3M CO
Form 10-Q
May 01, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

Commission file number: **1-3285**

3M COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 733-1110

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Outstanding at March 31, 2009**
Common Stock, $0.01 par value per share	694,383,904 shares

This document (excluding exhibits) contains 54 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 52.

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FORM 10-Q

For the Quarterly Period Ended March 31, 2009

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended March 31 2009	2008
Net sales	**$ 5,089**	$ 6,463
Operating expenses		
Cost of sales	**2,772**	3,336
Selling, general and administrative expenses	**1,191**	1,275
Research, development and related expenses	**323**	351
Total operating expenses	**4,286**	4,962
Operating income	**803**	1,501
Interest expense and income		
Interest expense	**55**	55
Interest income	**(11)**	(30)
Total interest expense (income)	**44**	25
Income before income taxes	**759**	1,476
Provision for income taxes	**229**	470
Net income including noncontrolling interest	**$ 530**	$ 1,006
Less: Net income attributable to noncontrolling interest	**12**	18
Net income attributable to 3M	**$ 518**	$ 988
Weighted average 3M common shares outstanding - basic	**693.5**	706.5
Earnings per share attributable to 3M common shareholders - basic	**$ 0.75**	$ 1.40
Weighted average 3M common shares outstanding - diluted	**695.9**	717.2
Earnings per share attributable to 3M common shareholders - diluted	**$ 0.74**	$ 1.38
Cash dividends paid per 3M common share	**$ 0.51**	$ 0.50

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	Mar. 31 2009	Dec. 31 2008
Assets		
Current assets		
Cash and cash equivalents	**$ 1,632**	$ 1,849
Marketable securities - current	**247**	373
Accounts receivable - net	**3,099**	3,195
Inventories		
Finished goods	**1,315**	1,505
Work in process	**772**	851
Raw materials and supplies	**573**	657
Total inventories	**2,660**	3,013
Other current assets	**1,009**	1,168
Total current assets	**8,647**	9,598
Marketable securities - non-current	**253**	352
Investments	**105**	111
Property, plant and equipment	**18,562**	18,812
Less: Accumulated depreciation	**(11,818)**	(11,926)
Property, plant and equipment - net	**6,744**	6,886
Goodwill	**5,533**	5,753
Intangible assets - net	**1,402**	1,398
Prepaid pension benefits	**38**	36
Other assets	**1,616**	1,659
Total assets	**$ 24,338**	$ 25,793
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	**$ 946**	$ 1,552
Accounts payable	**1,124**	1,301
Accrued payroll	**564**	644
Accrued income taxes	**314**	350
Other current liabilities	**1,780**	1,992
Total current liabilities	**4,728**	5,839
Long-term debt	**5,088**	5,166
Pension and postretirement benefits	**2,811**	2,847
Other liabilities	**1,570**	1,637
Total liabilities	**$ 14,197**	$ 15,489
Commitments and contingencies (Note 11)		
Equity		
3M Company shareholders equity:		
Common stock par value, $.01 par value, 944,033,056 shares issued	**$ 9**	$ 9
Additional paid-in capital	**3,086**	3,006
Retained earnings	**22,369**	22,227

Treasury stock, at cost; 249,649,152 shares at Mar. 31, 2009; 250,489,769 shares at Dec. 31, 2008		**(11,618)**		(11,676)
Unearned compensation		**(18)**		(40)
Accumulated other comprehensive income (loss)		**(4,091)**		(3,646)
Total 3M Company shareholders equity		**9,737**		9,880
Noncontrolling interest		**404**		424
Total equity		**10,141**		10,304
Total liabilities and equity	**$**	**24,338**	$	25,793

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in millions)	**Three months ended March 31 2009**	**2008**
Cash Flows from Operating Activities		
Net income including noncontrolling interest	**$ 530**	$ 1,006
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**271**	268
Company pension and postretirement contributions	**(123)**	(49)
Company pension and postretirement expense	**42**	28
Stock-based compensation expense	**83**	43
Deferred income taxes	**46**	3
Excess tax benefits from stock-based compensation		(5)
Changes in assets and liabilities		
Accounts receivable	**8**	(264)
Inventories	**288**	(86)
Accounts payable	**(165)**	20
Accrued income taxes	**89**	70
Product and other insurance receivables and claims	**7**	25
Other - net	**(381)**	(62)
Net cash provided by operating activities	**695**	997
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(244)**	(298)
Proceeds from sale of PP&E and other assets	**15**	4
Acquisitions, net of cash acquired	**(9)**	(16)
Purchases of marketable securities and investments	**(124)**	(622)
Proceeds from sale of marketable securities and investments	**241**	250
Proceeds from maturities of marketable securities	**103**	218
Net cash used in investing activities	**(18)**	(464)
Cash Flows from Financing Activities		
Change in short-term debt - net	**(512)**	1,211
Repayment of debt (maturities greater than 90 days)	**(86)**	(89)
Purchases of treasury stock		(510)
Reissuances of treasury stock	**34**	79
Dividends paid to stockholders	**(354)**	(353)
Distributions to noncontrolling interest		(12)
Excess tax benefits from stock-based compensation		5
Other - net	**11**	(16)
Net cash provided by (used in) financing activities	**(907)**	315
Effect of exchange rate changes on cash and cash equivalents	**13**	(17)
Net increase (decrease) in cash and cash equivalents	**(217)**	831
Cash and cash equivalents at beginning of year	**1,849**	1,896
Cash and cash equivalents at end of period	**$ 1,632**	$ 2,727

