

3M CO

FORM 10-Q/A (Amended Quarterly Report)

Filed 03/31/99 for the Period Ending 09/30/98

Address	3M CENTER BLDG. 220-11W-02 ST PAUL, MN 55144-1000
Telephone	6517332204
CIK	0000066740
Symbol	MMM
SIC Code	3841 - Surgical and Medical Instruments and Apparatus
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	12/31

3M CO

FORM 10-Q/A (Amended Quarterly Report)

Filed 3/31/1999 For Period Ending 9/30/1998

Address	3M CENTER BLDG. 220-11W-02 ST PAUL, Minnesota 55144-1000
Telephone	651-733-2204
CIK	0000066740
Industry	Conglomerates
Sector	Conglomerates
Fiscal Year	12/31

The Minnesota Mining and Manufacturing Company (3M) Form 10-Q for the period ended September 30, 1998, filed on November 6, 1998, via EDGAR has been amended (Form 10-Q/A). The inventory portion of the restructuring charge (\$29 million) has been reclassified in the Consolidated Statement of Income and Consolidated Statement of Cash Flows to be consistent with the presentation in the year-end 1998 Form 10-K.

In the Consolidated Statement of Income, the inventory portion of the restructuring charge has been classified as a component of cost of goods sold. This change did not impact reported operating income. In the Consolidated Statement of Cash Flows this charge has now been included as part of "Asset impairment charges", instead of as part of "Working capital and other changes - net". This change did not impact net cash provided by operating activities. Related discussion in the "Restructuring Charge" note and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been updated. The financial data schedule has been updated to reflect the change in cost of goods sold and the remaining restructuring charge has been included in other expenses.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter ended September 30, 1998
Commission file number: 1-3285

MINNESOTA MINING AND MANUFACTURING COMPANY

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

Executive offices: 3M Center, St. Paul, Minnesota 55144

Telephone number: (651) 733-1110

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

On September 30, 1998, there were 401,345,869 shares of the Registrant's common stock outstanding.

This document contains 31 pages.

The exhibit index is set forth on page 28.

Minnesota Mining and Manufacturing Company and Subsidiaries

PART I. Financial Information

Consolidated Statement of Income
(Amounts in millions, except per-share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	1998	1997	1998	1997
Net sales	\$3,766	\$3,826	\$11,236	\$11,357
Operating expenses				
Cost of goods sold	2,190	2,173	6,448	6,418
Restructuring charge-				
inventory	29	--	29	--
Total cost of goods sold	2,219	2,173	6,477	6,418
Selling, general and				
administrative expenses	947	952	2,838	2,861
Restructuring charge - other	303	--	303	--
Total	3,469	3,125	9,618	9,279
Operating income	297	701	1,618	2,078
Other income and expense				
Interest expense	37	23	106	74
Investment and other				
income - net	(11)	(13)	(33)	(44)
Gain on divestiture - net	(10)	(803)	(10)	(803)
Total	16	(793)	63	(773)
Income before income taxes				
and minority interest	281	1,494	1,555	2,851
Provision for income taxes	96	549	552	1,035
Minority interest	7	18	39	61
Net income	\$ 178	\$ 927	\$ 964	\$1,755
Weighted average common				
shares outstanding	402.7	412.5	403.7	414.7
Earnings per share - basic	\$ 0.44	\$ 2.25	\$ 2.39	\$ 4.23
Weighted average common				
and common equivalent				
shares outstanding	406.7	419.2	408.7	420.9
Earnings per share - diluted	\$ 0.44	\$ 2.21	\$2.36	\$4.17

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

Minnesota Mining and Manufacturing Company and Subsidiaries

Consolidated Balance Sheet
(Dollars in millions)

	September 30, 1998 (Unaudited)	December 31, 1997
Assets		
Current assets		
Cash and cash equivalents	\$ 204	\$ 230
Other securities	177	247
Accounts receivable - net	2,664	2,434
Inventories		
Finished goods	1,324	1,293
Work in process	636	605
Raw materials and supplies	468	501
Total inventories	2,428	2,399
Other current assets	1,017	858
Total current assets	6,490	6,168
Investments	623	613
Property, plant and equipment	12,995	12,098
Less accumulated depreciation	(7,684)	(7,064)
Property, plant and equipment - net	5,311	5,034
Other assets	1,541	1,423
Total	\$13,965	\$13,238
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 878	\$ 898
Payroll	466	306
Income taxes	261	238
Short-term debt	1,696	1,499
Other current liabilities	1,199	1,042
Total current liabilities	4,500	3,983
Other liabilities	2,155	2,314
Long-term debt	1,426	1,015
Stockholders' equity - net	5,884	5,926
Shares outstanding		
September 30, 1998, 401,345,869		
December 31, 1997, 404,724,947		
Total	<u>\$13,965</u>	<u>\$13,238</u>

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

Minnesota Mining and Manufacturing Company and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity
(Dollars and shares in millions, except per-share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	1998	1997	1998	1997
Common stock and capital in excess of par value at beginning and end of period	\$ 296	\$ 296	\$ 296	\$ 296
Retained earnings				
Balance at beginning of period	10,081	9,061	9,848	8,756
Net income (A)	178	927	964	1,755
Dividends paid (per share: \$0.55, \$0.53, \$1.65, \$1.59)	(221)	(220)	(666)	(661)
Stock option plans and other	(13)	(24)	(121)	(106)
Balance at end of period	10,025	9,744	10,025	9,744
Accumulated other comprehensive income - net				
Balance at beginning of period				
Cumulative foreign currency translation adjustments	(624)	(302)	(547)	(178)
Unrealized gain on securities - net	8	5	8	15
Other comprehensive income				
Foreign currency translation and other adjustments - net (B)	71	(92)	(6)	(216)
Unrealized gain (loss) on securities - net (C)	(3)	2	(3)	(8)
Balance at end of period				
Cumulative foreign currency translation adjustments	(553)	(394)	(553)	(394)
Unrealized gain on securities - net	5	7	5	7
Balance at end of period	(548)	(387)	(548)	(387)
Unearned compensation - ESOP				
Balance at beginning of period	(360)	(396)	(379)	(412)
Amortization	10	8	29	24
Balance at end of period	(350)	(388)	(350)	(388)
Treasury stock, at cost				
Balance at beginning of period (shares: 68.1, 56.5, 67.3, 55.2)	(3,357)	(2,315)	(3,300)	(2,193)
Acquired stock (shares: 3.1, 7.9, 7.3, 13.6)	(229)	(728)	(606)	(1,229)
Issuances pursuant to stock option plans (shares: 0.5, 1.1, 3.9, 5.5)	47	102	367	481
Balance at end of period (shares: 70.7, 63.3, 70.7, 63.3)	(3,539)	(2,941)	(3,539)	(2,941)
Stockholders' equity - net	\$ 5,884	\$ 6,324	\$ 5,884	\$ 6,324
Total comprehensive income (A + B + C)	\$ 246	\$ 837	\$ 955	\$ 1,531

