:

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

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

Acquisitions:

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

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

1) In February 2007, 3M (Industrial and Transportation Business) purchased certain assets of Accuspray Application Technologies Inc., a manufacturer of spray paint equipment with a wide array of spray guns for architectural, automotive refinishing, industrial and woodworking applications.

2) In February 2007, 3M (Industrial and Transportation Business) purchased Sealed Air Corporation s 50 percent interest in PolyMask Corporation, a joint venture between 3M and Sealed Air that produces protective films. The acquisition of Sealed Air s interest results in 100 percent ownership by 3M.

3) In February 2007, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Acolyte Biomedica Ltd., a Salisbury, U.K.-based provider of an automated microbial detection platform that aids in the rapid detection, diagnosis, and treatment of infectious diseases.

4) In May 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of E Wood Holdings PLC, a North Yorkshire, UK-based manufacturer of high performance protective coatings for oil, gas, water, rail and automotive industries.

5) In May 2007, 3M (Electro and Communications Business) purchased certain assets of Innovative Paper Technologies LLC, a manufacturer of inorganic-based technical papers, boards and laminates for a wide variety of high temperature applications and Powell LLC, a supplier of non-woven polyester mats for the electrical industry.

6) In May 2007, 3M (Health Care Business) purchased certain assets of Articulos de Papel DMS Chile, a Santiago, Chile-based manufacturer of disposable surgical packs, drapes, gowns and kits.

7) In June 2007, 3M (Industrial and Transportation Business) purchased certain assets of Diamond Productions Inc., a manufacturer of superabrasive diamond and cubic boron nitride wheels and tools for dimensioning and finishing hard-to-grind materials in metalworking, woodworking and stone fabrication markets in exchange for approximately 150 thousand shares of 3M common stock, which had a market value of $13 million at the acquisition measurement date and was previously held as 3M treasury stock.

8) In July 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Rochford Thompson Equipment Ltd., a manufacturer of optical character recognition passport readers used by airlines and immigration authorities, headquartered in Newbury, U.K.

9) In August 2007, 3M (Health Care Business) purchased certain assets of Neoplast Co. Ltd., a manufacturer/distributor of surgical tapes and dressings and first aid bandages for both the professional and consumer markets across the Asia Pacific region.

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

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

NOTE 3. Goodwill and Intangible Assets

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

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

Goodwill

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

Acquired Intangible Assets

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

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

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

	Three months ended September 30		Nine months ended September 30	
(Millions)	2007	2006	2007	2006
Amortization expense	**$ 22**	$ 21	**$ 64**	$ 50

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

(Millions)	Fourth Quarter 2007	2008	2009	2010	2011	After 2012
Amortization expense	**$ 23**	**$ 82**	**$ 82**	**$ 76**	**$ 68**	**$ 345**

The expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets and other events.

NOTE 4. Restructuring Actions and Other Exit Activities

Restructuring Actions:

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

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

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

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

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

Restructuring Actions

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

Overhead reduction actions		(71)						(71)
Business-specific actions		(15)						(15)
First six months 2007 cash payments	$	(110)	$	(6)	$		$	(116)
Accrued liability balances as of June 30, 2007:								
Pharmaceuticals business actions	$	23	$		$		$	23
Overhead reduction actions		29						29
Business-specific actions		20		8				28
Total accrued liability balance	$	72	$	8	$		$	80

Restructuring Actions

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

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

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

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

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

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

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

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

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

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

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

Other Exit Activities:

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

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

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

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

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

NOTE 6. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1999**.** The Internal Revenue Service (IRS) closed its examination of the Company s U.S. income tax returns for the years 1999 through 2001 in the second quarter of 2006, and it is anticipated that its examination for the Company s U.S. income tax returns for the years 2002 through 2004 will be completed by the end of 2007. As of September 30, 2007, the IRS has not proposed any significant adjustments to the Company s tax positions. Currently, the Company is not able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing IRS audit. However, the Company does not anticipate any adjustments that would result in a material change to its financial position. Payments relating to any proposed assessments arising from the 2002 through 2004 audit may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also limited audit activity in several U.S. state and foreign jurisdictions.

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

NOTE 7. Derivatives and Other Financial Instruments

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

The Company enters into foreign exchange forward contracts, options and swaps to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. Based on exchange rates at September 30, 2007, the Company expects to reclassify to earnings over the next 12 months a majority of the cash flow hedging instruments after-tax loss of $35 million (with the impact offset by cash flows from underlying hedged items). Amounts recorded in accumulated other comprehensive income (loss) related to cash flow hedging instruments follow:

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

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

NOTE 8. Marketable Securities

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

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

Classification of marketable securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. Unrealized gains and losses were not material in the first nine months of 2007 and 2006. Gross realized gains and gross realized losses on sales of marketable securities were also not material. There were no impairment losses recognized on marketable securities in the first nine months of 2007 and 2006. The fair value of marketable securities approximates cost, except for certain auction rate securities discussed in the next paragraph. Cost of securities sold or reclassified use the first in first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale.

