

ECOLAB INC
Form 10-Q
October 30, 2014

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 September 30, 2014

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.

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(Exact name of registrant as specified in its charter)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2014.

300,116,468 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 amounts)	Third Quarter Ended September 30	
	2014	2013
	(unaudited)	
Net sales	\$ 3,694.9	\$ 3,484.0
Cost of sales (including special charges of \$0.8 in 2014 and \$6.3 in 2013)	1,970.6	1,866.1
Selling, general and administrative expenses	1,145.9	1,114.1
Special (gains) and charges	7.0	27.8
Operating income	571.4	476.0
Interest expense, net	63.3	67.0
Income before income taxes	508.1	409.0
Provision for income taxes	138.7	101.8
Net income including noncontrolling interest	369.4	307.2
Less: Net income (loss) attributable to noncontrolling interest	4.5	(0.8)
Net income attributable to Ecolab	\$ 364.9	\$ 308.0
Earnings attributable to Ecolab per common share		
Basic	\$ 1.22	\$ 1.02
Diluted	\$ 1.19	\$ 1.00
Dividends declared per common share	\$ 0.2750	\$ 0.2300
Weighted-average common shares outstanding		
Basic	300.0	301.2
Diluted	305.7	307.2

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share amounts)	Nine Months Ended September 30	
	2014	2013
	(unaudited)	
Net sales	\$ 10,599.7	\$ 9,693.9
Cost of sales (including special charges of \$7.9 in 2014 and \$23.5 in 2013)	5,699.2	5,216.0
Selling, general and administrative expenses	3,435.5	3,236.8
Special (gains) and charges	30.5	151.1
Operating income	1,434.5	1,090.0
Interest expense, net (including special charges of \$2.5 in 2013)	194.6	194.7
Income before income taxes	1,239.9	895.3
Provision for income taxes	361.0	211.3
Net income including noncontrolling interest	878.9	684.0
Less: Net income attributable to noncontrolling interest (including special charges of \$0.5 in 2013)	11.6	3.3
Net income attributable to Ecolab	\$ 867.3	\$ 680.7
Earnings attributable to Ecolab per common share		
Basic	\$ 2.89	\$ 2.27
Diluted	\$ 2.83	\$ 2.23
Dividends declared per common share	\$ 0.8250	\$ 0.6900
Weighted-average common shares outstanding		
Basic	300.1	299.4
Diluted	306.0	305.3

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income including noncontrolling interest	\$ 369.4	\$ 307.2	\$ 878.9	\$ 684.0
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	(41.5)	(126.2)	(86.3)	(276.9)
Gain (loss) on net investment hedge	7.4	(4.2)	5.6	(4.2)
	(34.1)	(130.4)	(80.7)	(281.1)
Derivatives and hedging instruments	5.0	1.6	0.9	9.1
Pension and postretirement benefits				
Amortization of net actuarial loss and prior service cost included in net periodic pension and postretirement costs	2.6	10.4	7.7	31.3
Subtotal	(26.5)	(118.4)	(72.1)	(240.7)
Total comprehensive income, including noncontrolling interest	342.9	188.8	806.8	443.3
Less: Comprehensive income (loss) attributable to noncontrolling interest	3.2		10.3	(11.0)
Comprehensive income attributable to Ecolab	\$ 339.7	\$ 188.8	\$ 796.5	\$ 454.3

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

ECOLAB INC.

CONSOLIDATED BALANCE SHEET

(millions)	September 30 2014	December 31 2013
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 197.8	\$ 339.2
Accounts receivable, net	2,694.4	2,568.0
Inventories	1,464.4	1,321.9
Deferred income taxes	166.1	163.0
Other current assets	349.1	306.3
Total current assets	4,871.8	4,698.4
Property, plant and equipment, net	2,978.5	2,882.0
Goodwill	6,849.1	6,862.9
Other intangible assets, net	4,583.1	4,785.3
Other assets	403.3	407.9
Total assets	\$ 19,685.8	\$ 19,636.5

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 amounts)	September 30 2014	December 31 2013
	(unaudited)	
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	\$ 1,922.8	\$ 861.0
Accounts payable	1,047.3	1,021.9
Compensation and benefits	547.1	571.1
Income taxes	81.9	80.9
Other current liabilities	855.9	953.8
Total current liabilities	4,455.0	3,488.7
Long-term debt	4,874.0	6,043.5
Postretirement health care and pension benefits	785.0	795.6
Other liabilities	1,805.5	1,899.3
Total liabilities	11,919.5	12,227.1
Equity (a)		
Common stock	347.2	345.1
Additional paid-in capital	4,832.6	4,692.0
Retained earnings	5,318.7	4,699.0
Accumulated other comprehensive loss	(377.3)	(305.2)
Treasury stock	(2,423.3)	(2,086.6)
Total Ecolab shareholders' equity	7,697.9	7,344.3
Noncontrolling interest	68.4	65.1
Total equity	7,766.3	7,409.4
Total liabilities and equity	\$ 19,685.8	\$ 19,636.5

(a) Common stock, 800 million shares authorized, \$1.00 par value per share, 300.1 million shares outstanding at September 30, 2014, 301.1 million shares outstanding at December 31, 2013. 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)	Nine Months Ended September 30 (unaudited)	
	2014	2013
OPERATING ACTIVITIES		
Net income including noncontrolling interest	\$ 878.9	\$ 684.0
Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities:		
Depreciation	417.4	381.3
Amortization	236.6	220.5
Deferred income taxes	(79.1)	(102.7)
Share-based compensation expense	55.1	53.6
Excess tax benefits from share-based payment arrangements	(41.7)	(26.2)
Pension and postretirement plan contributions	(61.0)	(62.0)
Pension and postretirement plan expense	65.4	106.9
Restructuring, net of cash paid	(22.4)	(20.5)
Venezuela currency devaluation		23.3
Gain on sale of business	(1.4)	
Other, net	8.4	12.9
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(163.5)	(70.3)
Inventories	(168.7)	(92.3)
Other assets	(51.7)	(109.5)
Accounts payable	29.5	(40.7)
Other liabilities	43.2	(29.1)
Cash provided by operating activities	\$ 1,145.0	\$ 929.2

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

(Continued)

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(millions)	2014	Nine Months Ended September 30 (unaudited)	2013
INVESTING ACTIVITIES			
Capital expenditures	\$ (488.7)		\$ (423.4)
Capitalized software expenditures	(31.9)		(25.7)
Property and other assets sold	8.6		9.6
Businesses acquired and investments in affiliates, net of cash acquired	(70.8)		(1,442.3)
Divestiture of businesses	9.2		(7.9)
Deposit into indemnification escrow			(10.6)
Release from indemnification escrow	8.7		13.0
Cash used for investing activities	(564.9)		(1,887.3)
FINANCING ACTIVITIES			
Net issuances (repayments) of commercial paper and notes payable	310.2		(90.6)
Long-term debt borrowings			900.1
Long-term debt repayments	(407.3)		(337.8)
Reacquired shares	(341.0)		(228.5)
Dividends paid	(258.9)		(143.6)
Exercise of employee stock options	51.5		77.7
Excess tax benefits from share-based payment arrangements	41.7		26.2
Acquisition related liabilities and contingent consideration	(101.5)		(9.8)
Acquisition of noncontrolling interest	(8.4)		
Other, net			0.6
Cash provided by (used for) financing activities	(713.7)		194.3
Effect of exchange rate changes on cash	(7.8)		0.4
Decrease in cash and cash equivalents	(141.4)		(763.4)
Cash and cash equivalents, beginning of period	339.2		1,157.8
Cash and cash equivalents, end of period	\$ 197.8		\$ 394.4

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 third quarter and nine months ended September 30, 2014 and 2013 reflect, in the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows of Ecolab Inc. (Ecolab or 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, 2013 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, 2013.

With respect to the unaudited financial information of the company for the third quarter and nine months ended September 30, 2014 and 2013 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 October 30, 2014 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.

Effective in the first quarter of 2014, certain employee-related costs from the company's recently acquired businesses that were historically presented within cost of sales were revised and reclassified to selling, general and administrative expenses (SG&A) on the Consolidated Statement of Income. These immaterial revisions were made to conform with management's view of the respective costs within the global organizational model. Total costs reclassified were \$16.7 million for the third quarter ended September 30, 2013, \$60.3 million for the nine months ended September 30, 2013 and \$78.9 million for the year ended December 31, 2013.

Results for 2013 have been revised to conform to the current year presentation. The reclassification had no impact on net earnings, financial position or cash flows.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges

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

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Cost of sales				
Restructuring charges	\$ 0.4	\$ 1.9	\$ 7.5	\$ 5.5
Recognition of inventory fair value step-up	0.4	4.4	0.4	18.0
Subtotal	0.8	6.3	7.9	23.5
Special (gains) and charges				
Restructuring charges	6.3	11.9	34.9	75.4
Champion acquisition and integration costs	4.1	10.7	15.8	42.5
Nalco merger and integration costs	2.0	5.3	4.8	13.5
Venezuela currency devaluation		(0.1)		23.3
Litigation activity, settlements, and other gains	(5.4)		(25.0)	(3.6)
Subtotal	7.0	27.8	30.5	151.1
Operating income subtotal	7.8	34.1	38.4	174.6
Interest expense, net				
Acquisition debt costs				2.5
Net income attributable to noncontrolling interest				
Venezuela currency devaluation				(0.5)
Total special (gains) and charges	\$ 7.8	\$ 34.1	\$ 38.4	\$ 176.6

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

The company incurs net costs for restructuring activities associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. These restructuring plans include net costs associated with significant actions involving employee-related severance charges, contract termination costs and asset write-downs and disposals. Employee termination costs are largely based on policies and severance plans, and include personnel reductions and related costs for severance, benefits and outplacement services. These charges are reflected in the quarter

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when the actions are probable and the amounts are estimable, which typically is when management approves the associated actions. Contract termination costs include charges to terminate leases prior to the end of their respective terms and other contract terminations. Asset write-downs and disposals include leasehold improvement write-downs, other asset write-downs associated with combining operations and disposal of assets.

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 within cost of sales include supply chain related severance and other asset write-downs associated with combining operations. Restructuring liabilities have been classified as a component of both other current and non-current liabilities on the Consolidated Balance Sheet.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

Energy Restructuring Plan

On April 10, 2013, the company completed its acquisition of privately held Champion Technologies and its related company Corsicana Technologies (collectively "Champion").