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

Minnesota Mining and Manufacturing Company and Subsidiaries

Consolidated Statement of Cash Flows
(Dollars in millions)
(Unaudited)

	Nine months ended September 30	
	1998	1997
Cash Flows from Operating Activities		
Net income	\$ 964	\$1,755
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	644	654
Asset impairment charges	190	--
Gain on divestiture - net	(10)	(803)
Income tax payable relating to divestiture	4	308
Implant litigation - net	(209)	130
Working capital and other changes - net	(85)	(386)
Net cash provided by continuing operations	1,498	1,658
Net cash used by discontinued operations	--	(92)
Net cash provided by operating activities	1,498	1,566
Cash Flows from Investing Activities		
Capital expenditures	(1,056)	(1,002)
Proceeds from National Advertising Company divestiture	--	1,000
Other changes - net	(68)	37
Net cash (used) provided by investing activities	(1,124)	35
Cash Flows from Financing Activities		
Change in short-term debt - net	145	(90)
Repayment of long-term debt	(52)	(546)
Proceeds from long-term debt	556	334
Purchases of treasury stock	(606)	(1,229)
Reissuances of treasury stock	245	294
Payment of dividends	(666)	(661)
Other	(19)	(22)
Net cash used in financing activities	(397)	(1,920)
Effect of exchange rate changes on cash	(3)	42
Net decrease in cash and cash equivalents	(26)	(277)
Cash and cash equivalents at beginning of year	230	583
Cash and cash equivalents at end of period	\$ 204	\$ 306

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

(Unaudited)

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items, except for the restructuring charge recorded in the third quarter of 1998. The results of operations for any interim period are not necessarily indicative of results for the full year. The condensed consolidated financial statements and notes are presented as permitted by the requirements for Form 10-Q and do not contain certain information included in the company's annual consolidated financial statements and notes. This Form 10-Q should be read in conjunction with the company's consolidated financial statements and notes included in its 1997 Annual Report on Form 10-K.

Restructuring Charge:

3M is rationalizing product lines that have marginal returns and/or a decreasing strategic fit; consolidating some manufacturing operations; and identifying and eliminating lower-value activities. As a result of these initiatives, by the end of 1999, including personnel reductions in the second half of 1998, the company expects a total reduction of 4,500 employees.

In the third quarter of 1998, in connection with this plan to improve productivity and reduce costs, the company recorded a restructuring charge of \$332 million (\$214 million after-tax). Major components of this estimated charge include \$161 million related to the write-down of certain assets to net realizable value, \$102 million of employee severance and related costs, \$40 million relating to losses on business dispositions and other costs, and \$29 million relating to inventory write-downs. These components are reflected on the consolidated balance sheet as a reduction in property, plant and equipment - net, and as accruals in payroll, other current liabilities, and inventory, respectively. The inventory write-down of \$29 million, which has been classified as a component of cost of goods sold, is for certain product lines that are being discontinued. As of September 30, 1998, only minimal payments had been made relating to the restructuring charge.

The severance and related costs component of the restructuring charge does not represent all of the amounts to be recorded in connection with the separation of the employees referred to above. The company expects additional charges relating to productivity improvement as the assessment of the employees impacted and communication of severance benefits to affected employees is finalized. Restructuring charges, including the third quarter 1998 charge, are expected to total about \$500 million.

Derivatives and Hedging Activities:

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The company must adopt this standard no later than January 1, 2000. The company is reviewing the requirements of this standard, which are quite complex. Although the company expects that this standard will not materially affect its financial position and results of operations, it has not yet determined the impact of this standard on its financial statements.

Debt issuances:

In October 1998, a Japanese subsidiary of the company, Sumitomo 3M Limited, completed a 5-year, 10 billion yen (approximately \$85 million), 0.795 percent fixed rate private placement note.

In July 1998, a German subsidiary of the company, 3M Deutschland GmbH, completed a 3-year, \$200 million, 5.75 percent Eurobond offering. After giving effect to an interest rate swap, the company will have an interest obligation based on a floating LIBOR index.

Comprehensive income:

Effective January 1, 1998, the company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Total comprehensive income and the components of accumulated other comprehensive income are presented in the Consolidated Statement of Changes in Stockholders' Equity.

Earnings per share:

The difference in the weighted average shares outstanding for calculating basic and diluted earnings per share is attributable to the assumed exercise of the Management Stock Ownership Program stock options for the three-month and nine-month periods ended September 30, 1998 and 1997. Effective July 1997, all General Employees' Stock Purchase Plan options are exercised on the last business day of each month of grant, resulting in no dilutive effect.

Other:

Discussion of legal matters is cross-referenced to this Form 10-Q, Part II, Item 1, Legal Proceedings, and should be considered an integral part of the Consolidated Financial Statements and Notes.

PricewaterhouseCoopers LLP, the company's independent auditors, have performed a review of the unaudited interim financial statements included herein and their review report thereon accompanies this filing.

Review Report of Independent Auditors

To the Stockholders of Minnesota Mining and Manufacturing Company:

We have reviewed the accompanying condensed consolidated balance sheet of Minnesota Mining and Manufacturing Company and Subsidiaries as of September 30, 1998, and the related condensed consolidated statements of income and changes in stockholders' equity for the three-month and nine-month periods ended September 30, 1998 and 1997, and cash flows for the nine-month periods ended September 30, 1998 and 1997. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 9, 1998, except for the last paragraph under Debt in the Notes to Consolidated Financial Statements, as to which the date is February 18, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1997, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

*St. Paul, Minnesota
October 22, 1998*

Minnesota Mining and Manufacturing Company and Subsidiaries

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Third Quarter

Worldwide sales for the third quarter totaled \$3.766 billion, down 1.6 percent from the third quarter last year. Excluding changes in currency exchange rates, sales rose about 2 percent. Worldwide volume and selling prices were both up about 1 percent.

In the United States, sales decreased about 1 percent to \$1.892 billion. Adjusting for the third-quarter 1997 sale of the outdoor advertising business, sales rose about 1 percent. A number of U.S. businesses posted good growth, with gains in consumer, office, and safety and security businesses. The company experienced soft demand in businesses serving the electronics, transportation safety and industrial markets. In electronics, U.S. sales of several product lines -- including connectors, chip transport media, performance chemicals, and bonding systems -- were impacted by industry weakness, as well as by shifts in customer production to Asia. In transportation safety, the enactment of the new federal highway funding law has not yet translated into increased demand for reflective sheetings. 3M expects benefits from this new funding act to begin in 1999. In industrial markets, abrasive, tape and other industrial businesses have been negatively affected by industry slowdowns.

