

ECOLAB INC  
Form 10-K  
February 28, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended December 31, 2011

Commission File No. 1-9328

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**ECOLAB INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

**41-0231510**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**370 Wabasha Street North, St. Paul, Minnesota**

**55102**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **1-800-232-6522**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$1.00 par value
Preferred Stock Purchase Rights

Name of each exchange on which registered
New York Stock Exchange, Inc.
New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ YES ☐ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ YES ☒ NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ YES ☐ NO

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.

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ YES ☒ NO

Aggregate market value of voting and non-voting common equity held by non-affiliates of registrant on June 30, 2011: \$ 13,036,575,000 (see Item 12, under Part III hereof), based on a closing price of registrant's Common Stock of \$56.38 per share.

The number of shares of registrant's Common Stock, par value \$1.00 per share, outstanding as of January 31, 2012: 291,269,964 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2011 (hereinafter referred to as "Annual Report") are incorporated by reference into Parts I and II.
  2. Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 3, 2012 and to be filed within 120 days after the registrant's fiscal year ended December 31, 2011 (hereinafter referred to as "Proxy Statement") are incorporated by reference into Part III.
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**PART I**

Except where the context otherwise requires, references in this Form 10-K to Ecolab, Company, we and our are to Ecolab Inc. and its subsidiaries, collectively.

**Forward-Looking Statements**

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operation incorporated by reference into Item 7 of this Form 10-K, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning items such as demographic trends and their impact on end-markets; focus areas and priorities; benefits from planned initiatives; margin compression from Nalco mix; outlook for growth; end-market trends and long-term potential; sales and earnings growth; special (gains) and charges; restructuring activity, timing and charges and associated cost savings; benefits of and synergies from the Nalco merger; bad debt experiences and customer credit worthiness; disputes, claims and litigation; environmental contingencies; returns on pension plan assets; currency gains and losses; investments; cash flow and uses for cash; business acquisitions; dividends; share repurchases, including the accelerated share repurchase program; debt repayments; pension and post-retirement medical contributions and benefit payments; liquidity requirements and borrowing methods; impact of credit rating downgrade; finalization of purchase accounting; new accounting pronouncements; tax deductibility of goodwill; non performance of counterparties; hedged transactions; and income taxes, including loss carry forwards, unrecognized tax benefits and uncertain tax positions. Without limiting the foregoing, words or phrases such as will likely result, are expected to, will continue, is anticipated, we believe, we expect, estimate, (including the negative or variations thereof) or similar terminology, generally identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. These statements, which represent the Company's expectations or beliefs concerning various future events, are based on current expectations that involve a number of risks and uncertainties that could cause actual results to differ materially from those of such forward-looking statements. We caution that undue reliance should not be placed on such forward-looking statements, which speak only as of the date made. Some of the factors which could cause results to differ from those expressed in any forward-looking statement are set forth under Item 1A of this Form 10-K, entitled Risk Factors.

**Item 1. Business.**

**Item 1(a) General Development of Business.**

Ecolab was incorporated as a Delaware corporation in 1924. Our fiscal year is the calendar year ending December 31.

During 2011, we took the following actions to continue to build our business:

- In December 2010, subsequent to our 2010 year-end for international operations, we completed the purchase of selected assets of the Cleantec business of Campbell Brothers Ltd. in Australia. Cleantec is a developer, manufacturer and marketer of cleaning and hygiene products principally within the Australian food and beverage processing, food service, hospitality and commercial laundry markets. The total purchase

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price was approximately \$43 million, of which \$2 million remains payable and was placed in an escrow account for indemnification purposes. The business, which had annual sales of approximately \$55 million, became part of our International segment during the first quarter of 2011.

- In February 2011, following the implementation of new business systems in Europe, we commenced a comprehensive plan to substantially improve the efficiency and effectiveness of our European business, sharpen its competitiveness and accelerate its growth and profitability.
- In March 2011, we purchased the assets of O.R. Solutions, Inc., a privately-held developer and

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marketer of surgical fluid warming and cooling systems in the U.S. The total purchase price was approximately \$260 million, of which \$26 million remains payable and was placed in an escrow account for indemnification purposes. The business, which had annual sales of approximately \$55 million, became part of our U.S. Cleaning & Sanitizing segment during the first quarter of 2011.