In April 2013, following the completion of the acquisition of Champion, the company commenced plans to undertake restructuring and other cost-saving actions to realize its acquisition-related cost synergies as well as streamline and strengthen Ecolab's position in the fast growing global energy market (the "Energy Restructuring Plan"). Actions associated with the acquisition to improve the effectiveness and efficiency of the business include a reduction of the combined business's current global workforce by approximately 500 positions. A number of these reductions are expected to be achieved through eliminating open positions and attrition. The company also anticipates leveraging and simplifying its global supply chain, including the reduction of plant and distribution center locations and product line optimization, as well as the reduction of other redundant facilities.

The company expects to incur pre-tax restructuring charges of approximately \$80 million (\$55 million after tax) under the Energy Restructuring Plan through substantial completion of the Plan in 2015. During 2013, the company incurred \$27 million (\$19 million after tax) of charges related to the Energy Restructuring Plan. Approximately \$15 million (\$10 million after tax) of charges are expected to occur in 2014.

The company anticipates that approximately \$60 million of the \$80 million of the pre-tax charges represent cash expenditures. The remaining pre-tax charges represent estimated asset write-downs and disposals. No decisions have been made for any asset disposals and estimates could vary depending on the actual actions taken.

The company recorded restructuring charges related to the Energy Restructuring Plan of \$1.3 million (\$0.7 million after tax) and \$8.4 million (\$6.7 million after tax) during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, the company incurred charges of \$8.9 million (\$5.9 million after tax) and \$20.6 million (\$14.3 million after tax), respectively.

Restructuring charges and activity related to the Energy Restructuring Plan since inception of the underlying actions include the following:

Employee Termination	Energy Restructuring Plan Asset
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(millions)	Costs	Disposals	Other	Total
2013 Activity:				
Recorded expense and accrual	\$ 22.9	\$ 3.6	\$ 0.9	\$ 27.4
Cash payments	(16.7)		(0.8)	(17.5)
Non-cash charges		(3.6)		(3.6)
Effect of foreign currency translation	0.6			0.6
Restructuring liability, December 31, 2013	6.8		0.1	6.9
2014 Activity:				
Recorded expense and accrual	7.5	0.5	0.9	8.9
Cash payments	(11.9)		(0.9)	(12.8)
Non-cash charges		(0.5)		(0.5)
Effect of foreign currency translation	0.3			0.3
Restructuring liability, September 30, 2014	\$ 2.7	\$	\$ 0.1	\$ 2.8

As shown in the previous table, cash payments under the Energy Restructuring Plan were \$12.8 million during the first nine months of 2014 and \$17.5 million during 2013. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over the next twelve months.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

Combined Restructuring Plan

In February 2011, the company commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, as well as to undertake certain restructuring activities outside of Europe (the 2011 Restructuring Plan). Additionally, in January 2012, following the merger with Nalco Holding Company (Nalco), the company formally commenced plans to undertake restructuring actions related to the reduction of its global workforce and optimization of its supply chain and office facilities, including planned reductions of plant and distribution center locations (the Merger Restructuring Plan). During the first quarter of 2013, the company determined that because the objectives of the plans discussed above were aligned, the previously separate restructuring plans should be combined into one plan.

The combined restructuring plan (the Combined Plan) combines opportunities and initiatives from both plans and continues to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of the global workforce and plant and distribution center locations.

During 2013, the company incurred \$64 million (\$48 million after tax) of charges related to the Combined Plan. The company recorded restructuring charges related to the Combined Plan of \$5.4 million (\$3.3 million after tax) and \$5.3 million (\$2.1 million after tax), during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, the company incurred charges of \$33.4 million (\$27.0 million after tax) and \$60.5 million (\$42.5 million after tax), respectively.

Through substantial completion of the Combined Plan at the end of 2015, the company expects to incur pretax charges of approximately \$50 million (\$40 million after tax) during the remainder of 2014 and 2015.

The company anticipates that substantially all of the remaining Combined Plan pre-tax charges will represent net cash expenditures.

Restructuring charges and activity related to the Combined Plan since inception of the underlying actions include the following:

(millions)	Combined Plan			Total
	Employee Termination Costs	Asset Disposals	Other	
2011 - 2013 Activity:				

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Recorded net expense and accrual	\$	248.2	\$	(1.2)	\$	30.7	\$	277.7
Net cash payments		(182.2)		9.1		(19.1)		(192.2)
Non-cash net charges				(7.9)		(4.3)		(12.2)
Effect of foreign currency translation		(0.1)						(0.1)
Restructuring liability, December 31, 2013		65.9				7.3		73.2
2014 Activity:								
Recorded net expense and accrual		28.9		(1.1)		5.6		33.4
Net cash payments		(47.4)		2.6		(7.0)		(51.8)
Non-cash net charges				(1.5)				(1.5)
Effect of foreign currency translation		(0.7)						(0.7)
Restructuring liability, September 30, 2014	\$	46.7	\$		\$	5.9	\$	52.6

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

As shown in the previous table, net cash payments under the Combined Plan were \$51.8 million during the first nine months of 2014 and \$192.2 million from 2011 through 2013. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters.

Non-restructuring Special (Gains) and Charges

Champion acquisition and integration costs

As a result of the Champion acquisition completed in 2013, the company incurred charges of \$4.1 million (\$2.7 million after tax) and \$15.1 million (\$10.3 million after tax) during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, the company incurred charges of \$15.8 million (\$10.2 million after tax) and \$63.0 million (\$44.9 million after tax), respectively.

Champion related costs have been included as a component of cost of sales, special (gains) and charges and net interest expense on the Consolidated Statement of Income. Amounts within cost of sales include the recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis. Amounts included in special (gains) and charges include acquisition costs, advisory and legal fees and integration charges. Amounts included in net interest expense include the interest expense through the close date of the Champion transaction of the company's \$500 million public debt issuance in December 2012 as well as amortizable fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition. Further information related to the acquisition of Champion is included in Note 3.

Nalco merger and integration costs

As a result of the Nalco merger completed in 2011, the company incurred net charges of \$2.0 million (\$2.0 million after tax) and \$5.3 million (\$3.5 million after tax) during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, the company incurred charges of \$4.8 million (\$4.0 million after tax) and \$13.5 million (\$9.2 million after tax), respectively. Nalco related special charges for 2014 and 2013 have been included as a component of special (gains) and charges on the Consolidated Statement of Income, and include integration charges.

Venezuelan currency devaluation

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Venezuela is a country with a highly inflationary economy under U.S. GAAP. As a result, the U.S. dollar is the functional currency for our subsidiaries in Venezuela. Any currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by our subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings.

On February 8, 2013, the Venezuelan government devalued its currency, the Bolivar Fuerte (bolivar) from 4.30 bolivars to 1 U.S. dollar to 6.30 bolivars to 1 U.S. dollar, resulting in a charge during 2013 of \$22.7 million (\$16.1 million after tax), due to the remeasurement of the local balance sheet. As a result of the ownership structure in place in Venezuela, the company also reflected a portion of the devaluation impact as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

In 2013, the Venezuelan government created a new foreign exchange mechanism known as the Complementary System of Foreign Currency Acquirement (SICAD 1). It operates similar to an auction system and allows entities to exchange a limited number of bolivars for U.S. dollars at a bid rate established via weekly auctions under SICAD 1. As of August 31, 2014, the fiscal quarter end for the company's international operations, the SICAD 1 exchange rate closed at 11.5 bolivars to 1 U.S. dollar. The company does not use the SICAD 1 rate or expect to use the SICAD 1 currency exchange mechanism.

In January 2014, the Venezuelan government announced the replacement of the Commission for the Administration of Foreign Exchange (CADIVI) with a new foreign currency administration, the National Center for Foreign Commerce (CENCOEX). As of August 31, 2014, the company had \$102 million of net monetary assets denominated in bolivars that were required to be remeasured to U.S. dollars. During the nine month period ended August 31, 2014, the company continued to obtain approvals and authorization to pay amounts at the CENCOEX fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar. As the company believes the fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar remains legally available to it and the company continues to transact at this rate, the company intends to continue to remeasure the net monetary assets of its Venezuela subsidiaries at this rate.

In March 2014, the Venezuelan government introduced an additional currency exchange auction mechanism (SICAD 2). At August 31, 2014, the SICAD 2 exchange rate closed at 49.97 bolivars to 1 U.S. dollar. The company does not use the SICAD 2 rate, but is evaluating whether it will use the SICAD 2 currency exchange mechanism in future periods.

Net sales within Venezuela are approximately 1% of the company's consolidated net sales. Assets held in Venezuela at August 31, 2014 represented less than 2% of the company's consolidated assets.

Other special (gains) and charges

The company recognized other special gains of \$5.0 million (\$3.1 million after tax) and \$24.6 million (\$19.5 million after tax) during the third quarter and the first nine months of 2014, respectively. The gain recognized in the third quarter of 2014 resulted from the consolidation of the Emirates National Chemicals Company LLC (Emochem) entity and removal of the corresponding equity method investment. The gains recognized during the first six months of 2014 related to a favorable licensing settlement and other settlement gains.

3. Acquisitions and Dispositions

Champion acquisition

On April 10, 2013, the company completed its acquisition of Champion, a global energy specialty products and services company delivering its offerings to the oil and gas industry. The total fair value of cash and stock consideration transferred to acquire all of Champion's stock was approximately \$2.1 billion. Champion's sales for the business acquired by the company were approximately \$1.3 billion in 2012. The business became part of the company's Global Energy reportable segment in the second quarter of 2013.

The company incurred certain acquisition related costs associated with the transaction that were expensed as incurred and are reflected in the Consolidated Statement of Income. Amounts included in cost of sales relate to recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis. Amounts included in special (gains) and charges include acquisition costs, advisory and legal fees and integration charges. Amounts included in net interest expense include the interest expense through the close date of the Champion transaction of the company's \$500 million public debt issuance in December 2012 as well as amortizable fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The Champion acquisition has been accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired and liabilities assumed be recognized at fair value as of the acquisition date.

The following table summarizes the value of Champion assets acquired and liabilities assumed as of December 31, 2013. During 2013, adjustments of \$37.1 million were made to the preliminary purchase price allocation of the assets and liabilities assumed with a corresponding adjustment to goodwill.

Also summarized in the table, during the first quarter of 2014, net adjustments of \$16.9 million were made to the value of Champion assets acquired and liabilities assumed. As the adjustments were not significant, they have been recorded in 2014 and are not reflected in the 2013 Consolidated Balance Sheet. Purchase price allocations were finalized during the first quarter of 2014.

