

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 Quarter ended March 31, 1997      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: (612) 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 X . No .

On March 31, 1997, there were 416,244,474 shares of the Registrant's common stock outstanding.

This document contains 23 pages.  
The exhibit index is set forth on page 19.

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	
	March 31	
	1997	1996
Net sales	\$3,714	\$3,468
Operating expenses		
Cost of goods sold	2,089	1,990
Selling, general and administrative expenses	937	882
Total	3,026	2,872
Operating income	688	596
Other income and expense		
Interest expense	23	17
Investment and other income - net	(12)	(19)
Total	11	(2)
Income before income taxes and minority interest	677	598
Provision for income taxes	244	218

Minority interest	23	18
Net income	\$ 410	\$ 362
Average shares outstanding	416.6	418.5
Per-share amounts		
Net income	\$ .99	\$ .87
Cash dividends declared and paid	\$ .53	\$ .47

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)

Assets	March 31, 1997 (Unaudited)	December 31, 1996
Current assets		
Cash and cash equivalents	\$ 373	\$ 583
Other securities	163	161
Accounts receivable - net	2,612	2,504
Inventories		
Finished goods	1,201	1,195
Work in process	614	591
Raw materials and supplies	489	478
Total inventories	2,304	2,264
Other current assets	985	974
Total current assets	6,437	6,486
Investments	597	585
Property, plant and equipment	11,985	12,050
Less accumulated depreciation	(7,159)	(7,206)
Property, plant and equipment - net	4,826	4,844
Other assets	1,436	1,449
Total	\$13,296	\$13,364
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 887	\$ 895
Payroll	312	300
Income taxes	247	201
Short-term debt	1,151	1,117
Other current liabilities	1,088	1,093
Total current liabilities	3,685	3,606
Other liabilities	2,544	2,623
Long-term debt	831	851
Stockholders' equity		
Common stock, no par, 472,016,528 shares issued	296	296
Retained earnings	8,921	8,756
Unearned compensation - ESOP	(405)	(412)
Cumulative translation - net	(334)	(178)
Debt & equity securities, unrealized gain - net	8	15
Treasury stock, at cost		
March 31, 1997, 55,772,054 shares;		
December 31, 1996, 55,180,520 shares	(2,250)	(2,193)
Stockholders' equity - net	6,236	6,284
Total	\$13,296	\$13,364

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)

	Three months ended March 31	
	1997	1996
Cash Flows from Operating Activities		
Net income	\$ 410	\$ 362

Adjustments to reconcile net income		
to net cash provided by operating activities		
Implant litigation - net	(19)	(156)
Depreciation and amortization	217	217
Working capital and other changes	(171)	(15)
Net cash provided by continuing operations	437	408
Net cash (used) provided by discontinued operations	(55)	108
Net cash provided by operating activities	382	516
Cash Flows from Investing Activities		
Capital expenditures	(296)	(232)
Other changes - net	(2)	5
Discontinued operations - net	--	(37)
Net cash used in investing activities	(298)	(264)
Cash Flows from Financing Activities		
Change in short-term debt - net	258	(5)
Repayment of long-term debt	(219)	(1)
Proceeds from long-term debt	6	--
Purchases of treasury stock	(249)	(112)
Reissuances of treasury stock	119	75
Payment of dividends	(221)	(197)
Net cash used in financing activities	(306)	(240)
Effect of exchange rate changes on cash	12	30
Net (decrease) increase in cash and cash equivalents	(210)	42
Cash and cash equivalents at beginning of year	583	485
Cash and cash equivalents at end of period	\$ 373	\$ 527

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

Minnesota Mining and Manufacturing Company and Subsidiaries  
Notes to Consolidated Financial Statements  
(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. 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 1996 Annual Report on Form 10-K.

Earnings per share:

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share." This statement establishes standards for computing and presenting basic and diluted earnings per share (EPS) for financial statements issued for periods ending after December 15, 1997. The adoption of this statement will not have a material effect on the company's reported EPS.