- On December 1, 2011, we completed the merger announced in July with Nalco Holding Company ( Nalco ). Based in Naperville, Illinois, Nalco is the world's leading water treatment and process improvement company, offering water management sustainability services focused on industrial, energy and institutional market segments. Nalco sales were \$4.3 billion in 2010. We issued 68.3 million shares of Ecolab stock and paid \$1.6 billion in cash to Nalco shareholders in the merger. The Nalco business will be operated under three new reportable segments: Water Services, Paper Services and Energy Services.

Subsequent to our 2011 year-end, significant developments included:

- In December 2011, following our fiscal year-end for international operations, we completed the acquisition of Esoform, the largest independent Italian healthcare manufacturer focused on infection prevention and personal care. Based outside of Venice, Italy, Esoform had annual sales of approximately \$12 million, and will be included in our International reportable segment beginning in 2012.
- Also in December 2011, we completed the acquisition of the InsetCenter pest elimination business in Brazil. Annual sales of the acquired business are approximately \$6 million. The business operations and staff will be integrated with our existing Brazil Pest Elimination business, and will be included in our International reportable segment beginning in 2012.
- In January 2012, we redeemed \$1.7 billion of Nalco outstanding senior notes.
- Also in January 2012, we announced that we are undertaking a restructuring and other cost-saving actions in connection with the integration of the Nalco business, which will include a reduction of our global workforce and the streamlining of our supply chain footprint. We expect total charges relating to these actions to be approximately \$180 million and for the restructuring plan to be completed by the end of 2013.

## **Item 1(b) Financial Information About Operating Segments.**

The financial information about reportable segments appearing under the heading "Operating Segments" in Note 16, located on pages 49 to 51 of the Annual Report, is incorporated herein by reference.

## **Item 1(c) Narrative Description of Business.**

**General:** On December 1, 2011, Ecolab completed the Nalco merger creating the global leader in water, hygiene and energy technologies and services that provide and protect clean water, safe food, abundant energy and healthy environments. The combined company develops and markets premium programs, products and services for the hospitality, foodservice, healthcare, industrial and energy markets in more than 160 countries. Our cleaning and sanitizing programs and products, pest elimination services, and equipment maintenance and repair services support customers in the foodservice, food and beverage processing, hospitality, healthcare, government and education, retail, textile care, commercial facilities management and vehicle wash sectors. Our technologies, chemicals and services are also used in water treatment, pollution control, energy conservation, oil production and refining, steelmaking, papermaking, mining, and other industrial processes.

The following description of our business is based upon six reportable segments as reported in our consolidated financial statements for the year ended December 31, 2011, as incorporated by reference into



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Part II of this Form 10-K. Prior to the Nalco merger, we aggregated our twelve operating units into three reportable segments: U.S. Cleaning & Sanitizing, U.S. Other Services and International. Effective with the Nalco merger, we continue to aggregate the legacy Ecolab operating units into the same three reportable segments and have added Nalco's three legacy operating units (Water Services, Paper Services and Energy Services) as reportable segments to our reporting structure.

We pursue a "Circle the Customer" "Circle the Globe" strategy by providing an array of programs, products and services which serve our customer base, and do so on a global basis to meet the needs of our customers' various operations around the world. Through this strategy and our varied product and service mix, one customer may utilize the products or services of several of our reportable segments.

**LEGACY ECOLAB**

**United States Cleaning & Sanitizing Segment**

Our United States Cleaning & Sanitizing segment is comprised of six operating units which provide cleaning and sanitizing products and programs to United States markets.

***Institutional:*** Our Institutional Division sells specialized cleaners and sanitizers for washing dishes, glassware, flatware, foodservice utensils and kitchen equipment ( "warewashing" ), for on premise laundries (typically used by hotel and healthcare customers) and for general housekeeping functions, as well as food safety products and equipment, water filters, dishwasher racks and related kitchen sundries to the foodservice, lodging, educational and healthcare industries. The Institutional Division also provides pool and spa treatment programs for hospitality and other commercial customers, as well as a broad range of janitorial cleaning and floor care products and programs to customers in hospitality, healthcare and commercial facilities. The Institutional Division develops various chemical dispensing systems which are used by our customers to efficiently and safely dispense our cleaners and sanitizers. In addition, the Institutional Division markets a lease program comprised of energy-efficient dishwashing machines, detergents, rinse additives and sanitizers, including full machine maintenance.