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Basis of Presentation

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

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

This Quarterly Report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes included in its 2008 Annual Report on Form 10-K. However, as described in Note 13, during the first quarter of 2009, the Company effected certain business segment realignments, which included both product moves between business segments and reporting changes related to revised U.S. performance measures. The Company has begun to report comparative results under the new business segment structure with the filing of this Quarterly Report on Form 10-Q. In the second quarter of 2009, the Company plans to revise its business segment disclosures in its 2008 Annual Report on Form 10-K via a Form 8-K to reflect these impacts.

Significant Accounting Policies

Earnings per share: The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company s stock-based compensation plans. Certain Management Stock Ownership Program (MSOP) options outstanding were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (71.9 million average options for the three months ended March 31, 2009; 28.1 million average options for the three months ended March 31, 2008). The conditions for conversion related to the Company s Convertible Notes were not met (refer to 3M s 2008 Annual Report on Form 10-K, Note 10 to the Consolidated Financial Statements, for more detail). If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock; however, if this occurs, the Company has the intent and ability to settle this debt security in cash. Accordingly, there was no impact on diluted earnings per share attributable to 3M common shareholders. The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

(Amounts in millions, except per share amounts)	**Three months ended March 31 2009**	**2008**
Numerator:		
Net income attributable to 3M	**$ 518**	$ 988
Denominator:		
	693.5	706.5

Denominator for weighted average 3M common shares outstanding - basic				
Dilution associated with the Company s stock-based compensation plans		**2.4**		10.7
Denominator for weighted average 3M common shares outstanding - diluted		**695.9**		717.2
Earnings per share attributable to 3M common shareholders - basic	**$**	**0.75**	$	1.40
Earnings per share attributable to 3M common shareholders - diluted		**0.74**		1.38

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New Accounting Pronouncements

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

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, which established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. For 3M, SFAS No. 160 was effective beginning January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, 3M retroactively reclassified the Minority interest in subsidiaries balance previously included in the Other liabilities section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including NCI and net income attributable to 3M. Additional disclosures required by this standard are also included in Note 5. The adoption of SFAS No. 160 did not have a material impact on 3M s consolidated financial position or results of operations.

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which requires additional disclosures about an entity s strategies and objectives for using derivative instruments; the

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

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

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

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

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

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

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP

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provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. The FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value. For 3M, this FSP is effective prospectively beginning April 1, 2009. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on 3M s consolidated results of operations or financial condition.

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

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. For 3M, these additional disclosures will be required beginning with the quarter ending June 30, 2009. 3M is currently evaluating the requirements of these additional disclosures.

NOTE 2. Acquisitions

During the three months ended March 31, 2009, 3M completed two business combinations. The purchase price paid for these business combinations (net of cash acquired) and certain acquisition costs paid for pre-2009 business combinations during the three months ended March 31, 2009 aggregated to $9 million.

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

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

Purchased identifiable intangible assets totaled $6 million and will be amortized on a straight-line basis over a weighted-average life of 6 years (lives ranging from 1 to 19 years). Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to the above acquisitions is not included because the impact on the Company s consolidated results of operations is not considered to be material.

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

NOTE 3. Goodwill and Intangible Assets

As discussed in Note 13, 3M made certain changes to its business segments effective in the first quarter of 2009, which resulted in no material changes to the goodwill balances by business segment. For those changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact to reporting units. SFAS No. 142 requires that goodwill be tested for impairment at least annually and when reporting units are changed. During the first quarter of 2009, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

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Purchased goodwill related to the two acquisitions which closed in the first three months of 2009 totaled $3 million, $1 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the impacts of adjustments to the preliminary allocation of purchase price and certain acquisition costs for pre-2009 acquisitions, which reduced goodwill by $55 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balance by business segment as of December 31, 2008 and March 31, 2009, follow:

Goodwill

(Millions)	Dec. 31, 2008 Balance	Acquisition activity	Translation and other	Mar. 31, 2009 Balance
Industrial and Transportation	$ 1,692	$ (5)	$ (46)	$ 1,641
Health Care	988	(4)		