

Q4 2008 Earnings Conference Call

Matt Ginter- Vice President, Investor Relations

Good morning, this is Matt Ginter, head of investor relations for 3M, and thanks for joining us today. As has been our practice, both our CEO, George Buckley, and CFO, Pat Campbell, will be addressing you today, and of course we will have time for your questions.

Before we begin, please take a moment to read the safe harbor statement on slide 2. During today's conference call, we will make certain predictive statements that reflect our current views and estimates about our future performance and financial results. These statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties.

Item 1A of our most recent forms 10K and 10Q lists some of the most important risk factors that could cause actual results to differ from our predictions.

So with that, let's begin by turning to slide number three, and I will turn the program over to George.

George W. Buckley- Chairman, President and CEO

Thanks Matt and good morning everyone.

The most important contribution we can make this morning is to give you some understanding of what we see happening in the market. I think it's important to tell you, to the best of our knowledge and belief, what we think might come next. Our explanation will tell you how we're thinking about the business conditions... and how we're managing the company through the tempest.

Pat will, of course, detail the quarter and year for you ... and I'll return with our outlook and more specifics about what we are doing to combat the effects of the market downturn which almost every company in the world sees today.

First, let's speak about the big picture. Ordinarily, the world's economies are partially out of phase ... and some are even out of synchronism. In normal times we might see Germany's economy growing while the US economy is shrinking or, perhaps, Japan is contracting while the US economy is expanding. The 4th quarter, however, was different from any pattern we've ever seen before, that is, the near synchronization of the world's economy in simultaneous contraction.

We did have one reporting segment with positive organic sales growth in Q4 and that was our health care business, and Safety and Security was relatively close. During times like these, it's great to have businesses like this in our portfolio. The most rapid slowdowns that we saw were in our electronics based businesses supplying components and consumables for phones, TVs and computers, all located in Asia. You've all seen what's happening to OEMs in that market. Automotive and telecoms also continued to weaken, as did residential housing. Overall, we saw all the classic signs one would expect at times like these: cancelled orders, big inventory corrections in the channel, long factory shutdowns, many extending well into January, layoffs and overall weak business conditions.

While weak business conditions, poor consumer confidence and the psychological fear factor made it worse, we believe the principal cause of the severe downturn was the shortage of credit to lubricate the wheels of global commerce. That fact effectively locked the cycles of the world's major economies into synchronism and into shrinking

mode. Under such conditions, 3M's geographic market diversity is less helpful than normal, though diversity of end markets still does. Obviously not all our end markets are shrinking at the same rate and not all have the same cyclic periodicity; in fact a few (HIS, Dental, Aerospace, Security Services) are still growing.

There are always three principal effects one sees at times like these. The first is that the rate of contraction in sales at wholesale is always a multiple of the rate of contraction in point-of-sale (POS) or retail. This happens as the channel tries to drain the excess inventory off as fast as possible, which it needs to do at a rate higher than its own POS shrinkage. This phenomenon is particularly acute in short cycle, high turn businesses such as electronics or retail.

In fast turning, short-cycle businesses, one would likely expect the contraction ratio I mentioned just now to be higher than in a slow turning longer cycle businesses. At wholesale to POS contraction ratio for the consolidated company is about 3, with some individual end markets being higher or lower as the case may be.

So the trick here is not to be deceived by a fall in wholesale sales of, say 15%, because the end market would likely have dropped by a much smaller number, say 5 - 7%. That's the number that will be reached after all the sales transients settle down. In a 100% efficient channel, flushing out the excess inventory would take about one inventory cycle to complete and, i.e. one turn or so. As a practical matter, most channels would be a little less efficient and the full correction would take a little longer to happen.

The second factor one nearly always sees in these cases is an overshoot in inventory as sales fall faster than the cuts in a company's manufacturing rates. This is because the sales data which a short cycle company receives is always later than the necessary corrective line rate actions it has to take. It is especially true in a company with long supply chains like ours where we have 2/3 of our sales internationally and 2/3 of our manufacturing in the US. The consequence is an overshoot of inventory, albeit a temporary one. This is not a fundamental problem, just the nature of a short cycle company. We're already all over that topic. Receivables are another thing to watch as the channel tries to conserve cash and push out its own payables stream. We saw all of these factors at work in the fourth quarter at 3M.