Our Institutional Division sells its products and programs primarily through Company-employed field sales personnel. Corporate account sales personnel establish relationships and negotiate contracts with larger multi-unit or "chain" customers. We also utilize independent, third-party foodservice, broad-line and janitorial distributors to provide logistics to end customers for accounts that prefer to purchase through these distributors. Many of these distributors also participate in marketing our product and service offerings to the end customers. Through our Company-employed field sales and service personnel, we generally provide the same customer support to end-use customers supplied by these distributors as we do to direct customers.

We believe that we are the leading supplier of chemical warewashing products and programs to institutions in the United States.

***Food & Beverage:*** Our Food & Beverage Division addresses cleaning and sanitation at the beginning of the food chain to facilitate the processing of products for human consumption. The Food & Beverage Division provides detergents, cleaners, sanitizers, lubricants and animal health products, as well as cleaning systems, electronic dispensers and chemical injectors for the application of chemical products, primarily to

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dairy plants, dairy farms, breweries, soft-drink bottling plants, and meat, poultry and other food processors. The Food & Beverage Division is also a leading developer and marketer of antimicrobial products used in direct contact with meat, poultry, seafood and produce during processing in order to reduce microbial contamination. The Food & Beverage Division also designs, engineers and installs CIP ( clean-in-place ) process control systems and facility cleaning systems for its customer base. Products for use on farms are sold through dealers and independent, third-party distributors, while products for use in processing facilities are sold primarily by our corporate account and field sales employees.

We believe that we are one of the leading suppliers of cleaning and sanitizing products to the dairy plant, dairy farm, food, meat and poultry, and beverage/brewery processor industries in the United States.

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**Kay:** Our Kay business unit supplies cleaning and sanitizing chemical products and related items primarily to regional, national and international quick service restaurant (QSR) chains and to regional and national food retailers (i.e., supermarkets and grocery stores). Its products include specialty and general purpose hard surface cleaners, degreasers, sanitizers, polishes, hand care products and assorted cleaning tools and equipment which are primarily sold under the Kay and Ecolab brand names. Kay's cleaning and sanitation programs are customized to meet the needs of the market segments it serves and are designed to provide highly effective cleaning performance, promote food safety, reduce labor costs and enhance user and guest safety. A number of product dispensing options are available for products in the core product range. Kay supports its product sales with employee training programs and technical support designed to meet the special needs of its customers.

Both Kay's QSR business and its food retail business utilize a corporate account sales force which establishes relationships and negotiates contracts with customers at the corporate headquarters and regional office levels (and, in the QSR market segment, at the franchisee level) and a field sales force which provides program support at the individual restaurant or store level. Customers in the QSR market segment are primarily supplied through third party distributors while most food retail customers utilize their own distribution networks.

We believe that Kay is the leading supplier of chemical cleaning and sanitizing products to the QSR market segment and a leading supplier of chemical cleaning and sanitizing products to the food retail market segment in the United States. While Kay's customer base has grown over the years, Kay's business remains largely dependent upon a limited number of major QSR chains and franchisees and large food retail customers.

**Healthcare:** Our Healthcare Division provides infection prevention and other healthcare related offerings to acute care hospitals, surgery centers, dental offices and veterinary clinics. The Healthcare Division's proprietary infection prevention products (hand hygiene, hard surface disinfectants, instrument cleaners, patient drapes, fluid control products, equipment drapes and surgical fluid, warming and cooling systems) are sold primarily under the Ecolab and Microtek brand names to various departments within the acute care environment (Infection Control, Environmental Services, Central Sterile and Operating Room). The Healthcare Division's Microtek Medical business is a leader in niche branded specialty surgical drapes and fluid control products. The Healthcare Division's recently acquired OR Solutions business is a leading developer and marketer of surgical fluid warming and cooling systems. The Healthcare Division sells its products and programs primarily through Company-employed field sales personnel but also sells through healthcare distributors.