(millions)	Allocation at December 31, 2013	Purchase Price Adjustments	Final Allocation at March 31, 2014
Current assets	\$ 592.3	\$ (4.5)	\$ 587.8
Property, plant and equipment	357.8	(2.5)	355.3
Other assets	16.2	0.1	16.3
Identifiable intangible assets			
Customer relationships	840.0		840.0
Trademarks	120.0		120.0
Other technology	36.5		36.5
Total assets acquired	1,962.8	(6.9)	1,955.9
Current liabilities	409.5	3.6	413.1
Long-term debt	70.8		70.8
Net deferred tax liability	427.4	9.3	436.7
Noncontrolling interest and other liabilities	30.5	(2.9)	27.6
Total liabilities and noncontrolling interests assumed	938.2	10.0	948.2
Goodwill	1,030.1	16.9	1,047.0
Total aggregate purchase price	2,054.7		2,054.7
Future consideration payable to sellers	(86.4)	86.4	
Total consideration transferred	\$ 1,968.3	\$ 86.4	\$ 2,054.7

The adjustments to the purchase price allocation during the first quarter of 2014 primarily related to estimated contingent liabilities, updated property, plant and equipment values and deferred taxes.

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In accordance with the acquisition agreement, except under limited circumstances, the company was required to pay an additional amount in cash, up to \$100 million in the aggregate, equal to 50% of the incremental tax on the merger consideration as a result of increases in applicable gains and investment taxes after December 31, 2012. In January 2014, in accordance with the above discussion, an additional payment of \$86.4 million was made to the acquired entity's former stockholders.

The customer relationships, trademarks and other technology are being amortized over weighted average lives of 14, 12 and 7 years, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The results of Champion's operations have been included in the company's consolidated financial statements since the close of the acquisition in April 2013. Due to the rapid pace at which the business has been integrated with the company's Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is no longer available post acquisition.

Based on applicable accounting and reporting guidance, the Champion acquisition is not material to the company's consolidated financial statements; therefore, pro forma financial information has not been presented.

Other acquisition activity

2014 Activity

During the first nine months of 2014, the company completed six business combination transactions. In addition, one transaction was completed subsequent to the end of the third quarter.

In December 2013, subsequent to the company's year end for international operations, the company completed the acquisition of AkzoNobel's Purate business, which specializes in global antimicrobial water treatment. Pre-acquisition annual sales of the business were approximately \$23 million. The acquired business became part of the company's Global Industrial reportable segment during the first quarter of 2014.

In March 2014, the company acquired AK Kraus & Hiller Schädlingsbekämpfung, one of Germany's leading commercial pest elimination service providers. Pre-acquisition annual sales of the business were approximately \$4 million. The business became part of the company's Other reportable segment during the second quarter of 2014.

In March 2014, the company purchased the remaining interest in a joint venture held in South Africa. The transaction is not significant to the company's operations.

In June 2014, the company purchased the remaining interest in a joint venture in Indonesia. The transaction is not significant to the company's operations.

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In July 2014, the company obtained control of a joint venture in the United Arab Emirates through an amendment in the related shareholder agreements. This amendment resulted in the company consolidating the entity and removing the related equity method investment. The transaction is not significant to the company's operations. As discussed in Note 2, the company recognized a gain of \$5.0 million during the third quarter of 2014 as a result of this transaction.

In July 2014, the company acquired the chemical division of AKJ Industries, a leading provider of chemical solutions in the coal industry. Pre-acquisition annual sales of the business were approximately \$21 million. The business became part of the company's Industrial reportable segment during the third quarter of 2014.

In September 2014, subsequent to the company's third quarter end for international operations, the company acquired certain assets in Turkey. The transaction is not significant to the company's operations.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)*2013 Activity*

During the first nine months of 2013, in addition to the Champion acquisition, the company completed two business combination transactions.

In January 2013, the company completed the acquisition of Mexico-based Quimiproducos S.A. de C.V. (Quimiproducos), a wholly-owned subsidiary of Fomento Economico Mexicano, S.A.B. de C.V. (commonly known as FEMSA). Quimiproducos produces and supplies cleaning, sanitizing and water treatment goods and services to breweries and beverage companies located in Mexico and Central and South America. Pre-acquisition annual sales of the business were approximately \$43 million. Approximately \$8 million of the purchase price was placed in an escrow account for indemnification purposes related to general representations and warranties. During the third quarter of 2014 the escrow balance was paid to the seller. The business became part of the company's Global Industrial reportable segment during the first quarter of 2013.

In April 2013, the company completed the acquisition of Russia-based OOO Master Chemicals (Master Chemicals). Master Chemicals sells oil field chemicals to oil and gas producers located throughout Russia and parts of the Ukraine. Pre-acquisition annual sales of the business were approximately \$29 million. Approximately \$3 million of the purchase price was placed in an escrow account for indemnification purposes related to general representations and warranties. The business became part of the company's Global Energy reportable segment during the second quarter of 2013.

Other acquisition summary

Other acquisitions during the first nine months of 2014 and all of 2013 were not material to the company's consolidated financial statements; therefore, pro forma financial information has not been presented. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisitions. Based upon purchase price allocations, the components of the aggregate purchase prices of other completed acquisitions during the third quarter and first nine months of 2014 and 2013 are shown in the following table.

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net tangible assets acquired, including impact of joint venture consolidation activity	\$ (18.8)	\$	\$ 4.1	\$ (2.3)
Identifiable intangible assets				
Customer relationships	27.7		30.6	58.8
Trademarks	2.6		3.4	1.4
Other technology	1.2		4.1	1.0

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Non-compete				0.1		
Total intangible assets	31.5			38.2		61.2
Goodwill	16.8			28.1		41.2
Total aggregate purchase price	29.5			70.4		100.1
Acquisition related liabilities and contingent consideration	15.0			15.1		9.8
Liability for indemnification, net	8.0			8.7		2.4
Net cash paid for acquisitions, including contingent consideration		\$	52.5		\$	94.2
						\$
						112.3

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The contingent consideration activity primarily relates to payments on legacy Nalco acquisitions. During the first quarter of 2013, the remaining \$13 million escrow balance related to the O.R. Solutions Inc. acquisition was paid to the seller. As previously discussed, during the first quarter of 2013, approximately \$8 million of the Quimiproducos purchase price was placed in an escrow account and was subsequently paid to the seller in the third quarter of 2014. During the third quarter of 2013, approximately \$3 million of the Master Chemicals purchase price was placed in an escrow account.

The weighted average useful lives of identifiable intangible assets acquired during the first nine months of 2014 and 2013, as shown in the previous table, were 10 and 12 years, respectively.

Dispositions

2014 Activity

In April 2014, the company sold an immaterial business in Italy that was part of the company's Institutional reportable segment.

There were no other business disposals during the first nine months of 2014.

2013 Activity

In August 2013, the company sold substantially all the capital equipment design and build business of its Mobotec air emissions control business. The Mobotec equipment design and build business had 2012 sales of approximately \$27 million, which were within the company's Global Industrial reportable segment. An insignificant loss related to the sale was recorded in special (gains) and charges during the third quarter of 2013. The company retained Mobotec's chemical business.

There were no other business disposals during the first nine months of 2013.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information

(millions)	September 30 2014	December 31 2013
	(unaudited)	
Accounts receivable, net		
Accounts receivable	\$ 2,779.6	\$ 2,648.9
Allowance for doubtful accounts	(85.2)	(80.9)
Total	\$ 2,694.4	\$ 2,568.0
Inventories		
Finished goods	\$ 1,020.0	\$ 953.3
Raw materials and parts	457.7	391.0
Inventories at FIFO cost	1,477.7	1,344.3
Excess of FIFO cost over LIFO cost	(13.3)	(22.4)
Total	\$ 1,464.4	\$ 1,321.9
Property, plant and equipment, net		
Land	\$ 193.0	\$ 191.4
Buildings and improvements	698.1	666.0
Leasehold improvements	86.7	87.9
Machinery and equipment	1,750.1	1,677.5
Merchandising and customer equipment	1,942.5	1,802.8
Capitalized software	456.7	435.4
Construction in progress	398.2	291.6
	5,525.3	5,152.6
Accumulated depreciation	(2,546.8)	(2,270.6)
Total	\$ 2,978.5	\$ 2,882.0
Other intangible assets, net		
Cost of intangible assets not subject to amortization		
Trade names	\$ 1,230.0	\$ 1,230.0
Cost of intangible assets subject to amortization		
Customer relationships	\$ 3,459.8	\$ 3,455.6
Trademarks	311.7	308.1
Patents	432.7	425.6
Other technology	214.1	210.2
	\$ 4,418.3	\$ 4,399.5
Accumulated amortization		
Customer relationships	\$ (759.4)	\$ (594.9)
Trademarks	(86.5)	(70.4)
Patents	(117.7)	(95.7)
Other technology	(101.6)	(83.2)
Other intangible assets, net	\$ 4,583.1	\$ 4,785.3
Other assets		
Deferred income taxes	\$ 48.2	\$ 54.5
Deferred financing costs	25.0	31.7

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Pension		88.7		90.2
Other		241.4		231.5
Total	\$	403.3	\$	407.9

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information (continued)

(millions)	September 30 2014	December 31 2013
	(unaudited)	
Other current liabilities		
Discounts and rebates	\$ 261.0	\$ 263.2
Dividends payable	82.5	82.8
Interest payable	65.3	19.6
Taxes payable, other than income	121.7	115.3
Derivative liabilities	19.9	14.2
Restructuring	46.6	68.3
Future consideration payable to Champion sellers		86.4
Other	258.9	304.0
Total	\$ 855.9	\$ 953.8
Other liabilities		
Deferred income taxes	\$ 1,583.1	\$ 1,661.3
Income taxes payable - non-current	86.5	90.2
Restructuring	8.8	12.9
Other	127.1	134.9
Total	\$ 1,805.5	\$ 1,899.3
Accumulated other comprehensive loss		
Unrealized loss on derivative financial instruments, net of tax	\$ (5.7)	\$ (6.6)
Unrecognized pension and postretirement benefit expense, net of tax	(224.2)	(235.0)
Cumulative translation, net of tax	(147.4)	(63.6)
Total	\$ (377.3)	\$ (305.2)

5. Debt and Interest

The following table provides the components of the company's short-term debt obligations as of September 30, 2014 and December 31, 2013.