Internationally, sales totaled \$1.874 billion. Overall, local- currency sales gains of about 5 percent, driven about equally between volume and selling prices, were more than offset by currency translation. Expressed in dollars, international sales declined 2 percent. The company increased selling prices in all major geographic areas, helping to offset part of the currency devaluation. Currency translation reduced international sales by about 7 percent. In Europe, volume increased about 3 percent. Good volume gains were posted in Germany, Spain and in the Nordic region, but volume was up only 2 percent in France and was flat in the U.K. In Eastern Europe, where 3M has traditionally posted volume gains of about 20 percent, unit sales rose about 2 percent, impacted by the spillover from the Russian economic instability. In the Asia Pacific area, volume was flat. In Japan, despite the continuing recession, volume increased about 5 percent. In Asia outside Japan, volume declined about 7 percent. 3M posted solid gains in Singapore and China, but was negatively affected by the economic turmoil in Korea, Hong Kong, Thailand and Malaysia. In Latin America, volume increased 3 percent, due to economic slowing brought about by the Asian and Russian instability. In Brazil and Argentina volume was flat for the quarter. In Mexico, unit sales increased about 5 percent. In Canada, volume increased about 11 percent.

The cost of goods sold discussion that follows excludes the inventory portion of the restructuring charge.

Cost of goods sold, which includes manufacturing, research and development, and engineering, was 58.1 percent of sales, up 1.3 percentage points from the third quarter last year. Gross margins benefited from higher selling prices and lower raw material costs. However, the effects of currency exchange rates and low volume growth more than offset these benefits. Currency reduced gross margins by seven-tenths of a percentage point. The currency effect relates to the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad.

Selling, general and administrative spending was 25.2 percent of sales, up slightly as a percent of sales from the same quarter last year, but down \$5 million.

During the third quarter, 3M recorded a \$332 million (\$214 million after-tax) restructuring charge. Details of the restructuring charge are discussed in the Notes to Consolidated Financial Statements.

The operating income discussion that follows excludes the restructuring charge. Worldwide operating income was 16.7 percent of sales, down 1.6 percentage points from the third quarter last year. Margins were down nearly 3 percentage points in the United States and four-tenths of a point internationally. Operating income was \$629 million, down 10.3 percent from the year-earlier quarter. Currency reduced operating income by about \$55 million, or 8 percent.

Third quarter interest expense of \$37 million was up \$14 million from the same quarter last year, reflecting a moderate increase in the company's financial leverage. Net investment and other income was \$11 million, in line with the level averaged in each of the past four quarters. The third quarter of 1998 reflects a \$10 million adjustment to finalize the accounting for the 1997 divestiture of National Advertising Company.

The impact of the 1998 restructuring charge and the 1997 gain on divestiture on 3M's income statement and tax rate is summarized in the following table.

Supplemental Consolidated Statement of Income Information (Unaudited)
(Millions, except per-share amounts)
Three months ended

	September 30, 1998			September 30, 1997		
	Excluding Restruc- turing Charge	Restruc- turing Charge	Reported Total	Excluding Dives- titure	Gain on Dives- titure	Reported Total
Operating income	\$ 629	\$ (332)	\$ 297	\$ 701	\$ --	\$ 701
Other income and expense	16	--	16	10	(803)	(793)
Income before income taxes and minority interest	\$ 613	\$ (332)	\$ 281	\$ 691	\$ 803	\$ 1,494
Provision for income taxes	214	(118)	96	241	308	549
Effective tax rate	35.0%	35.5%	34.3%	35.0%	38.4%	36.8%
Minority interest	7	--	7	18	--	18
Net income	\$ 392	\$ (214)	\$ 178	\$ 432	\$ 495	\$ 927
Earnings per share - diluted	\$ 0.97	\$ (0.53)	\$ 0.44	\$ 1.03	\$ 1.18	\$ 2.21

Excluding the 1998 restructuring charge and the 1997 gain on divestiture, the worldwide effective income tax rate for the quarter was 35.0 percent, the same as in the third quarter last year. The 1998 restructuring charge was taxed at a rate of 35.5 percent. The 1997 gain on divestiture was taxed fully in the United States at a rate of 38.4 percent (federal statutory rate of 35.0 percent and a net effective state tax rate of 3.4 percent). This results in a total 3M combined effective tax rate of 34.3 percent for the third quarter, compared to 36.8 percent in the third quarter last year.

Net income totaled \$178 million, or \$0.44 per diluted share, compared with \$927 million, or \$2.21 per diluted share, in the third quarter of 1997. Excluding the 1998 restructuring charge and the 1997 gain on divestiture, net income totaled \$392 million, or \$0.97 per diluted share, compared with \$432 million, or \$1.03 per diluted share, in the third quarter of 1997. The company estimates that changes in the value of the U.S. dollar decreased earnings for the quarter by about 8 cents per share compared with the third quarter of 1997. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses.

Year-to-date

On a year-to-date basis, worldwide sales totaled \$11.236 billion, down about 1 percent from the same period last year. Excluding changes in currency exchange rates, sales rose about 3 percent. Unit sales increased about 2 percent, while selling prices were up about 1 percent.

In the United States, sales decreased slightly to \$5.457 billion. Adjusting for the third-quarter 1997 sale of the outdoor advertising business, sales rose about 2 percent. Internationally, sales totaled \$5.779 billion, with local-currency sales gains more than offset by currency translation. Expressed in dollars, international sales declined 2 percent. Volume increased about 5 percent and selling prices were up 2 percent. Currency translation reduced international sales by about 9 percent.

The cost of goods sold discussion that follows excludes the inventory portion of the restructuring charge.

Cost of goods sold, which includes manufacturing, research and development, and engineering, was 57.3 percent of sales, up eight-tenths of a percentage point from the same period last year. The factors that influenced gross margins for the third quarter were the same factors that affected the year-to-date results.

Selling, general and administrative spending was 25.3 percent of sales, up slightly as a percent of sales from the same period last year, but down \$23 million.

The operating income discussion that follows excludes the restructuring charge. Worldwide operating income was 17.4 percent of sales, down nine-tenths of a percentage point from the same period last year. Margins were down 1.7 percentage points in the United States and down slightly internationally. Operating income was \$1.950 billion, down 6.2 percent from the year-earlier period. Currency reduced operating income by about \$200 million, or 10 percent.

Interest expense of \$106 million was up \$32 million from the first nine months of last year, reflecting the company's strategy to lower its cost of capital by moderately increasing its financial leverage. This strategy may increase interest expense by about \$50 million for total year 1998 when compared to 1997. Net investment and other income was \$33 million, in line with recent trends.

The impact of the 1998 restructuring charge and the 1997 gain on divestiture on 3M's income statement is summarized in the following table.

Supplemental Consolidated Statement of Income Information (Unaudited)
(Millions, except per-share amounts)
Nine months ended

	September 30, 1998			September 30, 1997		
	Excluding Restruc- turing Charge	Restruc- turing Charge	Reported Total	Excluding Dives- titure	Gain on Dives- titure	Reported Total
Operating income	\$1,950	\$ (332)	\$ 1,618	\$ 2,078	\$ --	\$ 2,078
Other income and expense	63	--	63	30	(803)	(773)
Income before income taxes and minority interest	\$1,887	\$ (332)	\$ 1,555	\$ 2,048	\$ 803	\$ 2,851
Provision for income taxes	670	(118)	552	727	308	1,035
Effective tax rate	35.5%	35.5%	35.5%	35.5%	38.4%	36.3%
Minority interest	39	--	39	61	--	61
Net income	\$1,178	\$ (214)	\$ 964	\$ 1,260	\$ 495	\$ 1,755
Earnings per share - diluted	\$ 2.88	\$(0.52)	\$ 2.36	\$ 2.99	\$ 1.18	\$ 4.17

The worldwide effective income tax rate for the first nine months was 35.5 percent, the same as the tax rate (excluding the gain on divestiture) in the same period last year.