Reclassification:

Certain reclassifications have been made to December 31, 1996, balance sheet amounts to conform with the current year presentation.

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.

Coopers & Lybrand L.L.P., the company's independent auditors, have performed a review of the unaudited interim financial statements included herein and their report thereon accompanies this filing.

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 March 31, 1997, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 1997 and 1996. 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, 1996, and the related consolidated statements of income and cash flows for the year then ended (not presented herein); and in our report dated February 10, 1997, 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, 1996, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ COOPERS & LYBRAND L.L.P.

COOPERS & LYBRAND L.L.P.

St. Paul, Minnesota  
April 22, 1997

#### Minnesota Mining and Manufacturing Company and Subsidiaries

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

#### RESULTS OF OPERATIONS

##### First Quarter

Worldwide sales for the first quarter totaled \$3.714 billion, an increase of 7.1 percent from the first quarter last year. Excluding changes in currency exchange rates, sales rose about 11 percent. Unit sales increased about 11 percent, while selling prices were down slightly. The company posted double-digit volume gains in its two business sectors, and in U.S. and international operations.

In the Life Sciences Sector, sales increased about 11 percent in local currencies. Pacing this revenue growth were the sector's medical, pharmaceuticals, commercial graphics, and safety and security businesses.

In the Industrial and Consumer Sector, sales increased about 11 percent in local currencies. This sector registered strong increases in tapes, abrasives, specialty chemicals, office supplies and other major product lines.

In the United States, sales were up about 12 percent to \$1.759 billion, driven by increases in volume. Selling prices in the United States were flat.

Internationally, sales totaled \$1.955 billion. Volume increased about 11 percent and selling prices were down about 1 percent. Currency translation reduced international sales by about 7 percent. 3M companies in the Asia Pacific area and in Latin America led the way. In the Asia Pacific area, volume increased more than 15 percent, with strong gains both in Japan and in the Asia region. In Latin America, volume rose nearly 20 percent, continuing that region's record of healthy gains. In Europe, volume was up nearly 7 percent, despite continued softness in Germany. Among larger companies there, France and Italy posted good gains. Worldwide, this was the third consecutive quarter in which the company has posted double-digit volume growth.

Cost of goods sold, which includes manufacturing, research and development, and engineering, was 56.3 percent of sales, down more than one percentage point from the first quarter last year. Cost of

goods sold as a percent of sales benefited from volume, productivity and from a positive carryover on raw material costs. Changes in currency exchange rates reduced gross margins by about four-tenths of a percentage point. This effect relates to the purchases made by 3M's international companies from the United States.

Selling, general and administrative spending was 25.2 percent of sales, down two-tenths of a point from the same quarter last year.

Operating income was \$688 million, up 15.6 percent from the first quarter last year. Currency reduced operating income by about \$37 million, or about 6 percent. In the United States, operating income was 17.7 percent of sales, up more than three percentage points from the same quarter last year, and in line with the level averaged in each of the past three quarters. U.S. profits increased more than 30 percent from the first quarter last year. Internationally, operating income was 19.3 percent of sales, down slightly from the same quarter last year. International profits rose about 2 percent in dollars and 12 percent in local currencies. Worldwide operating income was 18.5 percent of sales, up 1.3 points from the first quarter last year, and up a full point from 1996 in total. Profit growth and margin improvement were led by the Industrial and Consumer Sector.

First quarter interest expense of \$23 million was up \$6 million from the same quarter last year. Net investment and other income was \$12 million, down \$7 million from the first quarter last year. This total of \$11 million for first quarter of 1997 is a typical quarterly rate. In the first quarter last year other income and expense benefited from some non-recurring items.

The worldwide effective income tax rate was 36.0 percent in the first quarter of 1997, down slightly from 36.5 percent in the first quarter of 1996.

