

ECOLAB INC  
Form 10-Q  
May 05, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

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

Commission File No. 1-9328

**ECOLAB INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**41-0231510**  
(I.R.S. Employer  
Identification No.)

**370 Wabasha Street N., St. Paul, Minnesota 55102**

(Address of principal executive offices)(Zip Code)

**1-800-232-6522**

(Registrant's telephone number, including area code)

**(Not Applicable)**

(Former name, former address and former fiscal year,  
if changed since last report)

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 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 Regulations 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2011.

231,994,433 shares of common stock, par value \$1.00 per share.



## PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

## ECOLAB INC.

## CONSOLIDATED STATEMENT OF INCOME

| (millions, except per share)                               | First Quarter Ended<br>March 31 |            |
|--|---------------------------------|------------|
|  | 2011<br>(unaudited)             | 2010       |
| Net sales  | \$ 1,518.3                      | \$ 1,432.1 |
| Cost of sales (including special charges of \$0.8 in 2011) | 770.4                           | 716.7      |
| Selling, general and administrative expenses               | 581.6                           | 558.1      |
| Special gains and charges                                  | 14.6                            | 3.5        |
| Operating income   | 151.7                           | 153.8      |
| Interest expense, net                                      | 13.5                            | 15.0       |
| Income before income taxes                                 | 138.2                           | 138.8      |
| Provision for income taxes                                 | 44.4                            | 43.1       |
| Net income including noncontrolling interest               | 93.8                            | 95.7       |
| Less: Net income attributable to noncontrolling interest   | 0.2                             | 0.2        |
| Net income attributable to Ecolab                          | \$ 93.6                         | \$ 95.5    |
| Earnings attributable to Ecolab per common share           |                                 |            |
| Basic  | \$ 0.40                         | \$ 0.41    |
| Diluted  | \$ 0.40                         | \$ 0.40    |
| Dividends declared per common share                        | \$ 0.1750                       | \$ 0.1550  |
| Weighted-average common shares outstanding                 |                                 |            |
| Basic  | 232.0                           | 235.4      |
| Diluted  | 235.9                           | 239.0      |

The accompanying notes are an integral part of the consolidated financial information.



## ECOLAB INC.

## CONSOLIDATED BALANCE SHEET

| (millions)                         | March 31<br>2011  | December 31<br>2010 |
|------------------------------------|-------------------|---------------------|
|                                    | (unaudited)       |                     |
| <b>ASSETS</b>                      |                   |                     |
| <b>Current Assets</b>              |                   |                     |
| Cash and cash equivalents          | \$ 151.4          | \$ 242.3            |
| Accounts receivable, net           | 1,042.6           | 999.6               |
| Inventories                        | 480.2             | 447.6               |
| Deferred income taxes              | 82.2              | 78.9                |
| Other current assets               | 132.5             | 101.5               |
| <b>Total current assets</b>        | <b>1,888.9</b>    | <b>1,869.9</b>      |
| Property, plant and equipment, net | 1,192.5           | 1,148.3             |
| Goodwill                           | 1,465.1           | 1,329.3             |
| Other intangible assets, net       | 439.7             | 282.5               |
| Other assets                       | 276.1             | 242.2               |
| <b>Total assets</b>                | <b>\$ 5,262.3</b> | <b>\$ 4,872.2</b>   |

The accompanying notes are an integral part of the consolidated financial information.

(Continued)

## ECOLAB INC.

## CONSOLIDATED BALANCE SHEET (continued)

| (millions, except shares and per share)         | March 31<br>2011 | December 31<br>2010 |
|---|------------------|---------------------|
|   | (unaudited)      |                     |
| <b>LIABILITIES AND EQUITY</b>                   |                  |                     |
| <b>Current Liabilities</b>                      |                  |                     |
| Short-term debt                                 | \$ 506.4         | \$ 189.2            |
| Accounts payable                                | 359.7            | 349.3               |
| Compensation and benefits                       | 257.7            | 308.1               |
| Income taxes                                    | 58.8             | 36.7                |
| Other current liabilities                       | 467.6            | 441.5               |
| Total current liabilities                       | 1,650.2          | 1,324.8             |
| Long-term debt                                  | 683.7            | 656.4               |
| Postretirement health care and pension benefits | 488.3            | 565.8               |
| Other liabilities                               | 225.4            | 192.2               |
| <b>Equity (a)</b>                               |                  |                     |
| Common stock                                    | 333.7            | 333.1               |
| Additional paid-in capital                      | 1,341.5          | 1,310.2             |
| Retained earnings                               | 3,332.1          | 3,279.1             |
| Accumulated other comprehensive loss            | (205.2)          | (271.9)             |
| Treasury stock                                  | (2,591.5)        | (2,521.3)           |
| Total Ecolab shareholders' equity               | 2,210.6          | 2,129.2             |
| Noncontrolling interest                         | 4.1              | 3.8                 |
| Total equity                                    | 2,214.7          | 2,133.0             |
| Total liabilities and equity                    | \$ 5,262.3       | \$ 4,872.2          |

(a) Common stock, 400 million shares authorized, \$1.00 par value per share, 231.7 million shares outstanding at March 31, 2011, 232.5 million shares outstanding at December 31, 2010. Shares outstanding are net of treasury stock.