(millions)	September 30 2014	December 31 2013
	(unaudited)	
Short-term debt		
Commercial paper	\$ 630.2	\$ 304.8
Notes payable	36.8	50.9
Long-term debt, current maturities	1,255.8	505.3
Total	\$ 1,922.8	\$ 861.0

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As of September 30, 2014, the company had in place a \$1.5 billion multi-year credit facility, which expires in September 2016. The credit facility has been established with a diverse syndicate of banks and supports the company's \$1.5 billion U.S. commercial paper program and the company's \$200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$1.5 billion. The company's U.S. commercial paper program, as shown in the previous table, had \$630 million and \$305 million outstanding as of September 30, 2014 and December 31, 2013, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Debt and Interest (continued)

The following table provides the components of the company's long-term debt obligations, including current maturities, as of September 30, 2014 and December 31, 2013.

(millions)	Maturity by year	September 30 2014	December 31 2013
		(unaudited)	
Long-term debt			
Description / 2014 Principal Amount			
Three year 2011 senior notes (\$500 million)	2014	\$ 500.0	\$ 499.9
Seven year 2008 senior notes (\$250 million)	2015	249.9	249.7
Three year 2012 senior notes (\$500 million)	2015	499.9	499.9
Series B private placement senior euro notes (175 million euro)	2016	229.9	237.8
Five year 2011 senior notes (\$1.25 billion)	2016	1,248.9	1,248.6
Term loan (\$400 million)	2016	400.0	800.0
Five year 2012 senior notes (\$500 million)	2017	495.5	499.7
Series A private placement senior notes (\$250 million)	2018	250.0	250.0
Ten year 2011 senior notes (\$1.25 billion)	2021	1,249.4	1,249.3
Series B private placement senior notes (\$250 million)	2023	250.0	250.0
Thirty year 2011 senior notes (\$750 million)	2041	743.0	742.8
Capital lease obligations		10.2	12.7
Other		3.1	8.4
Total debt		6,129.8	6,548.8
Long-term debt, current maturities		(1,255.8)	(505.3)
Total long-term debt		\$ 4,874.0	\$ 6,043.5

In February 2014, April 2014 and September 2014, the company repaid \$100 million, \$150 million and \$150 million, respectively, of the term loan borrowings.

The company is in compliance with its debt covenants as of September 30, 2014.

Interest expense and interest income recognized during the third quarter and first nine months 2014 and 2013 were as follows:

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Interest expense	\$ 66.1	\$ 69.2	\$ 202.0	\$ 203.0

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Interest income		(2.8)		(2.2)		(7.4)		(8.3)
Interest expense, net	\$	63.3	\$	67.0	\$	194.6	\$	194.7

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Goodwill and Other Intangible AssetsGoodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. The company's reporting units are its operating segments.

During the second quarter of 2014, the company completed its annual test for goodwill impairment. The company used a step zero qualitative test to assess all ten of its reporting units given substantial levels of headroom and other strong qualitative indicators. Qualitative testing evaluated factors including, but not limited to, economic, market and industry conditions, cost factors and the overall financial performance of the reporting units. Based on the step zero testing performed, no adjustment to the carrying value of goodwill was necessary.

If circumstances change significantly, the company would also test a reporting unit's goodwill for impairment during interim periods between its annual tests. Based on the current performance of the company's operating units, updating the impairment testing during the third quarter of 2014 was not deemed necessary. There has been no impairment of goodwill since the adoption of Financial Accounting Standards Board (FASB) guidance for goodwill and other intangibles on January 1, 2002.

The merger with Nalco and the acquisition of Champion resulted in the addition of \$4.5 billion and \$1.0 billion of goodwill, respectively. Subsequent performance of the reporting units holding the additional goodwill relative to projections used for the purchase price allocation of goodwill could result in an impairment if there is either underperformance by the reporting unit or if the carrying value of the reporting unit were to fluctuate significantly due to reasons that did not proportionately change fair value.

The changes in the carrying amount of goodwill for each of the company's reportable segments during the nine months ended September 30, 2014 were as follows:

(millions)	Global Industrial	Global Institutional	Global Energy	Other	Total
Goodwill as of December 31, 2013	\$ 2,729.5	\$ 706.6	\$ 3,306.2	\$ 120.6	\$ 6,862.9
Current year business acquisitions(a)	14.4		9.2	4.6	28.2
Prior year business acquisitions	(0.1)		16.9		16.8
Business disposals		(0.4)			(0.4)
Reclassifications(b)	(28.9)	5.0	23.9		
Effect of foreign currency translation	(22.9)	(6.0)	(28.4)	(1.1)	(58.4)
Goodwill as of September 30, 2014	\$ 2,692.0	\$ 705.2	\$ 3,327.8	\$ 124.1	\$ 6,849.1

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(a) For 2014, none of the goodwill related to businesses acquired is expected to be tax deductible.

(b) The reclassifications line represents immaterial transfers related to certain changes to the company's reportable segments during the first quarter of 2014. See Note 14 for additional information.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Goodwill and Other Intangible Assets (continued)Other Intangible Assets

As part of the Nalco merger, the company added the Nalco trade name as an indefinite life intangible asset. During the second quarter of 2014, using the qualitative assessment method, the company completed its annual test for indefinite life intangible asset impairment. Based on this testing, no adjustment to the \$1.2 billion carrying value of this asset was necessary. Additionally, based on the current performance of the company's operating units, updating the impairment testing during the third quarter of 2014 was not deemed necessary. There has been no impairment of the Nalco trade name intangible asset since it was acquired.

The company's other intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the third quarter ended September 30, 2014 and 2013 was \$75.2 million and \$79.0 million, respectively. Total amortization expense related to other intangible assets during the first nine months of 2014 and 2013 was \$230.0 million and \$214.1 million, respectively.

As of September 30, 2014, future estimated expense related to amortizable other identifiable intangible assets is expected to be:

(millions)

2014 (Remainder: three-month period)	\$	77
2015		306
2016		301
2017		298
2018		285
2019		277

7. Fair Value Measurements

The company's financial instruments include cash and cash equivalents, investments held in rabbi trusts, accounts receivable, accounts payable, contingent consideration obligations, commercial paper, notes payable, foreign currency forward contracts, interest rate swap contracts and long-term debt.

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Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. The hierarchy is broken down into three levels:

Level 1 - Inputs are quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs include observable inputs other than quoted prices in active markets.

Level 3 - Inputs are unobservable inputs for which there is little or no market data available.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair Value Measurements (continued)

The carrying amount and the estimated fair value for assets and liabilities measured on a recurring basis were:

September 30 (millions)	Carrying Amount	2014 Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Investments held in rabbi trusts	\$ 2.7	\$ 2.7	\$	\$
Foreign currency forward contracts	19.2		19.2	
Interest rate swap contracts	0.5		0.5	
Contingent consideration	0.4		0.4	
Liabilities:				
Foreign currency forward contracts	15.5		15.5	
Interest rate swap contracts	4.4		4.4	
Contingent consideration	2.0			2.0

December 31 (millions)	Carrying Amount	2013 Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Investments held in rabbi trusts	\$ 4.3	\$ 4.3	\$	\$
Foreign currency forward contracts	20.2		20.2	
Liabilities:				
Foreign currency forward contracts	14.2		14.2	
Contingent consideration	16.4			16.4
Future consideration payable to Champion sellers	86.4			86.4

Investments held in rabbi trusts are classified within level 1 because they are valued using quoted prices in active markets. The carrying value of foreign currency forward contracts is at fair value, which is determined based on foreign currency exchange rates as of the balance sheet date, and is classified within level 2. The carrying value of interest rate swap contracts is at fair value, which is determined based on current interest rates and forward LIBOR rates as of the balance sheet date, and is classified within level 2. Prior to its repayment in January 2014, the future consideration payable to Champion sellers was valued using level 3 inputs.

Contingent consideration is recognized and measured at fair value at the acquisition date. Contingent consideration is classified within level 3 as the underlying fair value is measured based on the probability-weighted present value of the consideration expected to be transferred. The consideration expected to be transferred is based on the company's expectations of various financial measures. The ultimate settlement of contingent consideration could deviate from current estimates based on the actual results of these financial measures. Changes in the fair value of contingent consideration for the nine months ended September 30, 2014 were as follows:

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(millions)

Contingent consideration, December 31, 2013	\$	16.4
Amount recognized at transaction date		(0.4)
Loss (gain) recognized in earnings		(0.2)
Settlements		(14.2)
Foreign currency translation		
Contingent consideration, September 30, 2014	\$	1.6

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair Value Measurements (continued)

The carrying values of accounts receivable, accounts payable, cash and cash equivalents, commercial paper and notes payable approximate fair value because of their short maturities, and as such are classified within level 1.

The fair value of long-term debt is based on quoted market prices for the same or similar debt instruments. The carrying amount and the estimated fair value of long-term debt, including current maturities, held by the company were:

(millions)	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including current maturities)	\$ 6,129.8	\$ 6,471.3	\$ 6,548.8	\$ 6,766.0

8. Derivatives and Hedging Transactions

The company uses foreign currency forward contracts, interest rate swaps and foreign currency debt to manage risks associated with foreign currency exchange rates, interest rates and net investments in foreign operations. The company does not hold derivative financial instruments of a speculative nature or for trading purposes. The company records all derivatives as assets and liabilities on the balance sheet at fair value. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. The company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

The company is exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. The company monitors its exposure to credit risk by using credit approvals and credit limits and by selecting major international banks and financial institutions as counterparties. The company does not anticipate nonperformance by any of these counterparties, and therefore, recording a valuation allowance against the company's derivative balance is not considered necessary.

Cash Flow Hedges

The company utilizes foreign currency forward contracts to hedge the effect of foreign currency exchange rate fluctuations on forecasted foreign currency transactions, including: inventory purchases and intercompany royalty and management fee payments. These forward contracts are

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designated as cash flow hedges. The effective portions of the changes in fair value of these contracts are recorded in accumulated other comprehensive income (AOCI) until the hedged items affect earnings, at which time the gain or loss is reclassified into the same line item in the Consolidated Statement of Income as the underlying exposure being hedged. All hedged transactions are forecasted to occur within the next twelve months.

The company occasionally enters into forward starting interest rate swap contracts to manage interest rate exposure. In September 2014, the company entered into a series of U.S. dollar denominated forward starting swap agreements to hedge against changes in interest rates that could impact a future debt issuance. The interest rate swap agreements were designated and effective as cash flow hedges of the expected interest payments related to the anticipated future debt issuance. The underlying gain recognized in the third quarter of 2014 was recorded in AOCI.

Also in September 2014, subsequent to the company's third quarter end for international operations, the company entered into a series of euro denominated forward starting swap agreements to hedge against changes in interest rates that could impact a future debt issuance.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)

In 2011, the company entered into and subsequently closed a series of forward starting swap agreements in connection with the issuance of its private placement debt during the fourth quarter of 2011. In 2006, the company entered into and subsequently closed two forward starting swap contracts related to the issuance of its senior euro notes. The amounts recorded in AOCI for both the 2011 and 2006 transactions are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur.