Net income totaled \$410 million, or \$.99 per share, with per-share income up 13.8 percent from the first quarter of 1996. The company estimates that changes in the value of the U.S. dollar decreased earnings for the quarter by about 5 cents per share compared with the first quarter of 1996. This estimate includes the effect of translating profits from local currencies into U.S. dollars, the costs in local currencies of transferring goods between the parent company in the United States and international companies, and transaction gains and losses in countries not considered to be highly inflationary.

As discussed in this Form 10-Q, Part II, Item 1, Legal Proceedings, mammary implant litigation resulted in a pre-tax charge of \$35 million (\$22 million after tax) in the first quarter of 1994. 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.

#### FUTURE OUTLOOK

3M expects solid sales and earnings growth in 1997. The company expects to benefit from major new product programs, intensified customer satisfaction efforts, on-going productivity improvement, further expansion into international markets, and efforts to streamline 3M's supply chain.

While volume and productivity are expected to help 1997 results, currency effects will moderate profit growth. Based on current exchange rates, currency effects could reduce earnings by an amount approaching 25 cents a share for all of 1997. Raw material costs are expected to be down slightly for 1997 as a whole.

For the year 1997, capital spending is expected to total about \$1.3 billion. The company is investing capital to help sustain top-line growth and to improve productivity.

#### 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 that 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 that could cause actual results to differ materially from historical results or those anticipated. The words "aim," "believe," "expect," "anticipate," "intend," "estimate" and other expressions that 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; 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 \$128 million to \$2.752 billion from \$2.880 billion as of December 31, 1996. The accounts receivable average days' sales outstanding was 56 days, down 4 days from year-end 1996. The company's key inventory index, which represents the number of months of inventory on hand, was unchanged from year-end, and is now at 3.8 months. The company's current ratio was 1.7, essentially unchanged from year-end.

Total debt increased \$14 million from year-end 1996 to \$1.982 billion. Current maturities of long-term debt are anticipated to be funded through new debt issuances. On April 7, 1997, subsequent to the end of the first quarter, the company issued a four-year \$250 million 6.625 percent Eurobond. After giving effect to an interest rate swap effected on the same date for the same term as the Eurobond, the company will have an interest obligation based on a floating LIBOR index.

The company's borrowings continue to maintain AAA long-term ratings. As of March 31, 1997, total debt was 24 percent of total capital.

Return on average stockholders' equity for the first three months was 26.2 percent, exceeding the company's goal of 20 to 25 percent. Return on capital employed for the first three months was 26.7 percent, up from 24.5 percent in the comparable 1996 period. The company's goal is 27 percent or better.

Net cash provided by operating activities from continuing operations totaled \$437 million in the first three months of the year, up \$29 million from the same period last year. First quarter 1997 cash flow supported increased working capital needs related to double-digit volume growth, while 1996 had an incremental \$137 million net cash outflow related to mammary implant litigation compared to 1997.

Net cash used by operating activities from discontinued operations was \$55 million in the first three months compared with \$108 million of cash provided in the same period last year. During 1996 the company generated cash from discontinued operations by liquidating audio/video assets and operating Imation's businesses before spin-off. Payments made in 1997 primarily reflect severance payments related to discontinued operations.

Timing differences between payment of implant liabilities and receipt of related insurance recoveries could affect the cash flows of future periods. The amount and timing of prospective payments and receipts cannot be determined with precision at this time. In January 1996, the company paid \$130 million into a court-administered fund as an initial reserve against costs of claims payable by the company under the "Revised Settlement Program," which is discussed in the legal proceedings section in Part II, Item 1, of this Form 10-Q.

Cash used in investing activities was \$298 million in the first three months of the year, up \$34 million from the same period last year. Capital expenditures for the first three months of 1997 were \$296 million, an increase of about 28 percent compared with the same period last year, and up about 7 percent compared to an average quarter in 1996.

Financing activities for both short-term and long-term debt provided net cash inflows of \$45 million, compared with outflows of \$6 million in the first three months last year. Treasury stock repurchases were \$249 million, compared with repurchases in the same period last year of \$112 million.