**Textile Care:** Our Textile Care Division provides chemical laundry products and proprietary dispensing systems, as well as related programs, to large industrial and commercial laundries. Typically these customers include free-standing laundry plants used by institutions such as hotels, restaurants and healthcare facilities as well as industrial and textile rental laundries. Products and programs include laundry cleaning and specialty products, related dispensing equipment, plus water and energy management which are marketed primarily through Company-employed field sales personnel and, to a lesser extent, through independent, third-party distributors. The Textile Care Division's programs are designed to meet our customers' needs for exceptional cleaning, while extending the useful life of linen and reducing the customers' overall operating cost.

**Vehicle Care:** Our Vehicle Care Division provides vehicle appearance products which include soaps, polishes, sealants, wheel and tire treatments and air fresheners. The Vehicle Care Division sells to vehicle rental, fleet and consumer car wash and detail operations using brands that include Blue Coral®, Black Magic® and Rain-X®.

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**United States Other Services Segment**

Our United States Other Services segment is comprised of two operating units: Pest Elimination and Equipment Care (formerly GCS Service). In general, these businesses provide service which can augment or extend our product offering to our business customers as a part of our Circle the Customer approach and, in particular, by enhancing our food safety capabilities.

***Pest Elimination:*** Our Pest Elimination Division provides services designed to detect, eliminate and prevent pests, such as rodents and insects, in restaurants, food and beverage processors, educational and healthcare facilities, hotels, quick service restaurant and grocery operations and other institutional and commercial customers. The services of the Pest Elimination Division are sold and performed by Company-employed field sales and service personnel. In addition, through our EcoSure Food Safety Management business, we provide customized on-site evaluations, training and quality assurance services to foodservice operations.

***Equipment Care:*** Our Equipment Care Division provides equipment repair and maintenance services for the commercial food service industry. Repair services are offered for in-warranty repair, acting as the manufacturer's authorized service agent, as well as after warranty repair. In addition, Equipment Care operates as a parts distributor to repair service companies and end-use customers.

**International Segment**

Our legacy Ecolab businesses directly operate in 74 countries outside of the United States through wholly-owned subsidiaries or, in the case of Venezuela, through a joint venture with a local partner. In other countries, selected products are sold by our export operations to distributors, agents or licensees, although the volume of those sales is not significant in terms of our overall revenues. Our largest International operations are located in Europe, Asia Pacific, Latin America and Canada, with smaller operations in Africa and the Middle East.

In general, our International businesses are similar to those conducted in the United States but are managed on a geographic basis. The businesses which are similar to the United States Institutional and Food & Beverage businesses are the largest businesses in our International operations. They are conducted in virtually all of our International locations and, compared to the United States, constitute a larger portion of the overall business. Healthcare and Textile Care are also meaningful businesses in our International operations, particularly in Europe. Kay has sales in a number of International locations. A significant portion of Kay's international sales are to international units of United States-based quick service restaurant chains. Consequently, a substantial portion of Kay's international sales are made either to domestic or internationally-located third-party distributors who serve these chains.

Our Pest Elimination business continues to expand its geographic coverage. We operate this business in various countries in Asia Pacific, Western Europe, Latin America and South Africa, with the largest operations in France and the United Kingdom.

Our other legacy Ecolab businesses are conducted less extensively internationally. However, in general, most of the principal businesses conducted in the United States are also operated in Canada.

International businesses are subject to the usual risks of foreign operations, including possible changes in trade and foreign investment laws, international business laws and regulations, tax laws, currency exchange rates and economic and political conditions abroad. The profitability of our International operations has historically been lower than the profitability of our businesses in the United States, due to (i) the smaller scale of International operations where many operating locations are smaller in size, (ii) the additional cost of operating in numerous and diverse foreign jurisdictions and (iii) higher costs of importing certain raw materials and finished goods in some regions. Proportionately larger investments in sales, technical support and administrative personnel are also necessary in order to facilitate the growth of our International operations.