The company did not have any forward starting interest rate swap agreements outstanding at December 31, 2013.

The impact on AOCI and earnings from derivative contracts that qualified as cash flow hedges was as follows:

(millions)	Location	Third Quarter Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
<u>Unrealized gain (loss) recognized into AOCI</u> <u>(effective portion)</u>					
Foreign currency forward contracts	AOCI (equity)	\$ 5.5	\$ 1.4	\$ 2.8	\$ 8.0
Interest rate swap contract	AOCI (equity)	0.5		0.5	
		\$ 6.0	\$ 1.4	\$ 3.3	\$ 8.0
<u>Gain (loss) reclassified from AOCI into income</u> <u>(effective portion)</u>					
Foreign currency forward contracts	Cost of sales	\$ 0.9	\$ 0.1	\$ 3.4	\$ (1.6)
	SG&A		0.4	1.0	0.6
		0.9	0.5	4.4	(1.0)
Interest rate swap	Interest expense, net	(1.0)	(1.0)	(3.0)	(3.0)
		\$ (0.1)	\$ (0.5)	\$ 1.4	\$ (4.0)

Gains and losses recognized in income related to the ineffective portion of the company's cash flow hedges were insignificant during the first nine months of 2014 and 2013.

Fair Value Hedges

The company manages interest expense using a mix of fixed and floating rate debt. To help manage exposure to interest rate movements and to reduce borrowing costs, the company may enter into interest rate swaps under which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and thus, there is no impact on earnings due to hedge ineffectiveness.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)

In May 2014, the company entered into an interest rate swap agreement that converted its \$500 million 1.45% debt from a fixed rate to a floating or variable interest rate. The interest rate swap was designated as a fair value hedge.

The impact on earnings from derivative contracts that qualified as fair value hedges was as follows:

(millions)	Location	Third Quarter Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
<u>Gain (loss) on derivative recognized in income</u>					
Interest rate swap	Interest expense, net	\$ (3.4)	\$	\$ (4.4)	\$
<u>Gain (loss) on hedged item recognized in income</u>					
Interest rate swap	Interest expense, net	\$ 3.4	\$	\$ 4.4	\$

Net Investment Hedges

The company designates its outstanding euro 175 million (\$230 million as of September 30, 2014) senior notes and related accrued interest as a hedge of existing foreign currency exposures related to net investments the company has in certain euro functional subsidiaries.

Prior to maturing in December 2013, the Ecolab Series A euro denominated senior notes were also designated as a hedge of existing foreign currency exposures.

In the third quarter of 2012, the company entered into a forward contract with a notional amount of euro 100 million to hedge an additional portion of the company's net investment in euro functional subsidiaries. The forward contract was closed during the second quarter of 2013. In the third quarter of 2014, the company entered into forward contracts with a total notional value of euro 75 million to hedge an additional portion of its net investment in euro functional subsidiaries. Also, in September 2014, subsequent to the company's international quarter end, the company entered into a forward contract with a notional amount of euro 495 million to hedge future foreign currency exposures.

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The revaluation gains and losses on the euronotes and of the forward contracts, which are designated and effective as hedges of the company's net investments, have been included as a component of the cumulative translation adjustment account.

Total revaluation gains and losses related to the euronotes and forward contracts charged to shareholders' equity were as follows:

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Revaluation gains (losses), net of tax	\$ 7.4	\$ (4.2)	\$ 5.6	\$ (4.2)

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)Derivatives Not Designated as Hedging Instruments

The company also uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities held at foreign subsidiaries, primarily receivables and payables, which are remeasured at the end of each period. Although the contracts are effective economic hedges, they are not designated as accounting hedges. Therefore, changes in the value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

The impact on earnings from derivative contracts that are not designated as hedging instruments was as follows:

(millions)	Location	Third Quarter Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
<u>Gain (loss) recognized in income</u>					
Foreign currency forward contracts	SG&A	\$ (0.6)	\$ 8.9	\$ 6.2	\$ 4.4
	Interest expense, net	(2.7)	(0.6)	(8.1)	(3.2)
		\$ (3.3)	\$ 8.3	\$ (1.9)	\$ 1.2

The amounts recognized in SG&A above offset the earnings impact of the related foreign currency denominated assets and liabilities. The amounts recognized in interest expense above represent the component of the hedging gains (losses) attributable to the difference between the spot and forward rates of the hedges as a result of interest rate differentials.

Derivative Summary

The following table summarizes the fair value of the company's outstanding derivatives. The amounts represent gross values of derivative assets and liabilities and are included in other current assets and other current liabilities on the Consolidated Balance Sheet.

(millions)	Asset Derivatives		Liability Derivatives	
	September 30 2014	December 31 2013	September 30 2014	December 31 2013

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Derivatives designated as hedging instruments

Foreign currency forward contracts	\$	5.2	\$	4.4	\$	3.2	\$	1.1
Interest rate swap contracts		0.5				4.4		

Derivatives not designated as hedging instruments

Foreign currency forward contracts		14.0		15.8		12.3		13.1
Total	\$	19.7	\$	20.2	\$	19.9	\$	14.2

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)

The company's derivative transactions are subject to master netting arrangements that allow the company to net settle contracts with the same counterparties. These arrangements generally do not call for collateral. Had the company elected to offset amounts in its Consolidated Balance Sheet, it would have a net liability of \$0.2 million and a net asset of \$6.0 million as of September 30, 2014 and December 31, 2013, respectively.

The company had foreign currency forward exchange contracts with notional values that totaled approximately \$2.0 billion at both September 30, 2014 and December 31, 2013, interest rate swap agreements with notional values of \$725 million at September 30, 2014, and net investment hedges, excluding the euro denominated debt, with notional values of \$75 million at September 30, 2014.

9. Other Comprehensive Income Information

Comprehensive income (loss) includes net income, foreign currency translation adjustments, unrecognized gains and losses on securities, defined benefit pension and postretirement plan adjustments, gains and losses on derivative instruments designated and effective as cash flow hedges and non-derivative instruments designated and effective as foreign currency net investment hedges that are charged or credited to the accumulated other comprehensive loss account in shareholders' equity.

The following table provides other comprehensive income information related to the company's derivatives and hedging instruments and pension and postretirement benefits.

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Derivative & Hedging Instruments				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized into AOCI	\$ 6.0	\$ 1.4	\$ 3.3	\$ 8.0
(Gains) losses reclassified from AOCI into income				
Cost of sales	(0.9)	(0.1)	(3.4)	1.6
SG&A		(0.4)	(1.0)	(0.6)
Interest expense, net	1.0	1.0	3.0	3.0
	0.1	0.5	(1.4)	4.0
Translation & other insignificant activity	(0.4)	0.2	(0.1)	
Tax impact	(0.7)	(0.5)	(0.9)	(2.9)
Net of tax	\$ 5.0	\$ 1.6	\$ 0.9	\$ 9.1

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Pension & Postretirement Benefits

Amounts reclassified from AOCI into income

Actuarial losses	\$	5.7	\$	18.6	\$	17.2	\$	55.8
Prior service costs		(1.6)		(1.9)		(5.0)		(5.6)
		4.1		16.7		12.2		50.2
Tax impact		(1.5)		(6.3)		(4.5)		(18.9)
Net of tax	\$	2.6	\$	10.4	\$	7.7	\$	31.3

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Other Comprehensive Income Information (continued)

The derivative losses reclassified from AOCI into income, net of tax, were \$0.1 million and \$0.4 million in third quarter of 2014 and 2013, respectively. The derivative gain reclassified from AOCI into income during the first nine months of 2014, net of tax, was \$1.0 million. The derivative loss reclassified from AOCI into income during the first nine months of 2013, net of tax, was \$2.9 million.

The pension and postretirement net actuarial loss and prior service cost reclassified from AOCI into income, net of tax, were \$2.6 million and \$10.4 million in third quarter of 2014 and 2013, respectively. During the first nine months of 2014 and 2013 the pension and postretirement net actuarial loss and prior service cost reclassified from AOCI into income, net of tax, were \$7.7 million and \$31.3 million, respectively.

See Note 8 for additional information related to the company's derivatives and hedging transactions. See Note 13 for additional information related to the company's recognition of net actuarial losses and amortization of prior service benefits.

10. Shareholders' Equity

Champion acquisition

On April 10, 2013, the company issued 6,596,444 shares of common stock for the stock consideration portion of the Champion acquisition. Of the total shares issued, the company deposited 1,258,115 shares, or approximately \$100 million of the total consideration, into an escrow fund to satisfy adjustments to the consideration and indemnification obligations of the acquired company's stockholders. Further information related to the acquisition of Champion is included in Note 3.

Share repurchases

In May 2011, the company's Board of Directors authorized the repurchase of up to 15 million shares of common stock, including shares to be repurchased under Rule 10b5-1. This repurchase authorization was completed in May 2014. In August 2011, the Finance Committee of the company's Board of Directors, via delegation by the company's Board of Directors, authorized the repurchase of an additional 10 million common shares which was contingent upon completion of the merger with Nalco.

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In accordance with its share repurchase program through open market or private purchases, the company reacquired 3,096,464 shares of its common stock during 2013. The number of shares repurchased in 2013 includes 1,258,115 shares the company repurchased from the Champion escrow account, with the cash paid to the beneficial shareholders deposited back into escrow. During 2013 the company also reacquired 346,941 shares withheld for taxes related to the exercise of stock options and the vesting of stock awards and units.

During the first nine months of 2014, the company reacquired 3,201,021 shares of its common stock, of which 2,827,334 related to share repurchases through open market or private purchases and reacquired 373,687 shares withheld for taxes related to the exercise of stock options and the vesting of stock awards and units.

As of September 30, 2014, 9,886,298 shares remained to be repurchased under the company's repurchase authorization. The company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Earnings Attributable to Ecolab Per Common Share

The computations of the basic and diluted earnings attributable to Ecolab per share amounts were as follows:

(millions, except per share amounts)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income attributable to Ecolab	\$ 364.9	\$ 308.0	\$ 867.3	\$ 680.7
Weighted-average common shares outstanding				
Basic	300.0	301.2	300.1	299.4
Effect of dilutive stock options, units and awards	5.7	6.0	5.9	5.9
Diluted	305.7	307.2	306.0	305.3
Earnings attributable to Ecolab per common share				
Basic	\$ 1.22	\$ 1.02	\$ 2.89	\$ 2.27
Diluted	\$ 1.19	\$ 1.00	\$ 2.83	\$ 2.23
Anti-dilutive securities excluded from computation of earnings per share			1.5	

12. Income Taxes

The company's tax rate was 27.3% and 24.9% for the third quarter of 2014 and 2013, respectively, and 29.1% and 23.6% for the first nine months of 2014 and 2013, respectively. The changes in the company's tax rate for the third quarter and nine month periods were primarily driven by the tax rate impact of special gains and charges and discrete tax items, with lesser impacts from the expiration of the U.S. R&D credit and favorable geographic income mix.