As inventory corrections are made, the third factor that appears is reduced factory absorption. Gross margins fall until the factory cost, end market demand and line rates all come into balance. We expect to see some of this latter factor at work in the 1st and 2nd quarters as we drive down inventory. But we should remember that, when the economy recovers, we will see the other and more positive side of this factory absorption curve as pipelines fill correspondingly faster than the POS growth.

The principal questions, of course, are how long and how deep the recession will be, and more importantly, what actions 3M is taking, not only to combat current conditions, but to emerge an even stronger company. I'll address the first point in a few minutes when I discuss our outlook. As to what 3M is doing, we've worked hard to get ahead of the recession. We actually began restructuring in the second quarter of last year as we saw the slowdown coming.

In the fourth quarter alone, we reduced over 2400 full-time positions worldwide, slightly higher than the number we shared with you in December. These job eliminations spanned all sectors and all geographies, but were particularly focused on those developed economies experiencing the most sales pressure. In addition, we have furloughed over [1000] factory workers until production volumes return to more normal levels. Contract workers are also being reduced to only those considered essential. At a minimum, these actions in total will save the company \$235 million in 2009.

Last October, the leadership team decided to defer merit pay increases in 2009 except in those cases where local laws prohibit it. That will save us over \$100 million annually. We are also amending our policy on banked vacation – effectively phasing it out – which will also save the company over \$100 million in each of the next two years.

In a tight economy, cash is always king. For 2009 we have already cut capital spending plans about a half a billion dollars, a cut of more than 30 percent. A substantial amount of the remaining spending is simply carryover from 2008 or for tooling needed for new products and continued operations. All expense spending is currently on a “need to do” only basis.

Also to preserve cash, we halted stock repurchases until the market offers more visibility... and are declining to offer extended credit terms to drive sales. You can be assured that we will continue to prudently run the business as conditions dictate.

That's a quick summary of where we're at... so I'll now turn it over to Pat... and then return for a discussion of where we're going.

Pat.

Patrick D. Campbell- Senior Vice President and CFO

Thanks George. And good morning everyone. Please turn to slide number 5.

These days its easy to get caught up in the short term given the current economic and credit market difficulties. But it is important to remember that we manage our businesses for long-term success. Therefore, I will begin today's discussion with a quick review of our full year 2008 results before I cover the fourth quarter. All information that I will present today will exclude special items, which are fully described in the attachment to today's press release.

The strength and consistency of our global portfolio delivered record annual sales of \$25.3 billion, or up 3.3 percent over last year. Excluding optical systems, which most of you know is going through a substantial business transition, sales increased 6.5 percent.

2008 gross margins declined 70 basis points versus last year, and were flat year-on-year excluding optical. This is a good result for the year considering the many challenges we faced, including record-high commodity prices and, of course, rapid volume declines in Q4. Full-year operating income was \$5.5 billion, about flat versus last year, or up a solid 9.2 percent excluding optical.

Our 2008 tax rate for the year was just under 31 percent, down almost a full point from 2007, and in-line with our full-year expectations. We have in fact reduced our tax rate for four consecutive years, from 32.5 percent in 2004 to now just below 31, and there is more room to improve.

Per-share earnings for 2008 were \$5.17, up 3.8 percent year-on-year, or up over 14 percent excluding optical.

Overall, 2008 was a very good but challenging year for 3M. We had many successes throughout the year, but we were also negatively impacted by the secular transition of our optical film business and the rapid economic decline later in the year.

Let's now turn our attention to fourth quarter results. Please turn to slide number 6.

Fourth-quarter sales were \$5.5 billion, down 11.2 percent versus last year, or down 8 percent excluding-optical.

Gross margins were lower by 1.8 percent, with 1.1 points of the decline attributed to optical. Lower capacity utilization was also a major factor as we adjusted production schedules in response to declining demand.

SG&A costs declined \$92 million year-on-year, or 7.3 percent, as we aggressively reduced general and administrative costs in the fourth quarter. Given the rapid decline in sales during the quarter, we also pared back sales and marketing costs in certain businesses.

We invested \$337 million in research and development in the quarter, or 6.1 percent to sales. This ratio was a little higher than last year's fourth quarter, although in absolute dollar terms we did take costs down by 5.6 percent. Our long-term commitment to R&D is unchanged, but in this economic environment we are closely scrutinizing all discretionary investments, including the labs.