The accompanying notes are an integral part of the consolidated financial information.

## ECOLAB INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| (millions)  | First Quarter Ended<br>March 31 |         |
|---|---------------------------------|---------|
|   | 2011                            | 2010    |
|   | (unaudited)                     |         |
| <b>OPERATING ACTIVITIES</b>   |                                 |         |
| Net income including noncontrolling interest  | \$ 93.8                         | \$ 95.7 |
| Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities: |                                 |         |
| Depreciation and amortization   | 91.2                            | 86.2    |
| Deferred income taxes   | 0.1                             | 2.2     |
| Share-based compensation expense  | 11.2                            | 4.4     |
| Excess tax benefits from share-based payment arrangements   | (2.3)                           | (2.6)   |
| Pension and postretirement plan contributions   | (109.0)                         | (6.7)   |
| Pension and postretirement plan expense   | 19.8                            | 22.9    |
| Restructuring, net of cash paid   | 10.3                            |         |
| Other, net  | 1.9                             | 4.0     |
| Changes in operating assets and liabilities:  |                                 |         |
| Accounts receivable   | 10.2                            | 19.2    |
| Inventories   | (9.6)                           | 5.0     |
| Other assets  | (25.4)                          | 13.1    |
| Accounts payable  | 0.6                             | (31.3)  |
| Other liabilities   | (36.7)                          | (76.7)  |
| Cash provided by operating activities   | 56.1                            | 135.4   |

The accompanying notes are an integral part of the consolidated financial information.

(Continued)



## ECOLAB INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

| (millions)  | First Quarter Ended<br>March 31 |             |
|---|---------------------------------|-------------|
|   | 2011                            | 2010        |
|   | (unaudited)                     |             |
| <b>INVESTING ACTIVITIES</b>   |                                 |             |
| Capital expenditures  | \$ (65.8)                       | \$ (51.0)   |
| Capitalized software expenditures                                       | (6.8)                           | (8.6)       |
| Property sold   | 0.4                             | 0.8         |
| Businesses acquired and investments in affiliates, net of cash acquired | (277.5)                         |             |
| Sale of business  |                                 | 1.3         |
| Deposit into indemnification escrow                                     | (28.1)                          |             |
| Cash used for investing activities                                      | (377.8)                         | (57.5)      |
| <b>FINANCING ACTIVITIES</b>   |                                 |             |
| Net issuances (repayments) of commercial paper and notes payable        | 465.7                           | 112.7       |
| Long-term debt repayments   | (151.8)                         | (1.4)       |
| Reacquired shares   | (70.2)                          | (144.7)     |
| Cash dividends on common stock  | (40.6)                          | (36.8)      |
| Exercise of employee stock options                                      | 13.8                            | 13.7        |
| Excess tax benefits from share-based payment arrangements               | 2.3                             | 2.6         |
| Other, net  | (0.1)                           |             |
| Cash provided by (used for) financing activities                        | 219.1                           | (53.9)      |
| Effect of exchange rate changes on cash                                 | 11.7                            | (12.3)      |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 | <b>(90.9)</b>                   | <b>11.7</b> |
| Cash and cash equivalents, beginning of period                          | 242.3                           | 73.6        |
| Cash and cash equivalents, end of period                                | \$ 151.4                        | \$ 85.3     |

The accompanying notes are an integral part of the consolidated financial information.

## ECOLAB INC.

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated Financial Information

The unaudited consolidated financial information for the first quarter ended March 31, 2011 and 2010, reflect, in the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of Ecolab Inc. ( the company ) for the interim periods presented. The financial results for any interim period are not necessarily indicative of results for the full year. The consolidated balance sheet data as of December 31, 2010 was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto incorporated in the company s Annual Report on Form 10-K for the year ended December 31, 2010.

With respect to the unaudited financial information of the company for the first quarter ended March 31, 2011 and 2010 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated May 5, 2011 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the Act ), for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

2. Special Gains and Charges

Special gains and charges reported on the Consolidated Statement of Income include the following:

| (millions)                          | First Quarter Ended |                  |
|-------------------------------------|---------------------|------------------|
|                                     | 2011                | March 31<br>2010 |
| Cost of sales                       |                     |                  |
| Restructuring charges               | \$ 0.8              | \$               |
| Special (gains) and charges         |                     |                  |
| Restructuring charges               | 10.4                |                  |
| Business structure and optimization | 0.6                 | 0.6              |
| Acquisition integration costs       | 3.6                 |                  |
| Venezuela currency devaluation      |                     | 4.2              |
| Business write-downs and closure    |                     | (1.0)            |
| Other items                         |                     | (0.3)            |
| Total                               | 14.6                | 3.5              |
| Total special gains and charges     | \$ 15.4             | \$ 3.5           |



## ECOLAB INC.

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special Gains and Charges (Continued)

For segment reporting purposes, special gains and charges are included in the Corporate segment, which is consistent with the company's internal management reporting.