The company recognized discrete tax net benefits of \$1.9 million during the third quarter of 2014 and discrete tax net expense of \$16.3 million during the first nine months of 2014.

Third quarter 2014 discrete tax net benefits were driven primarily by recognizing adjustments from filing the company's 2013 U.S. federal income tax return, offset partially by the net impact of foreign audit settlements and adjustments.

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Discrete tax net expense for the first nine months of 2014 was also impacted by an update to non-current tax liabilities for global tax audits, an adjustment related to the re-characterization of intercompany payments between the company's U.S. and foreign affiliates, a rate differential on certain prior year shared costs and the remeasurement of certain deferred tax assets and liabilities resulting from a change in the state tax rate for certain entities following the merger of Champion operations, which collectively more than offset the net change of valuation allowances based on the realizability of foreign deferred tax assets and benefits from other foreign country audit settlements.

The company recognized discrete tax net benefits of \$12.5 million during the third quarter of 2013 and \$40.1 million during the first nine months of 2013.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes (continued)

Third quarter 2013 discrete tax net benefits were driven primarily by recognizing adjustments from filing the company's 2012 U.S. federal tax return and the recognition of settlements related to prior year income tax audits, partially offset by the remeasurement of certain deferred tax assets.

Discrete tax net benefits for the first nine months of 2013 were also impacted by the release of a valuation allowance related to the realizability of foreign deferred tax assets, law changes within a foreign jurisdiction, recognition of settlements related to our 2009 through 2010 U.S. income tax returns, the remeasurement of certain deferred tax assets and liabilities and the retroactive extension during first quarter 2013 of the U.S. R&D credit, all of which were partially offset by foreign audit adjustments.

13. Pension and Postretirement Plans

The company has a non-contributory qualified defined benefit pension plan covering the majority of its U.S. employees. The company also has U.S. non-contributory non-qualified defined benefit plans, which provide for benefits to employees in excess of limits permitted under its U.S. pension plans. On January 1, 2014, certain legacy Champion employees became eligible to participate in the U.S. qualified and non-qualified pension plans. Various international subsidiaries also have defined benefit pension plans. The company provides postretirement health care benefits to certain U.S. employees and retirees.

The components of net periodic pension and postretirement health care benefit costs for the third quarter ended September 30 are as follows:

(millions)	U.S. Pension		International Pension		U.S. Postretirement Health Care	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Service cost	16.6	17.2	8.5	9.0	1.1	1.5
Interest cost on benefit obligation	22.5	21.2	12.2	11.7	2.7	2.7
Expected return on plan assets	(32.1)	(32.5)	(13.4)	(11.6)	(0.2)	(0.3)
Recognition of net actuarial (gain) loss	5.9	15.6	1.9	2.8	(2.1)	0.2
Amortization of prior service cost (benefit)	(1.7)	(1.7)	0.2	(0.1)	(0.1)	(0.1)
Settlements/curtailments	11.2	19.8	9.4	11.8	1.4	4.0

The components of net periodic pension and postretirement health care benefit costs for the nine months ended September 30 are as follows:

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(millions)	U.S. Pension		International Pension		U.S. Postretirement Health Care	
	2014	2013	2014	2013	2014	2013
Service cost	\$ 49.8	\$ 51.5	\$ 25.1	\$ 27.0	\$ 3.2	\$ 4.5
Interest cost on benefit obligation	67.5	63.6	37.5	35.2	8.1	8.1
Expected return on plan assets	(96.3)	(97.6)	(41.0)	(34.9)	(0.8)	(0.8)
Recognition of net actuarial (gain) loss	17.7	46.8	5.6	8.5	(6.1)	0.5
Amortization of prior service cost (benefit)	(5.2)	(5.2)	0.4	(0.1)	(0.2)	(0.3)
Settlements/curtailments			0.1	0.1		
	\$ 33.5	\$ 59.1	\$ 27.7	\$ 35.8	\$ 4.2	\$ 12.0

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Pension and Postretirement Plans (continued)

As of September 30, 2014, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans.

During the first nine months of 2014, the company made payments of \$6 million to its U.S. non-contributory non-qualified defined benefit plans, and estimates that it will make payments of approximately an additional \$1 million to such plans during the remainder of 2014.

The company contributed \$42 million to its international pension benefit plans during the first nine months of 2014. The company currently estimates that it will contribute approximately an additional \$11 million to the international pension benefit plans during the remainder of 2014.

During the first nine months of 2014, the company made payments of \$13 million to its U.S. postretirement health care benefit plans, and estimates that it will make payments of approximately an additional \$4 million to such plans during the remainder of 2014.

14. Operating Segments

The company's organizational structure consists of global business unit and global regional leadership teams. The company's ten operating units, which are also operating segments, follow its commercial and product-based activities and are based on engagement in business activities, availability of discrete financial information and review of operating results by the Chief Operating Decision Maker at the identified operating unit level.

Eight of the company's ten operating units have been aggregated into three reportable segments based on similar economic characteristics and future prospects, nature of the products and production processes, end-use markets, channels of distribution and regulatory environment. The company's reportable segments are Global Industrial, Global Institutional and Global Energy. The company's two operating units that are primarily fee-for-service businesses have been combined into the Other segment and do not meet the quantitative criteria to be separately reported. The company reports the Other segment as a reportable segment as it considers information regarding its two underlying operating units as useful in understanding its consolidated results.

Comparability of Reportable Segments

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Effective in the first quarter of 2014, the company made immaterial changes to its reportable segments, including the movement of certain customers between reportable segments, reflecting its continued integration of businesses and consistency across its global markets and customers. In addition, the company's management made immaterial changes to the way it measures and reports segment operating income by updating the internal allocations of certain supply chain and SG&A expenses related to its centralized functions. The changes had no impact on the company's consolidated sales or operating income.

The company evaluates the performance of its international operations based on fixed currency exchange rates, which eliminate the impact of exchange rate fluctuations on its international operations.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Operating Segments (continued)

Fixed currency amounts for the **Previously Reported** values shown in the following table are based on translation into U.S. dollars at fixed foreign currency exchange rates established by management at the beginning of 2013. The **Changes in Currency Rates** column reflects the impact on previously reported values related to fixed currency exchange rates established by management at the beginning of 2014. The

Segment Changes column reflects the segment changes discussed above. Presenting the **Revised** column at 2014 management rates was done to allow for consistent comparisons against 2014 results.

The impact of the preceding changes on previously reported full year 2013 reportable segment net sales and operating income is summarized as follows:

Year ended December 31 (millions)	2013			
	Previously Reported	Changes in Currency Rates	Segment Changes	Revised
Net Sales				
Global Industrial	\$ 4,905.1	\$ (149.3)	\$ (13.0)	\$ 4,742.8
Global Institutional	4,202.5	(55.4)	5.4	4,152.5
Global Energy	3,532.8	(113.1)	7.6	3,427.3
Other	715.0	(5.7)		709.3
Subtotal at fixed currency rates	13,355.4	(323.5)		13,031.9
Effect of foreign currency translation	(102.0)	323.5		221.5
Consolidated	\$ 13,253.4	\$	\$	\$ 13,253.4

Year ended December 31 (millions)	2013			
	Previously Reported	Changes in Currency Rates	Segment Changes	Revised
Operating Income				
Global Industrial	\$ 637.3	\$ (27.1)	\$ (7.2)	\$ 603.0
Global Institutional	764.5	(11.7)	15.4	768.2
Global Energy	492.1	(19.2)	(14.0)	458.9
Other	97.9	0.4	5.8	104.1
Corporate	(411.6)	2.5		(409.1)
Subtotal at fixed currency rates	1,580.2	(55.1)		1,525.1
Effect of foreign currency translation	(19.6)	55.1		35.5
Consolidated	\$ 1,560.6	\$	\$	\$ 1,560.6

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Operating Segments (continued)Reportable Segment Information

The profitability of the company's operating units is evaluated by management based on operating income. The company has no intersegment revenues. The international amounts included within each of the company's four reportable segments are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 2014.

Financial information for each of the company's reportable segments, including the impact of all preceding segment structure changes, is as follows:

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net Sales				
Global Industrial	\$ 1,251.1	\$ 1,219.5	\$ 3,602.7	\$ 3,504.1
Global Institutional	1,125.5	1,086.9	3,195.8	3,092.2
Global Energy	1,089.2	957.2	3,145.0	2,400.3
Other	196.6	183.5	560.2	528.2
Subtotal at fixed currency rates	3,662.4	3,447.1	10,503.7	9,524.8
Effect of foreign currency translation	32.5	36.9	96.0	169.1
Consolidated	\$ 3,694.9	\$ 3,484.0	\$ 10,599.7	\$ 9,693.9
Operating Income				
Global Industrial	\$ 175.2	\$ 171.9	\$ 456.7	\$ 433.0
Global Institutional	237.5	225.8	593.0	565.8
Global Energy	174.1	125.1	462.5	306.2
Other	33.0	28.6	84.6	78.0
Corporate	(52.8)	(81.8)	(173.6)	(320.0)
Subtotal at fixed currency rates	567.0	469.6	1,423.2	1,063.0
Effect of foreign currency translation	4.4	6.4	11.3	27.0
Consolidated	\$ 571.4	\$ 476.0	\$ 1,434.5	\$ 1,090.0

Consistent with the company's internal management reporting, the Corporate segment includes amortization specifically from the Nalco merger and in 2013 certain integration costs for both the Nalco and Champion transactions. The Corporate segment also includes special (gains) and charges, as discussed in Note 2, reported on the Consolidated Statement of Income.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments and Contingencies

The company is subject to various claims and contingencies related to, among other things, workers' compensation, general liability (including product liability), automobile claims, health care claims, environmental matters and lawsuits. The company is also subject to various claims and contingencies related to income taxes and has contractual obligations related to legal commitments.

The company records liabilities when a contingent loss is probable and can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred.