Fourth-quarter operating margins were 17.7 percent, down about 3 points versus the prior year, or down 1.3 percent excluding optical.

You may have noticed in the attachments to today's press release that Corporate and Unallocated had operating income of \$34 million in the fourth quarter. As has been the case throughout 2008, the majority of this gain is due to lower year-on-year pension expense of \$29 million. Rather than allocate this benefit back to our businesses, we elected to record this expense reduction in Corporate and Unallocated, as this number has a tendency to swing on an annual basis.

Net interest expense was \$28 million, down \$5 million year-on-year, largely due to lower interest rates. Also, recall that in last year's fourth quarter we booked an \$8 million loss related to an impaired auction-rate security. There were no such adjustments in the current quarter.

Finally, as I previously mentioned, per-share earnings declined 18.5 percent to \$0.97.

Please turn to slide number 7, for a breakdown of our quarterly sales change.

Worldwide sales declined 11.2 percent, 5 points of which was due to currency. Sales in local currencies declined 6 percent, about equally shared between the US and international. Organic volumes declined 11 percent, which was in-line with our guidance on December 8th. A bright spot in the quarter was net selling prices, which rose 1.7 percent, our best performance in many years. Finally, acquisitions added just over 3 points to overall growth in the quarter.

The economy was certainly tough on many of our industrial-based businesses, but there were a couple of bright spots in the portfolio. Health Care, for example, delivered a strong 4.5 percent local-currency growth, and Safety, Security and Protection Services delivered over 13 percent, driven by the 2008 acquisition of Aearo Technologies.

I will talk more about sales in the business segment discussions.

Fourth-quarter U.S. sales declined 6 percent. Again, we saw outstanding growth in Safety, Security and Protection Services and Health Care, but overall growth was more than offset by sales declines in our other four segments.

International local-currency sales declined 6.5 percent as organic volumes were down 10 percent, selling prices rose 1 percent and acquisitions added 2.6 points to growth.

Excluding optical, international local-currency sales declined 80 basis points. Organic volumes were down 6 percent, which was almost entirely offset by the combination of selling prices and acquisitions, which added 2.2 percent and 3 percent to growth, respectively.

In local-currency terms, sales increased by 9 percent in Latin America and 3 percent in Canada, while Europe declined 1.7 percent.

Local-currency sales declined by 17 percent in Asia Pacific, 12 percent of which was due to optical systems.

Please turn to slide 8 for a review of the balance sheet and cash flow metrics for the fourth-quarter.

Free cash flow for the quarter was \$662 million versus \$1.3 billion in the fourth quarter of 2007. Approximately half of the decline is due to lower operating results with the remainder due to higher international pension contributions, capital expenditures and cash tax payments.

Year-end working capital turns were 4.5, a decline of 0.8 turns year-on-year and 0.5 turns sequentially. These declines were primarily driven by the rapid slowdown in business activity along with customers drawing down inventories in many industries faster than we could adjust our production schedules.

Capital expenditures came in at \$463 million, up \$72 million year-on-year and \$87 million sequentially. Full year 2008 capital expenditures were \$1.471 billion, which was slightly above our plan. This increase, however, is all related to timing, and is offset in our cap ex outlook for 2009, which is down greater than 30%.

Dividends were up slightly versus last year, to \$346 million. Share repurchases were light this quarter at \$34 million, reflecting our desire to conserve cash in light of the current economic and credit environments. We have halted our program until the clouds clear.

Please now turn to slide number 9 where I will recap the status of our global pension and post-retirement benefit plans.

We all know how tough 2008 was on investors. Since year-end 2007, the funded status of our global pension and post-retirement plans has moved from 100% to 85%. Our US plans' funded status stood at 89 percent with the qualified plan at 92 percent at year-end 2008, and our international plans finished the year at 75 percent.

I want to commend our pension management team for delivering 2008 U.S. plan asset returns of negative 13.6 percent, much better than the overall market, and a remarkable performance considering the difficult market environment. The team drove this result via an effective hedging strategy on both the interest rate and equity fronts.

From an earnings standpoint, we expect a 7 cent per-share headwind from pension and post-retirement benefits expense in 2009 vs. 2008.

The changes in funded status of our plans significantly impacted several lines of our balance sheet at year end. These adjustments resulted in a decrease to stockholder's equity of \$2.3 billion. For further details, please refer to note (j) in the attachments to today's press release.