Net income totaled \$964 million, or \$2.36 per diluted share, compared with \$1.755 billion, or \$4.17 per diluted share, in the first nine months of 1997. Excluding the 1998 restructuring charge and the 1997 gain on divestiture, net income totaled \$1.178 billion, or \$2.88 per diluted share, compared with \$1.260 billion, or \$2.99 per diluted share, in the first nine months of 1997. The company estimates that changes in the value of the U.S. dollar decreased earnings for the first nine months by about 29 cents per share compared with the same period in 1997. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses.

FUTURE OUTLOOK

3M expects higher fourth-quarter 1998 sales and earnings compared with the same quarter last year, excluding the impact of any additional restructuring charges taken in the fourth quarter of 1998. The company expects to take additional restructuring charges related to productivity improvement initiatives in the fourth quarter of 1998 and possibly into 1999, which would bring total restructuring charges to an estimated \$500 million. Currency, due to purchased goods effects, is expected to reduce earnings in the fourth quarter of 1998 by about 5 cents per share.

Results are expected to benefit from 3M's cost reduction efforts. 3M has an 8 percent annual productivity improvement objective, as measured by sales growth per employee in local currencies. Due to the turmoil in the Asia Pacific area and softness in certain businesses in

the United States, 1998 productivity will not meet the 8 percent target for the first time in 4 years. During the third quarter of 1998, employment declined about 1,600 people, about 1,000 people excluding summer temporary workers. The company expects to reduce up to an additional 1,000 positions by the end of 1998. By the end of 1999, including personnel reductions in the second half of 1998, the company expects a total reduction of 4,500 employees. These actions should help the company regain and sustain its 8 percent productivity-improvement target.

The company is monitoring worldwide business conditions closely and will adjust prices, costs and investments as appropriate. Overall, the company has experienced earnings declines of about 20 percent in the Asia Pacific area for the first nine months of 1998. The company does not expect a significant change in this situation in the fourth quarter of 1998. 3M expects that the Latin American economies will continue to decelerate. 3M is also cautious about the near-term outlook for the U.S. and European economies. Given this scenario, 3M expects modest sales growth in the fourth quarter when compared with the same quarter last year.

For total year 1998, the company expects to buy back about 9 million shares of 3M stock. This is expected to result in shares outstanding at year-end 1998, net of issuances, of about one percent less when comparing to year-end 1997 balances.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 issue is the result of using only the last two digits to indicate the year in computer hardware and software programs and embedded technology such as micro-controllers. As a result, these programs do not properly recognize a year that begins with "20" instead of the familiar "19." If uncorrected, such programs will be unable to interpret dates beyond the year 1999, which could cause computer system failure or other errors disrupting operations.

The company recognizes the importance of the Year 2000 issue and has given it high priority. In November 1996, the company created a corporate-wide Year 2000 project team representing all company business and staff units. The team's objective is to ensure an uninterrupted transition to the year 2000 by assessing, testing and modifying products and IT and non-IT systems (defined below) so that they will perform as intended, regardless of the date (before, during and after December 31, 1999), and dates (before, during and after December 31, 1999 and including February 29, 2000) can be processed with expected results ("Year 2000 Compliant"). The scope of the Year 2000 compliance effort includes (i) information technology ("IT") such as software and hardware; (ii) non-IT systems or embedded technology such as micro-controllers contained in various manufacturing and lab equipment, environmental and safety systems, facilities and utilities, and date-sensitive company products; and (iii) the readiness of key third parties, including suppliers and customers, and the electronic data interchange (EDI) with those key third parties.

The Year 2000 project team has taken inventory of products and IT and non-IT systems or components that might malfunction or fail at the end of the millennium. The project teams then categorized the potential date component failures into three categories: "Vital" (stops the business operation and no short-term solution is available); "Critical" (inconvenient to the business operation and a short-term solution is available); and "Marginal" (inconsequential to the business operation).

IT Systems - The company is using both internal and external resources to remediate and test millions of lines of application software code. As of September 30, 1998, approximately 95% of the core IT systems (e.g., general ledger, payroll, procurement and order management) located in the United States that are deemed "Vital" and "Critical" are Year 2000 Compliant. As of September 30, 1998, approximately 75% of the IT systems in subsidiaries outside the United States that are deemed "Vital" and "Critical" are Year 2000 Compliant.

Non-IT Systems - The company has over 100 manufacturing and lab locations worldwide with varying degrees of non-IT systems (such as programmable logic controllers, gauging guidance and adjustment systems and testing equipment). Assessment and testing of non-IT systems for Year 2000 compliance has proven much more difficult than assessing compliance of IT systems. Compliance testing of non-IT systems often requires shutdown of the manufacturing operations. To minimize these disruptions, the company has contacted the suppliers of non-IT systems used in the company's facilities and obtained statements on whether the system is Year 2000 Compliant. The company has relied on such vendor statements and tested components of non-IT systems where the testing does not interrupt manufacturing operations. As of September 30, 1998, approximately 75% of the non-IT systems located in the United States that are deemed "Vital" and "Critical" and approximately 65% of the non-IT systems in subsidiaries outside the United States that are deemed "Vital" and "Critical" are believed to be Year 2000 Compliant.

Third Parties - In addition to internal Year 2000 IT and non-IT remediation activities, the company is in contact with key suppliers and electronic commerce customers to minimize disruptions in the relationship between the company and these important third parties from the Year 2000 issue. While the company cannot guarantee compliance by third parties, the company will consider alternate sources of supply in the event a key supplier cannot demonstrate its systems or products are Year 2000 Compliant.

Contingency Planning - The primary focus of the Year 2000 project teams has been directed at making the company's IT and non-IT systems and products Year 2000 Compliant. The company is working on contingency plans specifying what the company will do if failures occur in its IT and non-IT systems or important third parties are not

Year 2000 Compliant. The company expects to have such contingency plans finalized by March 31, 1999 for its IT and non-IT systems and by April 30, 1999 for its key suppliers.

Company Products - The vast majority of the company's products are not date-sensitive. The company has collected information on current and discontinued date-sensitive products. This information is available to customers as of the date of this filing.

Costs - Through September 30, 1998, the company had expensed incremental costs of \$41 million related to the Year 2000 issue. The total remaining incremental cost is estimated to be approximately \$34 million. The company is expensing as incurred all costs related to the assessment and remediation of the Year 2000 issue. These costs are being funded through operating cash flows. The company's total cost for the Year 2000 issue includes estimated costs and time associated with interfacing with third parties' Year 2000 issues. These estimates are based on currently available information.