Litigation and Environmental Matters

The company and certain subsidiaries are party to various lawsuits, claims and environmental actions that have arisen in the ordinary course of business. These include from time to time antitrust, commercial, patent infringement, product liability and wage hour lawsuits, as well as possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other operating or closed facilities. The company has established accruals for certain lawsuits, claims and environmental matters. The company currently believes that there is not a reasonably possible risk of material loss in excess of the amounts accrued related to these legal matters. Because litigation is inherently uncertain, and unfavorable rulings or developments could occur, there can be no certainty that the company may not ultimately incur charges in excess of recorded liabilities. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the company's results of operations or cash flows in the period in which they are recorded. The company currently believes that such future charges related to suits and legal claims, if any, would not have a material adverse effect on the company's consolidated financial position.

Environmental Matters

The company is currently participating in environmental assessments and remediation at approximately 50 locations, most of which are in the U.S. and environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not anticipated in the company's accruals for environmental liabilities.

Matters Related to Wage Hour Claims

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In Cooper v. Ecolab Inc., California State Court Superior Court-Los Angeles County, case no. BC486875, the plaintiffs sought certification of a purported class of terminated California employees of any business for alleged violation of statutory obligations regarding payment of accrued vacation upon termination. The company reached a preliminary settlement with the plaintiffs, which was approved by the court on March 17, 2014. The settlement amount, which is not material to the company's operations or financial position, was paid in June 2014.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments and Contingencies (continued)

The company is a defendant in six other pending wage hour lawsuits claiming violations of the Fair Labor Standards Act (FLSA) or a similar state law. Of these six suits, two have been certified for class action status. Ross (formerly Icard) v. Ecolab, U.S. District Court Northern District of California, case no. C 13-05097 PJH, an action under California state law, has been certified for class treatment of California Institutional employees. In Cancilla v. Ecolab, U.S. District Court - Northern District of California, case no. CV 12-03001, the Court conditionally certified a nationwide class of Pest Elimination Service Specialists for alleged FLSA violations. The suit also seeks a purported California sub-class for alleged California wage hour law violations and certifications of classes for state law violations in Washington, Colorado, Maryland, Illinois, Missouri, Wisconsin and North Carolina. A third pending suit, Charlot v. Ecolab Inc., U.S. District Court-Eastern District of New York, case no. CV 12-04543, seeks nationwide class certification of Institutional employees for alleged FLSA violations as well as purported state sub-classes in New York, New Jersey, Washington and Pennsylvania alleging violations of state wage hour laws. A fourth pending suit, Schneider v. Ecolab, Circuit Court of Cook County, Illinois, case no. 2014 CH 193, seeks certification of a class of Institutional employees for alleged violations of Illinois wage and hour laws. A fifth pending suit, Martino v. Ecolab, Santa Clara County California Superior Court, seeks certification of a California state class of Institutional employees for alleged violations of California wage and hour laws. The Martino case has been removed to the United States District Court for the Northern District of California. A sixth pending suit, LaValley v. Ecolab, United States District Court for the District of Minnesota, seeks certification of a class of Territory Representatives for alleged violations of the FLSA and New York state wage and hour laws.

Matters Related to Deepwater Horizon Incident Response

On April 22, 2010, the deepwater drilling platform, the Deepwater Horizon, operated by a subsidiary of BP plc, sank in the Gulf of Mexico after a catastrophic explosion and fire that began on April 20, 2010. A massive oil spill resulted. Approximately one week following the incident, subsidiaries of BP plc, under the authorization of the responding federal agencies, formally requested Nalco Company, now an indirect subsidiary of Ecolab, to supply large quantities of COREXIT® 9500, a Nalco oil dispersant product listed on the U.S. EPA National Contingency Plan Product Schedule. Nalco Company responded immediately by providing available COREXIT and increasing production to supply the product to BP's subsidiaries for use, as authorized and directed by agencies of the federal government throughout the incident. Prior to the incident, Nalco and its subsidiaries had not provided products or services or otherwise had any involvement with the Deepwater Horizon platform. On July 15, 2010, BP announced that it had capped the leaking well, and the application of dispersants by the responding parties ceased shortly thereafter.

On May 1, 2010, the President appointed retired U.S. Coast Guard Commandant Admiral Thad Allen to serve as the National Incident Commander in charge of the coordination of the response to the incident at the national level. The EPA directed numerous tests of all the dispersants on the National Contingency Plan Product Schedule, including those provided by Nalco Company, to ensure decisions about ongoing dispersant use in the Gulf of Mexico are grounded in the best available science. Nalco Company cooperated with this testing process and continued to supply COREXIT, as requested by BP and government authorities. After review and testing of a number of dispersants, on September 30, 2010, and on August 2, 2010, the EPA released toxicity data for eight oil dispersants.

The use of dispersants by the responding parties was one tool used by the government and BP to avoid and reduce damage to the Gulf area from the spill. Since the spill occurred, the EPA and other federal agencies have closely monitored conditions in areas where dispersant was applied. Nalco Company has encouraged ongoing monitoring and review of COREXIT and other dispersants and has cooperated fully with the

governmental review and approval process. However, in connection with its provision of COREXIT, Nalco Company has been named in several lawsuits as described below.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments and Contingencies (continued)

Cases arising out of the Deepwater Horizon accident were administratively transferred for pre-trial purposes to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under In Re: Oil Spill by the Oil Rig Deepwater Horizon in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) (MDL 2179).

Putative Class Action Litigation

Nalco Company was named, along with other unaffiliated defendants, in six putative class action complaints related to the Deepwater Horizon oil spill: Adams v. Louisiana, et al., Case No. 11-cv-01051 (E.D. La.); Elrod, et al. v. BP Exploration & Production Inc., et al., 12-cv-00981 (E.D. La.); Harris, et al. v. BP, plc, et al., Case No. 2:10-cv-02078-CJBSS (E.D. La.); Ireland v. BP Products, Inc., et al., Case No. 11-cv-00881 (E.D. La.); Petitjean, et al. v. BP, plc, et al., Case No. 3:10-cv-00316-RS-EMT (N.D. Fla.); and, Wright, et al. v. BP, plc, et al., Case No. 1:10-cv-00397-B (S.D. Ala.). The cases were filed on behalf of various potential classes of persons who live and work in or derive income from the effected Coastal region. Each of the actions contains substantially similar allegations, generally alleging, among other things, negligence relating to the use of our COREXIT dispersant in connection with the Deepwater Horizon oil spill. The plaintiffs in these putative class action lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs. These cases have been consolidated in MDL 2179.

Other Related Claims Pending in MDL 2179

Nalco Company was also named, along with other unaffiliated defendants, in 23 complaints filed by individuals: Alexander, et al. v. BP Exploration & Production, et al., Case No. 11-cv-00951 (E.D. La.); Best v. British Petroleum plc, et al., Case No. 11-cv-00772 (E.D. La.); Black v. BP Exploration & Production, Inc., et al. Case No. 2:11-cv- 867, (E.D. La.); Brooks v. Tidewater Marine LLC, et al., Case No. 11-cv- 00049 (S.D. Tex.); Capt Ander, Inc. v. BP, plc, et al., Case No. 4:10-cv-00364-RH-WCS (N.D. Fla.); Coco v. BP Products North America, Inc., et al. (E.D. La.); Danos, et al. v. BP Exploration et al., Case No. 00060449 (25th Judicial Court, Parish of Plaquemines, Louisiana); Doom v. BP Exploration & Production, et al. , Case No. 12-cv-2048 (E.D. La.); Duong, et al., v. BP America Production Company, et al., Case No. 13-cv-00605 (E.D. La.); Sponge v. BP, P.L.C., et al., Case No. 0166367 (32nd Judicial District Court, Parish of Terrebonne, Louisiana); Ezell v. BP, plc, et al., Case No. 2:10-cv-01920-KDE-JCW (E.D. La.); Fitzgerald v. BP Exploration, et al., Case No. 13-cv-00650 (E.D. La.); Hill v. BP, plc, et al., Case No. 1:10-cv-00471-CG-N (S.D. Ala.); Hogan v. British Petroleum Exploration & Production, Inc., et al., Case No. 2012-22995 (District Court, Harris County, Texas); Hudley v. BP, plc, et al., Case No. 10-cv-00532-N (S.D. Ala.); In re of Jambon Supplier II, L.L.C., et al., Case No. 12-426 (E.D. La.); Kolian v. BP Exploration & Production, et al. , Case No. 12-cv-2338 (E.D. La.); Monroe v. BP, plc, et al., Case No. 1:10-cv-00472-M (S.D. Ala.); Pearson v. BP Exploration & Production, Inc., Case No. 2:11-cv-863, (E.D. La.); Shimer v. BP Exploration and Production, et al, Case No. 2:13-cv-4755 (E.D. La.); Top Water Charters, LLC v. BP, P.L.C., et al., No. 0165708 (32nd Judicial District Court, Parish of Terrebonne, Louisiana); Troups, et al. v Nalco Company, et al., Case No. 59-121 (25th Judicial District Court, Parish of Plaquemines, Louisiana); and, Trehern v. BP, plc, et al., Case No. 1:10-cv-00432-HSO-JMR (S.D. Miss.). The cases were filed on behalf of individuals and entities that own property, live, and/ or work in or derive income from the effected Coastal region. Each of the actions contains substantially similar allegations, generally alleging, among other things, negligence relating to the use of our COREXIT dispersant in connection with the Deepwater Horizon oil spill. The plaintiffs in these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments and Contingencies (continued)

Pursuant to orders issued by the court in MDL 2179, the claims were consolidated in several master complaints, including one naming Nalco Company and others who responded to the Gulf Oil Spill (known as the B3 Master Complaint). On May 18, 2012, Nalco filed a motion for summary judgment against the claims in the B3 Master Complaint, on the grounds that: (i) Plaintiffs' claims are preempted by the comprehensive oil spill response scheme set forth in the Clean Water Act and National Contingency Plan; and (ii) Nalco is entitled to derivative immunity from suit. On November 28, 2012, the Court granted Nalco's motion and dismissed with prejudice the claims in the B3 Master Complaint asserted against Nalco. The Court held that such claims were preempted by the Clean Water Act and National Contingency Plan. Because claims in the B3 Master Complaint remain pending against other defendants, the Court's decision is not a final judgment for purposes of appeal. Under Federal Rule of Appellate Procedure 4(a), plaintiffs will have 30 days after entry of final judgment to appeal the Court's decision.