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**LEGACY NALCO**

**Water Services and Paper Services Segments**

Our Water and Process Services business encompasses two reportable segments – Water Services, which focuses on customers across industrial and institutional markets, and Paper Services, serving the pulp and paper industries. Within both segments, we provide water and process applications aimed at combining environmental benefits with economic gains for our customers. Typically, water savings, energy savings, maintenance and capital expenditure avoidance are among the primary sources of value to our customers, with product quality and production enhancement improvements also providing a key differentiating feature for many of our offerings.

Our offerings are organized according to the markets we serve so we can address the unique drivers faced by each market. We serve customers in the aerospace, chemical, pharmaceutical, mining and primary metals, power, food and beverage, medium and light manufacturing and pulp and papermaking industries as well as institutional clients such as hospitals, universities, commercial buildings and hotels. We provide integrated solutions to complex issues for our customers. These solutions are often adapted on-site by our technical sales professionals, and our sales teams are supported by a variety of innovative service offerings. Our on-site experts, industry technical consultants and researchers develop appropriate solutions for a broad range of customer requirements, such as single process optimization, system-wide program implementation, troubleshooting or increasing efficiencies. We provide numerous plant, process and application audits and surveys in water, energy or paper processing. We offer consulting for all water use and discharge areas and make recommendations for improvements, cost reductions or efficiency improvements through our Advanced Recycle Technology programs.

Within our Water Services segment, our innovative treatment of cooling water, boiler water, influent, and wastewater, along with practical solutions for process improvements and pollutant control, create benefits for our customers. Typically, these benefits are measured by reductions in total costs of operation and capital expenditure avoidance.

Our Paper Services segment offers a comprehensive portfolio of programs that are used in all principal steps of the papermaking process and across all grades of paper, including graphic grades, board and packaging, and tissue and towel.

We have typically served our largest customers in Water and Process Services for 15 years or longer. Our offerings are sold primarily by our field sales employees.

We believe that we have the leading market position among suppliers of products and services for chemical treatment applications for water and wastewater and that we are one of the leading suppliers of water treatment products and process aids to the pulp and papermaking industry.

***Water Treatment Applications:*** Our water treatment capabilities are applied across a broad array of industries, including those covered by our various industry focused business units. The following descriptions include water treatment applications used across all of our segments.

*Cooling Water Applications.* Our cooling water treatment programs are designed to control the main problems associated with cooling water systems – corrosion, scale and microbial fouling and contamination – in open recirculating, once-through and closed systems. Our 3D TRASAR® technology for cooling water is the world’s first automated system for simultaneous control of corrosion, scale and microbial fouling and contamination.

*Boiler Water Applications.* Corrosion and scale buildup are the most common problems addressed by our boiler water treatment programs. We have helped our customers overcome various boiler system challenges by providing integrated chemical solutions, process improvements and mechanical component modifications

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to optimize boiler performance. Our 3D TRASAR technology for boilers uses unique sensors such as the Nalco Corrosion Stress Monitor and is the only such offering available in the industry.

*Raw Water/Potable Water Preparation.* Our programs assist customers making potable water or water for plant processes by optimizing the performance of treatment chemicals and equipment in order to minimize costs and maximize return on investment.

*Wastewater Applications.* Our wastewater products and programs focus on improving overall plant economics, addressing compliance issues, optimizing equipment efficiency and improving operator capabilities and effectiveness. Nalco takes a holistic approach to integrated water system management, we identify innovative ways to isolate and treat particular waste streams. We combine practical engineering approaches and hands-on knowledge of system operations to design, build, operate and/or maintain the optimal reuse solution for each application and customer.

*Water Reuse and Recycling.* We have proprietary knowledge and tools to increase customers' awareness of water usage in either an individual facility or across several facilities. Additionally, we effectively document best practices across several regions and industries to benchmark consumption and also to identify key areas for conserving water and energy.

***Pulp and Papermaking Applications:***

*Pulp Applications.* Our programs maximize process efficiency and increase pulp cleanliness and brightness in bleaching operations, as well as predict and monitor scaling potential utilizing on-line monitoring to design effective treatment programs and avoid costly failures.

*Paper Applications.* Our paper process applications focus on the key business drivers that are critical to the success of our customers' businesses. We integrate the entire papermaking process through mechanical, operational and chemical means to concentrate specifically on what our customers need to succeed in their market segments and improve their overall operational efficiency. Advanced sensing, monitoring and automation combine with innovative chemistries and detailed process knowledge to provide a broad range of customer solutions.