The company's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of certain resources, Year 2000 modification plans, implementation success by key third-parties, and other factors. New developments may occur that could affect the company's estimates of the amount of time and costs needed to modify and test its IT and non- IT systems for Year 2000 compliance. These developments include, but are not limited to: (i) the availability and cost of personnel trained in this area; (ii) the ability to locate and correct all relevant date-sensitive codes in both IT and non-IT systems; (iii) unanticipated failures in its IT and non-IT systems; and (iv) the planning and Year 2000 compliance success that key customers and suppliers attain.

The company cannot determine the impact of these potential developments on the current estimate of probable costs of making its products and IT and non-IT systems Year 2000 Compliant. Accordingly, the company is not able to estimate its possible future costs beyond the current estimate of costs. As new developments occur, these cost estimates may be revised to reflect the impact of these developments on the costs to the company of making its products and IT and non-IT systems Year 2000 Compliant. Such revisions in costs could have a material adverse impact on the company's net income in the quarterly period in which they are recorded. Although the company considers it unlikely, such revisions could also have a material adverse effect on the consolidated financial position or annual results of operations of the company.

THE EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union (EU) will establish fixed conversion rates through the European Central Bank (ECB) between their existing local currencies and the Euro, the EU's future single currency. The participating

countries have agreed to adopt the Euro as their common legal currency on that date. The Euro will then trade on currency exchanges and be available for non-cash transactions.

Following introduction of the Euro, the local currencies will remain legal tender between January 1, 1999 and January 1, 2002. During the transition period, goods and services may be paid for using either the Euro or the local currency under the EU's "no compulsion, no prohibition" principle. If cross-border payments are made in a local currency during this transition period, the amount will first be converted into the Euro and then converted from the Euro into the second local currency at the rates fixed by the ECB. Beginning no later than January 1, 2002, the participating countries will issue new Euro-denominated bills and coins for use in cash transactions. By no later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in local currencies, making conversion to the Euro complete.

In February 1997, the company created a European Monetary Union (EMU) Steering Committee and project teams representing all company business and staff units in Europe. The teams' objective is to ensure a smooth transition to EMU for the company and its constituencies. The scope of the teams' efforts includes (i) assessing the Euro's impact on the company's business and pricing strategies for customers and suppliers, and (ii) ensuring that the company's business processes and information technology (IT) systems can process transactions in Euros and local currencies during the transition period and achieve the conversion of all relevant local currency data to the Euro by January 1, 2002 in the participating countries.

Europe is a significant market for the company, contributing 24% of consolidated sales and 16% of consolidated operating income in 1997. The company believes that the Euro will, over time, create increased price competition for the company's products across Europe due to cross-border price transparency. The company also believes that the adverse effects of increased price competition will be offset to some extent by new business opportunities and efficiencies in what will become the world's second largest economy. The company, however, is not able to estimate the anticipated net long-term impact of the introduction of the Euro on the company.

The company has consolidated its IT operations and made significant investments in its IT systems in Europe over the past few years in anticipation of the EMU. The company expects that these investments will enable the company to manage customer orders, invoices, payments and accounts in Euros and in local currencies according to customer needs by January 1, 1999. During the three-year transition period, the company anticipates spending approximately \$25 million to complete the conversion to the Euro. The company has not developed contingency plans at this time since the company believes its IT systems will be ready by January 1, 2002 for the Euro conversion.

The introduction of the Euro is not expected to have a material impact on the company's overall currency risk. Although the company engages in significant trade within the EU, the impact today of changes in currency exchange rates on the trade within the EU has not

been material. The company anticipates the Euro will simplify financial issues related to cross-border trade in the EU and reduce the transaction costs and administrative time necessary to manage this trade and related risks. The company believes, however, that the savings will not be material to corporate results.

The company does have derivatives outstanding beyond January 1, 1999 in several of the European local currencies. Under the EU's "no compulsion, no prohibition" principle, the outstanding derivative positions will either mature as local currency contracts or convert to Euro contracts at no additional economic cost to the company. The company believes that systems used to monitor derivative positions can be appropriately modified for these changes. The company believes the impact of the introduction of the Euro on the company's derivative positions will not be material.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. This Quarterly Report on Form 10-Q contains forward-looking statements, which reflect the Company's current views with respect to future events and financial performance.

These forward-looking statements are subject to certain risks and uncertainties, including those identified below, which could cause actual results to differ materially from historical results or those anticipated. The words "aim," "believe," "expect," "anticipate," "intend," "estimate," "will," "should," "could" and other expressions which indicate future events and trends identify forward-looking statements.

Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to: foreign exchange rates and fluctuations in those rates; the effects of, and changes in, worldwide economic conditions; raw materials, including shortages and increases in the costs of key raw materials; the impact of the Year 2000 issue; and legal proceedings (see discussion of Legal Proceedings in Part II, Item 1 of this Form 10-Q).

FINANCIAL CONDITION AND LIQUIDITY

The company's financial condition and liquidity remain strong.

Working capital decreased \$195 million to \$1.990 billion at September 30, 1998, compared to \$2.185 billion at year-end 1997. The accounts receivable average days' sales outstanding was 57 days, down slightly from year-end. The company's key inventory index was 3.8 months, unchanged from year-end. The company's current ratio was 1.4, down from 1.5 at year-end.

Total debt increased \$608 million from year-end 1997 to \$3.122 billion. In line with the company's strategy to lower its cost of capital, total debt increased from an average of about \$2 billion in 1997 to \$3.122 billion as of September 30, 1998. As of September 30, 1998, total debt was 35 percent of total capital.

The company's strong credit rating provides ready and ample access to funds in global capital markets. In February 1998, the parent company issued \$330 million of 30-year, 6.375 percent debentures. In July 1998, a German subsidiary of the company, 3M Deutschland GmbH, completed a 3-year, \$200 million, 5.75 percent Eurobond offering. In October 1998, a Japanese subsidiary of the company, Sumitomo 3M Limited, completed a 5-year, 10 billion yen (approximately \$85 million), 0.795 percent fixed rate private placement note. At September 30, 1998, the company had available short-term lines of credit totaling about \$600 million.

Net cash provided by operating activities from continuing operations totaled \$1.498 billion in the first nine months of the year, down \$160 million from the same period last year. Net cash outflows from mammary implant litigation were \$339 million higher than in the same period last year. Asset impairment charges of \$190 million relate to the third quarter 1998 restructuring and represent the write-down of certain assets to net realizable value (\$161 million relating to property, plant and equipment and an inventory write-down of \$29 million). Working capital and other changes in 1998 includes the impact of the employee severance and business disposition components of the restructuring charges.

Timing differences between payment of implant liabilities and receipt of related insurance recoveries could affect the cash flows of future periods. This is discussed in Part II, Item 1, Legal Proceedings, of this Form 10-Q.

Net cash used by operating activities from discontinued operations was \$92 million in the first nine months of 1997. Payments made in 1997 were primarily severance payments related to discontinued operations.

Cash used in investing activities was \$1.124 billion in the first nine months of the year, compared to cash provided of \$35 million in the same period last year. In 1997, cash proceeds related to the sale of National Advertising Company totaled \$1 billion. Capital expenditures for the first nine months of 1998 were \$1.056 billion, an increase of 5.5 percent compared with the same period last year.