Restructuring Charges

As previously disclosed, following the recent implementation of new business systems in Europe, in February 2011, the company commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, sharpen its competitiveness and accelerate its growth and profitability. Additionally, a small amount of restructuring will be undertaken outside of Europe. The costs outside of Europe are not expected to be significant (collectively, the 2011 Restructuring Plan). Through the 2011 Restructuring Plan, approximately 900 positions are expected to be eliminated.

The company expects to incur pretax restructuring charges of approximately \$150 million (\$125 million after tax) over the next three years, as the 2011 Restructuring Plan continues to roll out. Approximately \$50 million to \$70 million (\$40 million to \$60 million after tax) of those charges are expected to occur in 2011. The company anticipates that approximately \$125 million of the pre-tax charge will represent cash expenditures.

As a result of restructuring activities during the first quarter, the company recorded restructuring charges of \$11.2 million (\$9.0 million after tax) or \$0.04 per diluted share.

Restructuring charges and subsequent reductions related to the 2011 Restructuring Plan include the following:

| (millions)                              | Employee<br>Termination<br>Costs | Other  | Total   |
|---|----------------------------------|--------|---------|
| <u>2011 Restructuring Plan:</u>         |                                  |        |         |
| Recorded expense and accrual            | \$ 8.4                           | \$ 2.8 | \$ 11.2 |
| Cash payments                           | (0.8)                            | (0.1)  | (0.9)   |
| Effect of foreign currency translation  |                                  |        |         |
| Restructuring liability, March 31, 2011 | \$ 7.6                           | \$ 2.7 | \$ 10.3 |



ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special Gains and Charges (Continued)

Restructuring charges have been included as a component of both cost of sales and special gains and charges on the Consolidated Statement of Income. Amounts included as a component of cost of sales include manufacturing related severance. Restructuring liabilities have been classified as a component of other current liabilities on the Consolidated Balance Sheet.

Employee termination costs include personnel reductions and related costs for severance, benefits and outplacement services. Other charges include lease terminations.

As previously disclosed, in 2009, the company completed restructuring and other cost-saving actions in order to streamline operations and improve efficiency and effectiveness (the 2009 Restructuring Plan ). The 2009 Restructuring Plan was finalized and all actions, except for certain cash payments, were completed as of December 31, 2009. As of March 31, 2011, the remaining liability related to the 2009 Restructuring Plan is \$2.7 million, as compared to \$2.8 million at December 31, 2010.

Non-restructuring Special Gains and Charges

Special gains and charges in 2011 include acquisition integration costs incurred to optimize the Cleantec business structure. Further details related to the Cleantec acquisition are included in Note 7.

Beginning in 2010, Venezuela was designated hyper-inflationary and as such all foreign currency fluctuations are recorded in income. On January 8, 2010 the Venezuelan government devalued its currency, the Bolivar Fuerte. As a result of the devaluation, the company recorded a charge in the first quarter of 2010 due to the remeasurement of the local balance sheet using the official rate of exchange for the Bolivar Fuerte.

## ECOLAB INC.

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Selected Balance Sheet Information

| (millions)                         | March 31<br>2011 | December 31<br>2010 |
|------------------------------------|------------------|---------------------|
|                                    | (unaudited)      |                     |
| Accounts receivable, net           |                  |                     |
| Accounts receivable                | \$ 1,090.3       | \$ 1,044.5          |
| Allowance for doubtful accounts    | (47.7)           | (44.9)              |
| Total                              | \$ 1,042.6       | \$ 999.6            |
| Inventories                        |                  |                     |
| Finished goods                     | \$ 276.6         | \$ 254.2            |
| Raw materials and parts            | 225.6            | 216.1               |
| Inventories at FIFO cost           | 502.2            | 470.3               |
| Excess of FIFO cost over LIFO cost | (22.0)           | (22.7)              |
| Total                              | \$ 480.2         | \$ 447.6            |
| Property, plant and equipment, net |                  |                     |
| Land                               | \$ 34.8          | \$ 28.4             |
| Buildings and improvements         | 299.6            | 279.9               |
| Leasehold improvements             | 76.1             | 75.9                |
| Machinery and equipment            | 723.5            | 699.1               |
| Merchandising equipment            | 1,467.8          | 1,419.2             |
| Capitalized software               | 329.1            | 321.2               |
| Construction in progress           | 57.2             | 48.9                |
|                                    | 2,988.1          | 2,872.6             |
| Accumulated depreciation           | (1,795.6)        | (1,724.3)           |
| Total                              | \$ 1,192.5       | \$ 1,148.3          |
| Other intangible assets, gross     |                  |                     |
| Customer relationships             | \$ 430.2         | \$ 276.0            |
| Trademarks                         | 123.4            | 111.3               |
| Patents                            | 80.2             | 79.0                |
| Customer lists                     | 5.6              | 5.6                 |
| Other intangibles                  | 82.9             | 73.3                |
|                                    | \$ 722.3         | \$ 545.2            |
| Accumulated amortization           |                  |                     |
| Customer relationships             | \$ (173.6)       | \$ (159.5)          |
| Trademarks                         | (43.0)           |                     |