Looking ahead, our return on asset assumption for the U.S. plan remained unchanged at 8.5 percent while the discount rate increased 14 basis points from 2008 to 6.14 percent. For 2009, we estimate that we will inject additional cash into the worldwide plans in the range of \$600 million to \$850 million versus the \$400 million we did in 2008.

Now let's examine the fourth-quarter performance for each of our segments, beginning with our largest segment, Industrial and Transportation.. Please turn to slide 10.

Industrial and Transportation has been among those most affected by the economy, particularly in big industries such as automotive and electronics. Sales for the quarter were \$1.7 billion, an 11.3 percent decline versus 2007. Local-currency sales were down 6.3 percent, including a positive 3.2 percent impact from acquisitions. Operating income declined 33 percent to \$239 million, with margins dipping to 14.3 percent for the quarter. Full-year sales looked far more positive, with sales up 7.6 percent to \$7.8 billion, and operating profit likewise increased 2.4 percent to \$1.5 billion. Strong operational discipline was the key to protecting the bottom line as full year operating margins held relatively steady at just under 20 percent.

Businesses that are heavily linked to automotive manufacturing, namely our auto OEM and 3M Dyneon, saw local-currency declines of 20 percent-plus in the quarter, as did businesses selling to the electronics industry, such as high-tech tapes and adhesives. Most other areas experienced single-digit contractions. A bright spot in the quarter was our automotive aftermarket business, which drove solid double-digit local-currency growth, largely driven by the recent acquisitions of Meguiars and Bondo. These are two outstanding brands in the professional body shop trade, and a perfect fit for 3M.

Geographically speaking, Q4 local-currency sales were down in all regions, with the largest declines in the US and Asia Pacific, followed by Europe. Local-currency sales were about flat in Latin America.

I would characterize 2008 as a tale of two distinct chapters for Industrial and Transportation. The first was January through October, characterized by outstanding top-and bottom-line growth across most of the portfolio; the second chapter was the combined months of November and December, where by and large our customers brought their operations to screeching halt.

We have effectively reinvented this segment over a number of years. We expect that the strength of our new products, supply chain improvements and expansion into areas like energy, aerospace, filtration and now renewable energy, will help to carry us through some very challenging times.

Now please turn to slide 11.

Health Care completed an outstanding 2008 with an impressive fourth quarter. Sales topped \$1 billion in the quarter, despite a nearly 7 point penalty from currency. In local-currency terms, sales rose an impressive 4.5 percent, including 2.2 percent from acquisitions. Likewise, margins increased nearly 2 percent to 28.9 percent, the highest in the company, as profits improved 4.5 percent to \$298 million. Our health care team pulled this off in a highly competitive environment where the 3M brand and quality is clearly making a difference. Doctors, hospitals and other medical service providers continue to show a strong preference for our products.

During the quarter, we saw solid growth in the medical products area, specifically in our core infection prevention and skin and wound care products. To build for the future, we also entered into new licensing agreements within our drug delivery systems business, which expanded 3M's extensive inhalation technology platforms for our many partners in the pharmaceutical and biotech industries.

Looking geographically, the US and Asia Pacific led sales growth, with Latin America showing remarkable operational discipline to drive a double-digit increase in operating income.

For the full year, Health Care's results were outstanding, with sales increasing 8.2 percent to \$4.3 billion and profits up 13 percent year-over-year to \$1.2 billion. Operating income margins came in at 28.7 percent. Local-currency sales were up 6.8 percent, largely organic, but also including 1.7 percent from acquisitions. In 2008, we closed a number of important bolt-on acquisitions in Health Care, including TOP-Service, a German orthodontic technology and services company offering a digital lingual solution; Imtec, an Oklahoma-based manufacturer of dental implants and cone beam computed tomography; and Solumed, a Quebec-based developer and marketer of leading-edge medical products designed to prevent infections in operating rooms and hospitals.

Full-year sales were led by double-digit increases in our medical, dental and orthodontics businesses. Sales grew in all geographies, led by double-digit gains in Asia Pacific and Latin America.

Please turn to slide 12 for a recap of our Safety, Security and Protection Services segment.

Sales in this business rose 2.9 percent in the fourth quarter to \$769 million. Local-currency sales increased by 13 percent, driven by our 2008 acquisition of Aearo Technologies. Aearo contributed approximately 16 points of growth in the quarter. The more we know about this acquisition, the more we like it, as Aearo has proven to be a great fit with 3M. If you are not familiar, for decades we held the global leadership position in respiratory protection, but had only forged a small position in hearing protection. Aearo is the global leader in hearing protection products, so the synergies are obvious.