Treasury stock repurchases for the first nine months of 1998 were \$606 million, compared with repurchases in the same period last year of \$1.229 billion. In the third quarter of 1997, net proceeds from the National Advertising Company divestiture were primarily used to repurchase shares and to reduce short-term debt. Financing activities for both short-term and long-term debt provided net cash inflows of \$649 million, compared with net cash outflows of \$302 million in the first nine months last year.

The company repurchased about 7.3 million shares of common stock in the first nine months of 1998, compared with 13.6 million shares in the same period last year. In November 1997, the Board of Directors authorized the repurchase of up to 25 million shares of 3M common stock through December 31, 1998. As of September 30, 1998, 15.3 million shares remained authorized for repurchase. Stock repurchases are made to support employee stock purchase plans and for other corporate purposes.

Cash dividends paid to shareholders totaled \$666 million in the first nine months of this year, compared with \$661 million in the same period last year. In February 1998, the quarterly dividend was increased to 55 cents a share.

Legal proceedings are discussed in the Legal Proceedings section in Part II, Item 1, of this Form 10-Q. There can be no certainty that the company may not ultimately incur charges, whether for governmental proceedings and claims, products liability claims, environmental proceedings or other actions, in excess of presently established accruals. While such future charges could have a material adverse impact on the company's net income in the quarterly period in which they are recorded, the company believes that such additional charges, if any, would not have a material adverse effect on the consolidated financial position or annual results of operations of the company. (NOTE: The preceding sentence applies to all legal proceedings involving the company except the breast implant litigation. See discussion of breast implant litigation in Legal Proceedings, Part II, Item 1.)

The company expects to complete the refinancing of its Employee Stock Ownership Plan in late 1998 or early 1999, which would result in an estimated \$40 million after tax charge (estimated \$0.10 per diluted share). This would be reported as an extraordinary loss from early extinguishment of debt.

Item 1. Legal Proceedings

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

Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular action, the jurisdiction and forum in which each action is proceeding and differences in applicable law. Accordingly, the company is not always able to estimate the amount of its possible future liabilities with respect to such matters.

There can be no certainty that the company may not ultimately incur charges, whether for governmental proceedings and claims, products liability claims, environmental proceedings or other actions, in excess of presently established accruals. While such future charges could have a material adverse impact on the company's net income in the quarterly period in which they are recorded, the company believes that such additional charges, if any, would not have a material adverse effect on the consolidated financial position or annual results of operations of the company. (NOTE: The preceding sentence applies to all legal proceedings involving the company except the breast implant litigation, which is discussed separately in the next section).

Breast Implant Litigation

As of September 30, 1998, the company had been named as a defendant, often with multiple co-defendants, in 6,929 lawsuits and 144 claims in various courts, all seeking damages for personal injuries from allegedly defective breast implants. These claims and lawsuits purport to represent 22,757 individual claimants. It is not yet certain how many of these lawsuits and claims involve products manufactured and sold by the company, as opposed to other manufacturers. The company entered the business of manufacturing breast implants in 1977 by purchasing McGhan Medical Corporation. In 1984, the company sold the business to a corporation that also was named McGhan Medical Corporation.

The typical claim or lawsuit alleges the individual's breast implants caused one or more of a wide variety of ailments and local complications, including, but not limited to, non-specific autoimmune disease, scleroderma, lupus, rheumatoid arthritis, fibromyalgia, mixed connective tissue disease, Sjogren's Syndrome, dermatomyositis, polymyositis and chronic fatigue.

Plaintiffs in these cases typically seek monetary damages, often in unspecified amounts, and also may seek certain types of equitable relief, including requiring the company to fund the costs associated with removal of the breast implants.

A number of breast implant claims and lawsuits seek to impose liability on the company under various theories for personal injuries allegedly caused by breast implants manufactured and sold by manufacturers other than the company. These manufacturers include, but are not limited to, McGhan Medical Corporation and manufacturers that are no longer in business or that are insolvent, whose breast implants may or may not have been used in conjunction with implants manufactured and sold by the company. These claims raise many difficult and complex factual and legal issues that are subject to many uncertainties, including the facts and circumstances of each particular claim, the jurisdiction in which each suit is brought, and differences in applicable law and insurance coverage.

A number of breast implant lawsuits seek to recover punitive damages. Any punitive damages that may be awarded against the company may or may not be covered by certain insurance policies depending on the language of the insurance policy, applicable law and agreements with insurers.

In addition to individual suits against the company, a class action on behalf of all women with breast implants filed against all manufacturers of such implants has been conditionally certified and is pending in the United States District Court for the Northern District of Alabama (the "Court")(DANTE, ET AL., V. DOW CORNING, ET AL., U.S.D.C., N. Dist., Ala., 92-2589; part of IN RE: SILICONE GEL BREAST IMPLANT PRODUCT LIABILITY LITIGATION, U.S.D.C., N. Dist. Ala., MDL 926, U.S.D.C., N. Dist. Ala., CV 92-P-10000-S; now held in abeyance pending settlement proceedings in the settlement class action LINDSEY, ET AL., V. DOW CORNING CORPORATION, ET AL., U.S.D.C., N. Dist., Ala., CV 94-P-11558-S). Class actions, some of which have been certified, are pending in various state courts, including, among others, Louisiana, Florida and Illinois, and in the British Columbia courts in Canada. The Louisiana state court action (SPITZFADEN, ET AL., v. DOW CORNING CORPORATION, ET AL., Dist. Ct., Parish of Orleans, 92-2589) has been decertified by the trial court. Plaintiffs' writ for an emergency appeal from the decertification has been denied by the Louisiana Supreme Court. A normal appeal remains pending.

The company also has been served with a purported class action brought on behalf of children allegedly exposed to silicone in utero

and through breast milk. (FEUER, ET AL., V. MCGHAN, ET AL., U.S.D.C., E. Dist. NY, 93-0146.) The suit names all breast implant manufacturers as defendants and seeks to establish a medical- monitoring fund.

On December 22, 1995, the Court approved a revised class action settlement program for resolution of claims seeking damages for personal injuries from allegedly defective breast implants (the "Revised Settlement Program"). The Revised Settlement Program is a revision of a previous settlement pursuant to a Breast Implant Litigation Settlement Agreement (the "Settlement Agreement") reached on April 8, 1994, and approved by the Court on September 1, 1994.

The Court ordered that, beginning after November 30, 1995, members of the plaintiff class may choose to participate in the Revised Settlement Program or opt out, which would then allow them to proceed with separate products liability actions.

The Revised Settlement Program as supplemented now includes both foreign and domestic class members with implants manufactured by certain manufacturer defendants, including Baxter International, Bristol Meyers-Squibb, the company and McGhan Medical Corporation. The company's obligations under the Revised Settlement Program are limited to eligible claimants with implants manufactured by the company or its predecessors ("3M implants") or manufactured only by McGhan Medical Corporation after its divestiture from the company on August 3, 1984 ("Post 8/84 McGhan implants"). With respect to foreign claimants and claimants with only Post 8/84 McGhan implants (or only Post 8/84 McGhan implants plus certain other manufacturers' implants), the benefits are more limited than for domestic claimants with 3M implants. Post 8/84 McGhan implant benefits are payable by the company, Union Carbide Corporation and McGhan Medical Corporation.