**Energy Services Segment**

Our Energy Services Division provides on-site, technology-driven solutions to the global drilling, oil and gas production, refining, and petrochemical industries. In addition to recovery, production and process enhancements, we deliver a full range of water treatment offerings to refineries and petrochemical plants. Our upstream process applications improve oil and gas recovery and production, extend production equipment life and decrease operating costs through services that include scale, paraffin and corrosion control, oil and water separation, and gas hydrate management solutions. Our downstream process applications increase refinery and petrochemical plant efficiency and the useful life of customer assets, while improving refined and petrochemical product quality and yields. We continue to emphasize safety and environmental leadership in our product development and implementation efforts. Our customers include nearly all of the largest publicly traded oil companies. Our Energy Services offerings are sold primarily by our corporate account and field sales employees.



The Energy Services Division is divided into an Upstream group composed of our Adomite, Oil Field Chemicals and Enhanced Oil Recovery businesses and a Downstream refinery and petrochemical processing service business. We believe that our Energy Services Division enjoys a leading market position in the markets it serves.

***Well Stimulation and Completion:*** Our Adomite group offers a range of product solutions specifically designed to enhance performance even in the most severe environments. We supply chemicals for the cementing, drilling, fracturing and acidizing phases of well drilling and stimulation. Our integrated approach to product development combines marketing and research efforts supported with process simulation, pilot

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plants and full-scale manufacturing capabilities. Importantly, we are committed to the development of sustainable solutions to meet the demanding environmental requirements in the industry.

**Oilfield Applications:** Our Oilfield Chemicals business provides solutions to the oil and gas production sector. We have expertise in crude oil and natural gas production, pipeline gathering/transmission systems, gas processing, and heavy oil and bitumen upgrading. Our priority is to safely manage the critical challenges facing today's oil and gas producers throughout the lifecycle of their assets. Starting with the design/capital investment phase to asset decommission, a lifecycle approach to chemical solutions and services help our customers minimize risk, achieve their production targets and maximize profitability.

Our Asset Integrity team uses processes and technologies to help producers mitigate corrosion. We work with our customers to utilize state-of-the-art laboratory methods to design best-in-class chemistries to mitigate corrosion of the equipment, and we monitor oil and gas systems to track the success of corrosion mitigation programs. We also deploy the latest molecular monitoring tools to measure and control microbiological influenced corrosion and provide environmentally friendly chemistries worldwide.

**Enhanced Oil Recovery:** Our TIORCO® business globally markets custom-engineered chemical solutions that increase production of crude oil and gas from existing fields. TIORCO integrates enhanced oil recovery ( EOR ) processes by leveraging polymer and reservoir expertise, our extensive reach in global upstream energy markets and, through a joint venture with Stepan Company, Stepan's global surfactant technology and manufacturing capabilities. TIORCO also leverages our water treatment expertise and allows us to complete this one-stop-shop EOR solution package to exploration and production companies globally. Services include: reservoir screening, target validation, laboratory and reservoir simulation work, secondary flood optimization, tertiary recovery flood design and implementation and when needed, a produced water treatment solution.

**Downstream Refining Applications:** Our industry-focused sales engineers provide process and water treatment applications specific to the petroleum refining and fuels industry, enabling our customers to profitably refine and upgrade hydrocarbons. Our heavy oil upgrading programs minimize operation costs and mitigate fouling, corrosion, foaming and the effects of heavy metals when refining opportunity crudes.

Our total systems approach to water and process enables our customers to minimize energy use on the utilities side. With advances in monitoring, chemistry and application, 3D TRASAR technology for cooling water has reduced shutdowns for customers, resulting in maximum operational efficiency. The rollout of 3D TRASAR Boiler Technology began in 2010 and permits our customers to enjoy increased boiler system reliability, reduced total cost of operation, and significant energy and water savings are key benefits delivered by this state-of-the-art technology.