In the third quarter of 2007, certain auction rate securities failed auction due to sell orders exceeding buy orders. Of 3M s $1.6 billion marketable securities portfolio at September 30, 2007, $34 million (at cost) is currently associated with failed auctions, all of which have been in a loss position for less than 12 months. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. These securities are rated AAA. Based on third party valuation models and an analysis of other-than-temporary impairment factors, 3M recorded a temporary impairment within Accumulated Other Comprehensive Income of approximately $8 million pre-tax at September 30, 2007 related to these auction rate securities. These securities are being analyzed each reporting period for other-than-temporary impairment factors.

The balance at September 30, 2007 for marketable securities and short-term investments by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Sept. 30,

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

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

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

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

On April 30, 2007, the Company replaced its $565 million credit facility with a new $1.5 billion five year credit facility, which has provisions for the Company to request an increase of the facility up to $2 billion (at the lenders discretion), and providing for up to $150 million in letters of credit. As of September 30, 2007, there are $110 million in letters of credit drawn against the facility. Under the new credit agreement, 3M is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At September 30, 2007, this ratio was approximately 45 to 1.

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

In July 2007, 3M issued a seven year 5.0% fixed rate Eurobond for an amount of 750 million Euros (approximately $1.063 billion in U.S. Dollars at September 30, 2007). In June 2007, 3M executed a pre-issuance cash flow hedge on a notional amount of 350 million Euros by entering into a floating-to-fixed interest rate swap relating to the anticipated issuance of the Eurobond. Upon debt issuance in July 2007, 3M completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation and simultaneously terminated the floating-to-fixed swap. The termination of the swap resulted in an immaterial gain, which will be amortized over the seven year life of the Eurobond. 3M also designated the 750 million Eurobond as a hedging instrument of the Company s net investment in its European subsidiaries.

NOTE 10. Pension and Postretirement Benefit Plans

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

Benefit Plan Information

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

Benefit Plan Information

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

For the nine months ended September 30, 2007, contributions totaling $371 million were made to the Company s U.S. and international pension plans and $2 million to its post-retirement plans. In 2007, the Company expects to contribute up to $420 million to its U.S. and international pension plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2007. Therefore, the amount of the anticipated discretionary pension contribution could vary significantly depending on the U.S plans funding status as of the 2007 measurement date and the anticipated tax deductibility of the contribution.

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

NOTE 11. Commitments and Contingencies

Legal Proceedings:

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. The following sections first describe the significant legal proceedings in which the Company is involved, and then describe the liabilities and associated insurance receivables the Company has accrued relating to its significant legal proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information can be found in Note 13 Commitments and Contingencies in the Company s Current Report on Form 8-K dated May 25, 2007, including information about the Company s process for establishing and disclosing accruals and insurance receivables.

Shareholder Derivative Litigation

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

Breast Implant Litigation

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

Respirator Mask/Asbestos Litigation

As of September 30, 2007, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 12,600 individual claimants, a decrease from the approximately 28,800 individual claimants with actions pending at September 30, 2006. The vast majority of the lawsuits and claims resolved by and currently pending against the Company allege use of some of the Company s mask and respirator products and seek damages from the Company and other defendants for alleged personal injury from workplace exposures to asbestos, silica, coal, or other occupational dusts found in products manufactured by other defendants or generally in the workplace. The remaining claimants generally allege personal injury from occupational exposure to asbestos from products previously manufactured by the Company, which are often unspecified, and by other defendants, or occasionally at Company premises.

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

On July 13, 2007, the Company won a defense verdict from a jury in the federal court in the Eastern District of Missouri. The jury found the Company had no liability whatever to a plaintiff who claimed he had silicosis and a related cancer and sought to recover damages from the Company arising from his alleged illness, which he claimed to have contracted from occupational exposure to silica despite his purported use of the Company s respirator mask equipment at various times. The jury rejected each of the plaintiff s theories of liability against the Company. With this victory, the Company has prevailed in seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2003, 2004, and 2007), and an appellate reversal in 2005 of the one jury verdict, in 2001, adverse to the Company.

Employment Litigation

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

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

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

Environmental Matters and Litigation

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

Remediation: Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the Company may be jointly and severally liable, typically with other companies, for the costs of environmental contamination at current or former facilities and at off-site locations. The Company has identified numerous locations, most of which are in the United States, at which it may have some liability. Please refer to the following section, *Accrued Liabilities and Insurance Receivables Related to Legal Proceedings* for more information on this subject.

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

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

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

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

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

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

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

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

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

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

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

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

Accrued Liabilities and Insurance Receivables Related to Legal Proceedings

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

LIABILITY AND RECEIVABLE BALANCES

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

Other environmental liabilities	**$ 149**	$ 14

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

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

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

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

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

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

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

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

Stock Options

	Number of Options		Exercise Price*	Remaining Contractual Life* (months)	Aggregate Intrinsic Value (millions)
Under option					
As of January 1, 2007	**82,867,903**	**$**	**67.41**		
Granted					
Annual	**4,434,583**		**84.81**		
Progressive (Reload)	**451,951**		**87.07**		
Other	**41,888**		**83.07**		
Exercised	**(11,332,025)**		**54.92**		