In general, the amounts payable to individual current claimants (as defined in the Court's order) under the Revised Settlement Program, and the company's obligations to make those payments, will not be affected by the number of class members electing to opt out of the Revised Settlement Program or the number of class members making claims under the Revised Settlement Program. In addition to certain miscellaneous benefits, the Revised Settlement Program provides for two compensation options for current claimants with 3M implants.

Under the first option, denominated as Fixed Amount Benefits, current claimants with 3M implants who satisfy disease criteria established in the prior Settlement Agreement will receive amounts ranging from \$5,000 to \$100,000, depending on disease severity or disability level; whether the claimant can establish that her implants have ruptured; and whether the claimant also has had implants manufactured by Dow Corning. Under the second option, denominated as Long-Term Benefits, current claimants with 3M implants who satisfy more restrictive disease and severity criteria specified under the Revised Settlement Program can receive benefits ranging from \$37,500 to \$250,000.

In addition, current claimants with 3M implants are eligible for (a) a one-time payment of \$3,000 upon removal of 3M implants during the course of the class settlement, and (b) an advance payment of \$5,000 against the above referenced benefits upon proof of having 3M implants and upon waiving or not timely exercising the right to opt out of the Revised Settlement Program. Current claimants with only Post 8/84 McGhan implants (or only Post 8/84 McGhan implants plus certain other manufacturers' implants) are eligible only for benefits ranging from \$10,000 to \$50,000.

Eligible participants with 3M implants who did not file current claims but are able to satisfy the more restrictive disease and severity criteria during an ongoing period of 15 years will be eligible for the Long-Term Benefits, subject to certain funding limitations. Such participants also will be eligible for an advance payment of \$1,000 upon proof of having 3M implants and upon waiving or not timely exercising the right to opt out of the Revised Settlement Program or, as an elective option expiring on June 15, 1999, a payment of \$3,500 in full settlement of all breast implant claims including any claim for Long-Term Benefits under the Revised Settlement Program. Benefit levels for eligible participants who are not current claimants and have only Post 8/84 McGhan implants (or only Post 8/84 McGhan implants plus certain other manufacturers' implants) or who are current foreign claimants will range from \$10,000 to \$50,000. A benefit payment of \$3,500 for foreign registrants other than current foreign claimants, so called Other Registrants, has been agreed to by the Company and the Foreign Claimants Committee. This benefit thus completes the foreign claimant aspects of the Revised Settlement Program. A notice to foreign registrants has been approved by the Court.

As of the date of this filing, the company believes that approximately 90% of the registrants, including those claimants who filed current claims, have elected to participate in the Revised Settlement Program. It is still unknown as to what disease criteria all claimants have satisfied, and what options they have chosen. As a result, the total amount and timing of the company's prospective payments under the Revised Settlement Program cannot be determined with precision at this time. As of September 30, 1998 the company has paid \$232 million into the court-administered fund as a reserve against costs of claims payable by the company under the Revised Settlement Program (including a \$5 million administrative assessment). Additional payments will be made as necessary. Payments to date have been consistent with the company's estimates of the total liability for these claims.

In the first quarter of 1994, the company took a pre-tax charge of \$35 million (\$22 million after tax) in recognition of its then best estimate of its probable liabilities and associated expenses, net of the probable amount of insurance recoverable from its carriers. In the second quarter of 1998, the company increased its estimate of the minimum probable liabilities and associated expenses to approximately \$1.1 billion. This amount represents the company's best estimate of the minimum amount to cover the cost and expense of

the Revised Settlement Program and the cost and expense of resolving opt-out claims and recovering insurance proceeds. After subtracting payments of \$912 million as of September 30, 1998, for defense and other costs and settlements with litigants and claimants, the company had accrued liabilities of \$188 million.

The company has substantial primary and excess products liability occurrence insurance coverage and claims-made products liability insurance coverage, which it believes provide coverage for substantially all of its current exposure for breast implant claims and defense costs. Most insurers have alleged reservations of rights to deny all or part of the coverage for differing reasons, including each insurer's obligations in relation to the other insurers (i.e. allocation) and which claims trigger both the various occurrence and claims-made insurance policies. Some insurers have resolved and paid, or committed to, their policy obligations. The company believes the failure of many insurers to voluntarily perform as promised subjects them to the company's claims for excess liability and damages for breach of the insurers' obligation of good faith.

On September 22, 1994, three excess coverage occurrence insurers initiated in the courts of the State of Minnesota a declaratory judgment action against the company and numerous insurance carriers seeking adjudication of certain coverage issues and allocation among insurers. On December 9, 1994, the company initiated an action against its occurrence insurers in the Texas State Court in and for Harrison County, seeking a determination of responsibility among the company's various occurrence insurers with applicable coverages. The state of Texas has the most implant claims. This action has since been removed to the U.S. District Court, Eastern District of Texas, and stayed pending resolution of the litigation in the Minnesota courts.

The insurers that are parties to these actions generally acknowledge that they issued products liability insurance to the company and that breast implant claims are products liability claims. The trial in Minnesota to resolve the company's insurance coverage and the financial responsibility of occurrence insurers for breast implant claims and defense costs began on June 4, 1996, and is continuing in phases with the next trial phase scheduled for January 4, 1999.

In mid-October 1995, the occurrence insurers that are parties to the litigation in Minnesota filed more than 30 motions for summary judgment or partial summary judgment. The insurers, through these motions, attempted to shift all or a portion of the responsibility for those claims the company believes fall within the period of occurrence-based coverage (before 1986) into the period of claims-made coverage (from and after 1986). The trial court denied the insurers' motions, ruling that the key issues of trigger and allocation raised in these motions would be resolved at trial. In the trial's first phase in 1996, the court granted 3M partial declaratory judgment on the question of when insurance coverage is

"triggered." The court also granted the insurers' motion for partial declaratory judgment on the question of the allocation method to be applied in the case. In July 1997 the trial court ruled further on the trigger issue and on the general allocation method. That ruling was consistent with and further supported the company's opinion as stated in the following paragraph. In November 1997, upon reconsideration, the court reversed a portion of its July ruling and reinstated a portion of its previous ruling. The company believes that conflicting rulings now exist that need to be clarified by the court and reconciled with applicable law. Motions to clarify the allocation methodology of triggered policies under these rulings are pending. Court options include clarification, further trial followed by additional rulings or certification for interlocutory (while the case is still pending) appeal.

The company believes it ultimately will prevail in this insurance litigation. The company's belief is based on an analysis of its insurance policies; court decisions on these and similar issues; reimbursement by insurers for these types of claims; and consultation with outside counsel who are experts in insurance coverage matters. If, however, the occurrence insurers ultimately prevail in this insurance litigation, the company could be effectively deprived of significant and potentially material insurance coverage for breast implant claims. (See discussion of the accrued receivables for insurance recoveries below.)