Clean fuels regulations require drastic reduction in the level of sulfur allowed in fuels. Our H<sub>2</sub>S Scavengers, such as the SULFA-CHECK® system, help our customers to comply with all regulatory standards. We offer an entire line of fuel additives, including corrosion inhibitors, to protect engine fuel systems and pre-market underground storage tanks and piping. In addition, we offer fuel stabilizers, pour point depressants, cetane improvers, detergents and antioxidants for home heating oil and premium diesel and gasoline packages.

***Downstream Chemical Processing Applications:*** We work with customers globally to overcome the increasing challenges associated with capacity increases, plant revamps and constantly changing feedstocks. Our customized process and water treatment programs are delivered by onsite technical experts who are focused on providing improved system reliability, reduced total cost of operations, environmental compliance, sustainability in the form of energy and water savings and reduced carbon emissions.

***Water Treatment Applications:*** We provide total water management solutions specific to customers' refining and chemical processing needs including boiler treatment, cooling water treatment and wastewater treatment. See Water Services and Paper Services Segments Water Treatment Applications.

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**Additional Information**

**Competition:** Our Legacy Ecolab business units have two significant classes of competitors. First, each business unit competes with a small number of large companies selling directly or through distributors on a national or international scale. Second, all of these business units have numerous smaller regional or local competitors which focus on more limited geographies, product lines and/or end-use customer segments. Our objective is to achieve a significant presence in each of our business markets. In general, competition is based on customer support, product performance and price. We believe we compete principally by providing superior value, premium customer support and differentiated products to help our customers protect their brand reputation. We create value by providing state-of-the-art cleaning, sanitation, water treatment and maintenance products and systems coupled with high customer support standards and continuing dedication to customer satisfaction. This is made possible, in part, by our significant on-going investment in training and technology and by our standard practice of advising customers on ways to lower operating costs and helping them comply with safety, environmental and sanitation regulations. In addition to our consultative approach, we emphasize our ability to uniformly provide a variety of related premium cleaning and sanitation programs to our customers and to provide that level of customer support to multiple locations of chain customer organizations worldwide. This approach is succinctly stated in our "Circle the Customer - Circle the Globe" strategy which is discussed above in this Item 1(c) under the heading "General."

Legacy Nalco's water management and process improvement service business units compete on the basis of their demonstrated value, technical expertise, chemical formulations, consulting services, detection equipment, monitoring services, and dosing and metering equipment. In general, the markets in which the business units compete are led by a few large companies, with the rest of the market served by smaller entities focusing on more limited geographic regions. The market for water treatment chemicals is highly fragmented, but is led by Nalco. Four other companies are present in at least two of the major geographic regions of the globe, with one present in all regions. These global or regional service providers tend to focus either on a limited geographic region or a smaller subset of products and services. The remainder of the market is comprised of local competitors. Collectively, local players have the largest share of the market, but are individually much smaller and tend to focus on servicing local businesses typically requiring less sophisticated applications.

The market for specialty and water treatment chemicals used in the pulp and paper industry is fragmented. We are one of the leading suppliers with four other multi-nationals having significant presence. The remainder of the market is comprised of smaller, regional participants.

The largest participants in the energy services sector are Nalco and three other multi-nationals. The remainder of the market consists of smaller, regional niche companies focused on limited geographic areas.

**Sales:** Products, systems and services are primarily marketed in domestic and international markets by Company-trained field sales personnel who also advise and assist our customers in the proper and efficient use of the products and systems in order to meet a full range of cleaning and sanitation, water treatment and process chemistry needs. Independent, third-party distributors are utilized in several markets, as described in the business unit descriptions found under the discussion of the six reportable segments above.

**Number of Employees:** We had approximately 40,200 employees as of December 31, 2011.

**Customers and Classes of Products:** We believe that our business is not materially dependent upon a single customer. Additionally, although we have a diverse customer base and no customer or distributor constitutes 10 percent or more of our 2011 consolidated revenues, we do have

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customers and independent, third-party distributors, the loss of which could have a material adverse effect on results of operations for the affected earnings periods; however, we consider it unlikely that such an event would have a material adverse impact on our financial position. No material part of our business is subject to renegotiation or termination at the election of a governmental unit. We sell two classes of products which constituted 10 percent or more of consolidated sales in any of the last three years. Sales of warewashing products were approximately 18% of consolidated 2011 sales, and approximately 19% in both 2010 and 2009. In addition, through our

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Institutional and Textile Care businesses around the world, we sell laundry products and provide customer support to a broad range of laundry customers. Sales of laundry products were approximately 10% of consolidated net sales in 2011 and 2010 and 11% in 2009.