On a geographic basis, sales for the quarter were strongest in the US, followed by the Asia Pacific region.

Operating income for the quarter declined 3.5 percent, and margins dipped about a point to 16.7 percent

Full-year sales increased 19 percent. In local-currency terms, sales rose 18 percent, comprised of 14 points from acquisitions and 2 points each from organic volumes and selling price increases. Divestitures were a 2 point drag on year-to-date sales.

Worldwide operating income was up 21 percent to \$774 million and margins increased 40 basis points to a robust 21.3 percent.

Now please turn to slide 13, for details covering our Consumer and Office business.

Sales declined 11.2 percent to \$765 million in the fourth quarter. Local currency sales were down 6.5 percent and currency impacts hurt sales by just under 5 points.

Over ½ of our sales in consumer and office are generated in the United States, so let's start there. In our US business, sales declined about 13 percent. By far the biggest contributor to this decline was the retail and wholesale office channel, as the combination of massive office worker layoffs and declines in store traffic have significantly impacted sales.

Our businesses serving other US retail channels performed well in the fourth quarter despite this rough economic environment. Sales of home care products, such as Scotch-Brite™ scrubbers, were about flat in the quarter, and sales to the do-it-yourself retail channel were down by low single-digits.

Elsewhere around the globe, our Consumer and Office business drove positive local-currency sales growth in both Latin America and Asia Pacific, but overall growth was muted by declines in Europe.

Worldwide operating profits declined 24 percent with operating income margins of 15.5 percent.

For the full year, sales grew just over 1 percent. Operating income declined 1.5 percent and margins were just shy of 20 percent, an outstanding result all things considered.

This business has done a fabulous job of creating new products and designing new programs and planograms with their large US customers in order to mitigate what is a very tough end-market situation.

Please turn to slide 14.

Fourth-quarter sales in Display and Graphics were \$685 million. Sales declined 28 percent, or about 8 percent excluding optical, which most of you know is in the midst of transition from a hyper-growth business a few years ago to one that is more commoditized in nature. Optical film demand declined in November and December, as most manufacturers and retailers throttled back hard on orders. This rapid end-market contraction and inventory reduction in portions of the channel drove sales declines in optical systems of 48 percent, not unlike many other suppliers that sell into this industry.

Traffic safety systems posted fourth-quarter local-currency sales growth of nearly 3 percent, including 2.3 percent from the fourth quarter acquisition of a finished license plate provider in France. This acquisition broadens our vehicle registration solutions offering beyond reflective sheeting to finished license plates. And finally, the commercial graphics business experienced mid-single digit local-currency declines as media and advertising budgets have been cut across the globe.

Operating margins in Display and Graphics were just over 10 percent for the quarter.

For the full year, sales in this business declined 16.6 percent and profits dropped 44 percent to \$622 million. Operating margins were over 19 percent for the year. We have taken aggressive action throughout 2008 to reduce our cost structure throughout Display and Graphics, with particular focus on our optical systems business. We expect these actions to generate 2009 cost savings of \$45 million.

On the new product front, 3M's MPRO, an ultra compact, LED-based projection engine for business and entertainment use, continued to gain sales momentum from recent national media attention, including Popular Science, MSNBC, FOX and National Public Radio. The next generation engine, MM200 debuted at the Consumer Electronic Show in January of this year and will be available for sale this year. And in LCD monitors, we continue to champion the energy saving story with our high-performance films; we are making good progress, but are still in the early stages.

Finally, please turn to slide 15 for an overview of results in the Electro and Communications business.

The most important markets served by this business are consumer electronics and telecommunications, along with the global power utility industry. Clearly the weak holiday season experienced by consumer electronics retailers had huge impact on our sales. Likewise, our telecom customers continued to cut back on new capacity and upgrades of existing equipment. We in fact had a large number of equipment orders cancelled during the fourth quarter.

As a result of this end-market contraction, sales in Electro and Communications declined by 15 percent in the fourth quarter. Sales in local currency decreased about 12 percent, and currency impacts hurt sales by 3 percent.

Profits declined almost 31 percent, and margins were 14.5 percent.