As of September 30, 1998, the company had accrued receivables for insurance recoveries of \$772 million, substantially all of which is contested by the insurance carriers. Various factors could affect the timing and amount of proceeds to be received under the company's various insurance policies, including (i) the timing of payments made in settlement of claims; (ii) the outcome of occurrence insurance litigation in the courts of Minnesota (as discussed above) and Texas; (iii) potential arbitration with claims-made insurers; (iv) delays in payment by insurers; and (v) the extent to which insurers may become insolvent in the future. There can be no absolute assurance that the company will collect all amounts accrued as being probable of recovery from its insurers.

The company's current estimate of the probable liabilities, associated expenses and probable insurance recoveries related to the breast implant claims is based on the facts and circumstances existing at this time. New developments may occur that could affect the company's estimates of probable liabilities (including associated expenses) and the probable amount of insurance recoveries. These developments include, but are not limited to, (i) the ultimate Fixed Amount Benefit distribution to claimants in the Revised Settlement Program; (ii) the success of and costs to the company in defending opt-out claims, including claims involving breast implants not manufactured or sold by the company; (iii) the outcome of the occurrence insurance litigation in the courts of Minnesota and Texas; and (iv) the outcome of potential arbitration with claims-made insurers.

The company cannot determine the impact of these potential developments on the current estimate of probable liabilities (including associated expenses) and the probable amount of insurance recoveries. Accordingly, the company is not able to estimate its possible future liabilities and recoveries beyond the current estimates of probable amounts. As new developments occur, these estimates may be revised, or additional charges may be necessary to reflect the impact of these developments on the costs to the company of resolving breast implant litigation, claims and insurance recoveries. Such revisions or additional future charges could have a material adverse impact on the company's net income in the quarterly period in which they are recorded. Although the company considers it unlikely, such revisions or additional future charges could also have a material adverse effect on the consolidated financial position or annual results of operations of the company.

The company conducts ongoing reviews, assisted by outside counsel, to determine the adequacy and extent of insurance coverage provided by its occurrence and claims-made insurers. The company believes, based on these ongoing reviews and the bases described in the fourth preceding paragraph, it is probable that the collectible coverage provided by its applicable insurance policies is sufficient to cover substantially all of its current exposure for breast implant claims and defense costs. Based on the availability of this insurance coverage, the company believes that its uninsured financial exposure has not materially changed since the first quarter of 1994. Therefore, no recognition of additional charges has been made.

Environmental Matters

The company also is involved in a number of environmental proceedings by governmental agencies and by private parties asserting liability for past waste disposal and other alleged environmental damage. The company conducts ongoing investigations, assisted by environmental consultants, to determine accruals for the probable, estimable costs of remediation. The remediation accruals are reviewed each quarter and changes are made as appropriate.

Item 6. Exhibits and Reports on Form 8-K

(a) The following documents are filed as exhibits to this Report.

(12) A statement regarding the calculation of the ratio of earnings to fixed charges. Page 30.

(15) A letter from the company's independent auditors regarding unaudited interim financial statements. Page 31.

(27) Financial data schedule (EDGAR filing only).

(b) Reports on Form 8-K:

The company filed a report on Form 8-K dated August 27, 1998. In a release dated August 27, 1998, the company announced that it expects double-digit earnings growth for the coming three years and sales to increase an average of eight percent per year. The company also announced its plans for growth and productivity improvement. The company stated that it anticipates a pre-tax charge of as much as \$500 million associated with actions outlined in the release. The news release contained forward-looking statements relating to earnings and sales growth over the next three years and other matters. The news release was attached as Exhibit 99 to the Form 8-K.

None of the other item requirements of Part II of Form 10-Q are applicable to the company for the quarter ended September 30, 1998.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MINNESOTA MINING AND MANUFACTURING COMPANY
(Registrant)

Date: March 31, 1999

/s/ Ronald G. Nelson

*Ronald G. Nelson,
Vice President and Controller*

MINNESOTA MINING AND MANUFACTURING COMPANY AND SUBSIDIARIES
 CALCULATION OF THE RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in millions)
 (Unaudited)

	Nine Months Ended					
	September 30, 1998	Year 1997	Year 1996	Year 1995	Year 1994	Year 1993
EARNINGS						
Income from continuing operations before income taxes and minority interest*	\$1,555	\$3,440	\$2,479	\$2,168	\$2,011	\$1,851
Add:						
Interest on debt	106	94	79	102	70	39
Interest component of the ESOP benefit expense	22	32	34	37	39	41
Portion of rent under operating leases representative of the interest component	33	41	46	51	46	44
Less: Equity in undistributed income of 20-50% owned companies	4	3	--	1	2	--
TOTAL EARNINGS AVAILABLE FOR FIXED CHARGES	\$1,712	\$3,604	\$2,638	\$2,357	\$2,164	\$1,975
FIXED CHARGES						
Interest on debt	106	94	79	102	70	39
Interest component of the ESOP benefit expense	22	32	34	37	39	41
Portion of rent under operating leases representative of the interest component	33	41	46	51	46	44
TOTAL FIXED CHARGES	\$ 161	\$ 167	\$ 159	\$ 190	\$ 155	\$ 124
RATIO OF EARNINGS TO FIXED CHARGES	10.63	21.58	16.59	12.41	13.96	15.93

<F1>

*1998 includes a pre-tax restructuring charge of \$332 million; 1997 includes a pre-tax gain on the sale of National Advertising Company of \$803 million; 1995 includes a pre-tax restructuring charge of \$79 million.

EXHIBIT 15

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

We are aware that our report dated October 22, 1998 on our reviews of interim condensed consolidated financial information of Minnesota Mining and Manufacturing Company and Subsidiaries (the Company) for the three-month and nine-month periods ended September 30, 1998 and 1997, and included in the Company's Form 10-Q for the quarter ended September 30, 1998, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 33-14791, 33- 49842, 33-58767, 333-26957, 333-30689 and 333-30691), and Form S-3 (Registration No. 33-48089). Pursuant to Rule 436(c), under the Securities Act of 1933, this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

*St. Paul, Minnesota
November 6, 1998*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS AND NOTES.

RESTATED:

MULTIPLIER: 1,000,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	SEP 30 1998
CASH	204
SECURITIES	177
RECEIVABLES	2,664
ALLOWANCES	0
INVENTORY	2,428
CURRENT ASSETS	6,490
PP&E	12,995
DEPRECIATION	7,684
TOTAL ASSETS	13,965
CURRENT LIABILITIES	4,500
BONDS	1,426
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	236
OTHER SE	5,648
TOTAL LIABILITY AND EQUITY	13,965
SALES	11,236
TOTAL REVENUES	11,236
CGS	6,477
TOTAL COSTS	6,477
OTHER EXPENSES	303
LOSS PROVISION	0
INTEREST EXPENSE	106
INCOME PRETAX	1,555
INCOME TAX	552
INCOME CONTINUING	964
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	964
EPS PRIMARY	2.39
EPS DILUTED	2.36

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