The company repurchased about 2.9 million shares of common stock in the first three months of this year, compared with 1.7 million shares in the same period last year. In November 1996, the Board of

Directors authorized the repurchase of up to 10 million shares of 3M common stock through December 31, 1997. As of March 31, 1997, 5.8 million shares remained authorized for repurchase. Stock repurchases are made to support employee stock purchase plans and for other corporate purposes.

Dividends paid increased over 12%. Payments totaled \$221 million in the first three months of this year, compared with \$197 million in the same period last year. In February 1997, the quarterly dividend was increased to 53 cents a share, compared to 47 cents a share in the first quarter last year.

3M maintains a shelf registration with the Securities and Exchange Commission that provides the means to offer medium-term notes not to exceed \$601 million. As of March 31, 1997, \$402 million of the shelf registration was available for future financial needs. The company expects cash generated by operating activities will support its primary growth initiatives, with ample borrowing capacity and lines of credit available to supplement cash flows from operations.

Minnesota Mining and Manufacturing Company and Subsidiaries  
PART II. Other Information

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 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.

Breast Implant Litigation

As of March 31, 1997, the company had been named as a defendant, often with multiple co-defendants, in 6,754 lawsuits and 128 claims in various courts, all seeking damages for personal injuries from allegedly defective breast implants. These claims and lawsuits purport to represent 22,091 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 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 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 recently 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. 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. Benefits to foreign registrants other than current foreign claimants will be developed by the Foreign Claimants Committee in consultation with the Court.

The company's obligations to fund Long-Term Benefits for eligible claimants with 3M implants are cancelable if certain provisions of the Revised Settlement Program are disapproved on appeal. Pending appeal, the company will pay Long-Term Benefits to eligible claimants, providing it receives appropriate releases. The company's obligations to fund any benefits for claimants with only Post 8/84 McGhan implants are currently suspended pending appeals and will be canceled if any of certain provisions are disapproved on appeal. In either event, the other benefits provided under the Revised Settlement Program would still be payable to any claimant with 3M implants who elected to participate in the program.

As of the date of this filing, it is still uncertain how many plaintiffs ultimately will choose to participate in the Revised Settlement Program, what disease criteria they will satisfy, and what options they will choose. 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. In January 1996, the company paid \$125 million into a court-administered fund as an initial reserve against costs of claims payable by the company under the Revised Settlement Program (along with a \$5 million administrative assessment).

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 1996, the company increased its estimate of the minimum probable liabilities and associated expenses to approximately \$991 million. This amount represents the company's best estimate of the cost and expense of the Revised Settlement Program and the cost and expense of resolving opt out claims. After subtracting payments of \$548 million as of March 31, 1997 (which includes the January 1996 payment of \$130 million under the Revised Settlement Program) for defense costs and settlements with litigants and claimants, the company had accrued liabilities of \$443 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 as scheduled by the court.

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, attempt 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, 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. The trial will continue with further developments expected on the allocation issue, including the specific application of the court-selected method of allocation to particular policies. If the occurrence insurers ultimately prevail in this insurance litigation, the company could be effectively deprived of significant insurance coverage for breast implant claims, the amount of which is not presently determinable. (See discussion of the accrued receivables for insurance recoveries below.)

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 similar issues; reimbursement by insurers for these types of claims; and consultation with outside counsel who are experts in insurance coverage matters.

As of March 31, 1997, the company had accrued receivables for insurance recoveries of \$860 million. 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 number of plaintiffs who elect to opt out and pursue individual claims against the company, (ii) the success of and costs to the company in defending such 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 potential future liabilities beyond the current estimate of probable liabilities. As new developments occur, the 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 and claims. While 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, the company believes that such revisions or additional charges, if any, would not 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, 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.
- (11) A statement regarding the computation of per share earnings. Page 21.
  - (12) A statement regarding the calculation of ratio of earnings to fixed charges. Page 22.
  - (15) A letter from the company's independent auditors regarding unaudited interim financial statements. Page 23.
  - (27) Financial data schedule (EDGAR filing only).