On a more positive note, we celebrated another win in our electrical markets business, as we sold another installation of our aluminum composite conductor to an energy service provider in Brazil. So things continue to progress for this new 3M solution in the electrical transmission space.

For 2008, we increased both sales and profits in Electro and Communications by about 1 percent, to \$2.8 billion and \$538 million, respectively. Operating margins held steady versus 2007 levels at 19.3 percent.

That concludes my formal comments, so now I will turn the program over to George.

George W. Buckley- Chairman, President and CEO

Thank you very much, Pat.

Let me now answer the question I posed earlier -- how long and deep will the recession be and what are the implications for 3M?

It would be very easy right now for me to evade the question of what is going to happen in the economy and hide behind a curtain of uncertainty and volatility. But I'm not going to do that because I don't think it's helpful. While I'll try to keep out of the business of being an economist, I think I have an obligation to give you the best forward looking view I can at this time, balancing all the factors we know about today. But please recognize that this is a forward view.

If we believe the economy is deterministic, in the absence of clear visibility from more complex models, a simple cyclic analysis reveals quite a lot about what's happening. The answers it gives may not be precise, but we think it can bring a directionally correct answer for our planning purposes.

In the interest of time, I'll pass over the details of the "how" and give you the 30,000' level answers. The analysis suggests that the US economy will continue to contract through the end of the 2nd quarter of 2009, possibly marginally later. So things really will get worse before they get better. If our methodology holds, we will see sequential quarter on quarter growth in the 3rd quarter of 2009 onwards, with the US returning to YOY growth at the end of the 4th quarter.

So, how will this summary economic picture affect 3M?

The model we are using predicts a worse global economy in the 1st quarter of 09 than the 4th of 08. It suggests underlying organic sales volume will be lower in Q1 than the 4th quarter for two reasons.

The first and simplest reason, is that we had only two months of weak sales in Q4, while we expect a full three in Q1. Second, the continued softening of the economy, if correct, will cause organic volume to be a slightly worse position than they were in the 4th quarter of 2008. On this basis, we need to recognize that the 1st quarter is going to be the toughest one of this recession for 3M. I hope I'm wrong, but we're approaching the costs, the forecasting and the control elements of our business with this assumption in mind.

Moving on, end markets in the 2nd quarter should be slightly weaker than the 1st quarter; but even allowing for this, 3M sales should recover a little in Q2 as the inventory correction transients begin to bleed off. This presumes that we have a channel that can work reasonably efficiently to clear the excess inventory and one which acts rationally in the face of many unknowns.

The 3rd quarter should produce sequential QOQ growth economic growth and gather momentum into the 4th. At the end of the 4th quarter or so, the US economy should return to positive YOY growth. The 4th quarter for us will also see the benefit of easier YOY comparisons on both volume and on currency. But overall, deleveraging will pull down earnings somewhat more than sales during the year.

So for 2009 in total, the summary of these dynamics produces growth rates in the middle of our announced range. So to reiterate, we are planning that organic volumes will decline in the range of 5 to 9% for the year. This is a couple of points below what we signaled in December, and the difference largely attributable to the dramatic decline in electronics and weaker than expected business conditions in both Latin America and Asia, generally.

These volume levels place EPS in the band \$4.30 to \$4.70, down about 20 cents from our estimates in early December... and in line with the current consensus.

Please know that we are working hard to ensure that 3M will emerge a much stronger company and after rebuilding of our core in these past few years, we are taking share in most every area. Paraphrasing George Bernard Shaw, "the best way to predict the future is to create it."

And toward that end, as Pat outlined, we are continuing to invest significantly in R&D. Innovation has always been our not so secret competitive deadly weapon and nothing has changed there. We think it even more important in these times to differentiate ourselves from the competition through great products and great service... and we expect to earn new business as customers turn to proven suppliers with the demonstrated capability to deliver in good times and in bad. It also provides the launch platform for growth as the economy recovers. We will of course prioritize our R&D and other investments properly, and we will emerge from the downturn a leaner and more powerful company.

Overall, I am very optimistic about our prospects for sustained success. The story of our company is not only about Q1 or even about 2009. We significantly strengthened our company strategically in 2008 and we intend to continue that direction in 2009 and well beyond. Planning conservatively, taking decisive action, and driving innovation around the world continues to be our mantra.

So with those remarks, I'd like to turn the call over to you for any questions you may have.