**Patents and Trademarks:** We own and license a number of patents, trademarks and other intellectual property. While we have an active program to protect our intellectual property by filing for patents or trademarks, and pursuing legal action, when appropriate, to prevent infringement, we do not believe that our overall business is materially dependent on any individual patent or trademark except patents related to our TRASAR and 3D TRASAR technology, which are material to our Water Services and Paper Services segments, and trademarks related to Ecolab, Nalco Company and 3D TRASAR. The Ecolab trademarks are material to the legacy Ecolab segments and the Nalco trademarks are material to the legacy Nalco segments. The 3D TRASAR trademarks predominantly relate to our Water Services and Paper Services segments. U.S. and foreign patents protect aspects of our key TRASAR and 3D TRASAR technology until at least 2024. The Ecolab, Nalco Company and 3D TRASAR trademarks are registered or applied for in all of our key markets, and we anticipate maintaining them indefinitely.

**Seasonality:** We do experience variability in our quarterly operating results due to seasonal sales volume and business mix fluctuations in our operating segments. Note 17, entitled Quarterly Financial Data located on page 51 of the Annual Report, is incorporated herein by reference.

**Working Capital:** We have invested in the past, and will continue to invest in the future, in merchandising and customer equipment consisting primarily of systems used by customers to dispense our products as well as to monitor water systems. Otherwise, we have no unusual working capital requirements.

**Manufacturing and Distribution:** We manufacture most of our products and related equipment in Company-operated manufacturing facilities. Some products are also produced for us by third-party contract manufacturers. Other products and equipment are purchased from third-party suppliers. Additional information on product/equipment sourcing is found in the segment discussions above and additional information on our manufacturing facilities is located beginning at page 24 of this Form 10-K under the heading Properties.

Deliveries to customers are made from our manufacturing plants and a network of distribution centers and third-party logistics service providers. We use common carriers, our own delivery vehicles, and distributors for transport. Additional information on our plant and distribution facilities is located beginning at page 24 of this Form 10-K under the heading Properties.

**Raw Materials:** Raw materials purchased for use in manufacturing our products are inorganic chemicals, including alkalis, acids, biocides, phosphonates, phosphorous materials, silicates and salts; and organic chemicals, including acids, amines, fatty acids, surfactants, solvents, monomers and polymers. Our Healthcare Division purchases plastic films and parts to manufacture medical devices that serve the surgical and infection prevention markets. Pesticides used by our Pest Elimination Division are purchased as finished products under contract or purchase order from the producers or their distributors. We also purchase packaging materials for our manufactured products and components for our specialized cleaning equipment and systems. We purchase more than 8,000 raw materials, with the largest single raw material representing less than 3% of raw material purchases. Our raw materials, with the exception of a few specialized chemicals which we manufacture, are generally purchased on an annual contract basis and are ordinarily available in adequate quantities from a diverse group of suppliers globally. When practical, global sourcing is used so that purchasing or production locations can be shifted to control product costs at globally competitive levels.

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**Research and Development:** Our research and development program consists principally of devising and testing new products, processes, techniques and equipment, improving the efficiency of existing ones, improving service program content, evaluating the environmental compatibility of products and technical support. Key disciplines include analytical and formulation chemistry, microbiology, process and packaging engineering, remote monitoring engineering and product dispensing technology. Substantially all of our principal products have been developed by our research, development and engineering personnel. At times, technology has also been licensed from third parties to develop offerings.

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We believe that continued research and development activities are critical to maintaining our leadership position within the industry and will provide us with a competitive advantage as we seek additional business with new and existing customers.

Note 13, entitled "Research Expenditures" located on page 42 of the Annual Report, is incorporated herein by reference.

**Joint Ventures:** Over time, our Nalco businesses have entered into general partnerships or joint ventures for limited scope business opportunities. In 2004 Nalco entered into a joint venture with Ka