None of the other items contained in Part II of this Form 10-Q are applicable to the company for the quarter ended March 31, 1997.

#### 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: April 22, 1997

/s/ Giulio Agostini

Giulio Agostini, Senior Vice President and  
Chief Financial Officer

(Mr. Agostini is the Principal Financial  
and Accounting Officer and has been duly

authorized to sign on behalf of the  
registrant.)

## EXHIBIT 11

MINNESOTA MINING AND MANUFACTURING COMPANY AND SUBSIDIARIES  
 EARNINGS PER SHARE OF COMMON STOCK  
 (Unaudited)

	Three months ended	
	March 31	
	1997	1996
	-----	-----
(Millions)		
Net income	\$410	\$362
-----		
Primary earnings per share:		
Net Income	\$ .99	\$ .87
Weighted average number of common shares outstanding	416,605,836	418,545,428
-----		
Fully diluted earnings per share: (1)		
Net Income	\$ .97	\$ .85
Weighted average number of common shares outstanding	416,605,836	418,545,428
Common equivalent shares	6,471,512	6,082,097
	-----	-----
Average number of common and common equivalent shares outstanding	423,077,348	424,627,525

-----  
 Primary earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for each period. The calculation excludes the effect of common equivalent shares resulting from stock options using the treasury stock method as the effect would not be material.

Fully diluted earnings per share is computed based on the weighted average number of common shares and common equivalent shares outstanding for each period.

(1) This calculation is submitted in accordance with Regulation S-K Item 601(b)(11) although not required by APB Opinion No. 15 because it results in dilution of less than 3%.

## EXHIBIT 12

## MINNESOTA MINING AND MANUFACTURING COMPANY AND SUBSIDIARIES

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(Dollars in millions)  
(Unaudited)

	Three Months					
	Ended March 31, 1997	Year 1996	Year 1995	Year 1994	Year 1993	Year 1992
<b>EARNINGS</b>						
Income from continuing operations before income taxes and minority interest	\$677	\$2,479	\$2,168	\$2,011	\$1,851	\$1,779
Add:						
Interest on debt	23	79	102	70	39	61
Interest component of the ESOP benefit expense	8	34	37	39	41	42
Portion of rent under operating leases representative of the interest component	11	46	51	46	44	44
Less:						
Equity in undistributed income of 20-50% owned companies	1	--	1	2	--	(1)
<b>TOTAL EARNINGS AVAILABLE FOR FIXED CHARGES</b>	<b>\$718</b>	<b>\$2,638</b>	<b>\$2,357</b>	<b>\$2,164</b>	<b>\$1,975</b>	<b>\$1,927</b>
<b>FIXED CHARGES</b>						
Interest on debt	23	79	102	70	39	61
Interest component of the ESOP benefit expense	8	34	37	39	41	42
Portion of rent under operating leases representative of the interest component	11	46	51	46	44	44
<b>TOTAL FIXED CHARGES</b>	<b>\$ 42</b>	<b>\$ 159</b>	<b>\$ 190</b>	<b>\$ 155</b>	<b>\$ 124</b>	<b>\$ 147</b>
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>	<b>17.10</b>	<b>16.59</b>	<b>12.41</b>	<b>13.96</b>	<b>15.93</b>	<b>13.11</b>

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

We are aware that our report dated April 22, 1997 on our reviews of interim condensed consolidated financial information of Minnesota Mining and Manufacturing Company and Subsidiaries (the Company) for the three-month periods ended March 31, 1997 and 1996, and included in the Company's Form 10-Q for the quarter ended March 31, 1997, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 2-78422, 33-14791, 33-48690, 33-49842, 33-58763 and 33-58767), 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/ COOPERS & LYBRAND L.L.P.

COOPERS & LYBRAND L.L.P.

St. Paul, Minnesota  
April 22, 1997

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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.

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