Nalco Company, the incident defendants and the other responder defendants have been named as first party defendants by Transocean Deepwater Drilling, Inc. and its affiliates (the Transocean Entities) (In re the Complaint and Petition of Triton Asset Leasing GmbH, et al, MDL No. 2179, Civil Action 10-2771). In April and May 2011, the Transocean Entities, Cameron International Corporation, Halliburton Energy Services, Inc., M-I L.L.C., Weatherford U.S., L.P. and Weatherford International, Inc. (collectively, the Cross Claimants) filed cross claims in MDL 2179 against Nalco Company and other unaffiliated cross defendants. The Cross Claimants generally allege, among other things, that if they are found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, they are entitled to indemnity or contribution from the cross defendants.

In April and June 2011, in support of its defense of the claims against it, Nalco Company filed counterclaims against the Cross Claimants. In its counterclaims, Nalco Company generally alleges that if it is found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, it is entitled to contribution or indemnity from the Cross Claimants.

In December 2012 and January 2013, the MDL 2179 court issued final orders approving two settlements between BP and Plaintiffs Class Counsel: (1) a proposed Medical Benefits Class Action Settlement; and (2) a proposed Economic and Property Damages Class Action Settlement. Pursuant to the proposed settlements, class members agree to release claims against BP and other released parties, including Nalco Energy Services, LP, Nalco Holding Company, Nalco Finance Holdings LLC, Nalco Finance Holdings Inc., Nalco Holdings LLC and Nalco Company.

Other Related Actions

In March 2011, Nalco Company was named, along with other unaffiliated defendants, in an amended complaint filed by an individual in the Circuit Court of Harrison County, Mississippi, Second Judicial District (Franks v. Sea Tow of South Miss, Inc., et al., Cause No. A2402-10-228 (Circuit Court of Harrison County, Mississippi)). The amended complaint generally asserts, among other things, negligence and strict product liability claims relating to the plaintiff's alleged exposure to chemical dispersants manufactured by Nalco Company. The plaintiff seeks unspecified compensatory damages, medical expenses, and attorneys' fees and costs. Plaintiff's allegations place him within the scope of the MDL 2179 Medical Benefits Class. In approving the Medical Benefits Settlement, the MDL 2179 Court barred Medical Benefits Settlement

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class members from prosecuting claims of injury from exposure to oil and dispersants related to the Response. As a result of the MDL court's order, on April 11, 2013, the Mississippi court stayed proceedings in the Franks case. The Franks case was dismissed in May 2014.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments and Contingencies (continued)

The company believes the claims asserted against Nalco Company are without merit and intends to defend these lawsuits vigorously. The company also believes that it has rights to contribution and/ or indemnification (including legal expenses) from third parties. However, the company cannot predict the outcome of these lawsuits, the involvement it might have in these matters in the future, or the potential for future litigation.

16. New Accounting Pronouncements

In March 2013, FASB issued a final standard to resolve diversity in practice regarding the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investments in a foreign entity. In addition, the standard resolves diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The company adopted the guidance effective January 1, 2014. The adoption did not impact the company's consolidated financial statements and is not expected to have a significant impact on future financial statements.

In July 2013, the FASB issued updated guidance on presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The company adopted the updated guidance effective January 1, 2014. The adoption did not have a material impact on the company's consolidated financial statements.

In April 2014, the FASB issued updated guidance on reporting discontinued operations and the related disclosures, which changes the criteria for determining which disposals should be presented as discontinued operations and modifies the related disclosure requirements. The updated guidance is effective for annual and interim periods beginning after December 15, 2014. The company does not expect the updated guidance to have a significant impact on future financial statements.

In May 2014, the FASB issued updated guidance on revenue recognition. The updated revenue recognition standard contains principles for entities to apply to determine the measurement of revenue and timing of when the revenue is recognized. The underlying principle of the updated guidance will have entities recognize revenue to depict the transfer of goods or services to customers at an amount that is expected to be received in exchange for those goods or services. The updated guidance is effective for annual and interim periods beginning after December 15, 2016. The company is currently evaluating the impact of adoption.

In August 2014, the FASB issued guidance on management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern and to provide related footnote disclosures. The guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The company does not expect the guidance to have an impact on future financial statements.

No other new accounting pronouncements issued or effective has had or is expected to have a material impact on the company's consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ecolab Inc.

We have reviewed the accompanying consolidated balance sheet of Ecolab Inc. and its subsidiaries as of September 30, 2014, and the related consolidated statements of income and comprehensive income for the three-month and nine-month period ended September 30, 2014 and 2013 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income, comprehensive income and equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 28, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
October 30, 2014

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management discussion and analysis (MD&A) provides information that we believe is useful in understanding our operating results, cash flows and financial condition. We provide quantitative information about the material sales drivers including the impact of changes in volume and pricing and the effect of acquisitions and changes in foreign currency at the corporate level, and the quantitative impact of acquisitions and changes in foreign currency at the segment level. We also provide quantitative information regarding special (gains) and charges, discrete tax items and other significant factors we believe are useful for understanding our results. Such drivers are supported by comments meant to be qualitative in nature. Qualitative factors are generally ordered based on estimated significance.

The discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013. This discussion contains various Non-GAAP Financial Measures and also contains various Forward-Looking Statements within the meaning of the Private Securities Litigation Reform Act of 1995. We refer readers to the statements entitled Non-GAAP Financial Measures and Forward-Looking Statements located at the end of Part I of this report.

Comparability of Results

Statement of Income Data

Effective in the first quarter of 2014, certain employee-related costs from our recently acquired businesses that were historically presented within cost of sales were revised and reclassified to selling, general and administrative expenses (SG&A) on the Consolidated Statement of Income. These immaterial revisions were made to conform with management's view of the respective costs within the global organizational model. Total costs reclassified were \$16.7 million for the third quarter ended September 30, 2013, \$60.3 million for the nine months ended September 30, 2013 and \$78.9 million for the year ended December 31, 2013.

Results for 2013 have been revised to conform to the current year presentation. The reclassification had no impact on earnings, financial position or cash flows.

Reportable Segments and Operating Units

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Effective in the first quarter of 2014, we made immaterial changes to our reportable segments, including the movement of certain customers between reportable segments, reflecting our continued integration of businesses and consistency across our global markets and customers. In addition, we made immaterial changes to the way we measure and report segment operating income by updating the internal allocations of certain supply chain and SG&A expenses related to our centralized functions.

Segment results for 2013 have been revised to conform to the current year presentation. The changes had no impact on our consolidated sales or operating income.

Beginning in the first quarter of 2014, the term *Global* has been removed from the description of our operating units. This change had no impact on the underlying structure of the respective operating units.

Fixed Currency Foreign Exchange Rates

We evaluate the performance of our international operations based on fixed currency exchange rates, which eliminate the impact of exchange rate fluctuations on our international operations. Fixed currency amounts are updated annually at the beginning of each year based on translation into U.S. dollars at foreign currency exchange rates established by management, with all periods presented using such rates.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Comparability of Results (continued)

Impact of Acquisitions and Divestitures

Our historical practice for providing growth rates adjusted for acquisitions and divestitures has been to exclude the results of the acquired business from the first twelve months post acquisition and exclude the results of the divested business from the previous twelve months prior to divestiture, thus allowing for a more meaningful period-over-period comparison. Presentation of acquisition adjusted growth rates, with the exception of the Champion transaction, continues to be handled in this way. Specific to the Champion transaction, due to the rapid pace at which the business has been integrated within our Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is no longer available post acquisition. As such, to allow for the most meaningful period-over-period comparison, specific to the Champion transaction, Champion's results for the comparable period of the prior year have been included for purposes of providing acquisition adjusted growth rates. Throughout the following MD&A, reference to acquisition adjusted growth rates follows the above methodology.

Overview of the Third Quarter Ended September 30, 2014

Third quarter 2014 sales increased 6% compared to third quarter 2013 sales. Third quarter fixed currency sales also increased 6%. Sales growth was led by the Energy and Specialty operating units and the Other segment. The Latin America region had strong gains while North America and Asia Pacific had good results.

Third quarter 2014 operating income and diluted earnings per share attributable to Ecolab increased 20% and 19%, respectively, compared to third quarter 2013 results.

Both 2014 and 2013 results of operations included special (gains) and charges as well as discrete tax items which impact the period-over-period comparisons.

Excluding special (gains) and charges from both 2014 and 2013 results, third quarter 2014 adjusted operating income increased 14% when compared to third quarter 2013 adjusted operating income. Excluding special (gains) and charges and discrete tax items, growth in adjusted diluted earnings per share attributable to Ecolab was strong, increasing 16% in the third quarter of 2014 versus the prior year third quarter.

Sales Performance

As summarized in the tables on pages 44 and 53:

- Third quarter 2014 sales increased 6% to \$3.7 billion. Fixed currency sales and acquisition adjusted fixed currency sales both also increased 6%.
- Fixed currency sales for our Global Industrial segment increased 3% to \$1,251 million when comparing third quarter 2014 against third quarter 2013, led by growth in Food & Beverage and Water. Acquisition adjusted fixed currency sales increased 2%.
- Third quarter 2014 Global Institutional segment sales, when measured in fixed rates of currency exchange, increased 4% to \$1,126 million, led by strong growth in Specialty. Institutional reported moderate sales gains.
- Fixed currency sales for our Global Energy segment increased 14% to \$1,089 million when comparing third quarter 2014 against third quarter 2013. The Champion acquisition was fully annualized as of the third quarter of 2014.
- Third quarter 2014 Other segment sales, when measured in fixed rates of currency exchange, increased 7% to \$197 million. Both Pest Elimination and Equipment Care had strong sales growth.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Performance

As summarized in the tables on pages 50 through 52:

- Third quarter 2014 operating income increased 20% to \$571 million compared to third quarter 2013 operating income of \$476 million. Excluding the impact of special (gains) and charges from both 2014 and 2013 reported results, 2014 adjusted operating income increased 14% when compared to 2013 adjusted operating income. Currency had a minimal impact on adjusted operating income growth, as adjusted fixed currency operating income also increased 14% when compared to 2013 adjusted fixed currency operating income.
- Third quarter 2014 net income attributable to Ecolab increased 18% to \$365 million. Excluding the impact of special (gains) and charges and discrete tax items from 2014 and 2013 reported results, adjusted net income attributable to Ecolab increased 16% compared to the prior year's third quarter.
- Third quarter 2014 diluted earnings per share attributable to Ecolab of \$1.19 increased 19% compared to the third quarter of 2013. Excluding the impact of special (gains) and charges and discrete tax items from 2014 and 2013 reported results, adjusted diluted earnings per share attributable to Ecolab increased 16% to \$1.21 for the third quarter of 2014 compared to \$1.04 in the third quarter of 2013.
- Our effective income tax rate was 27.3% for the third quarter of 2014 compared to 24.9% for the third quarter of 2013. Excluding the tax rate impact of special (gains) and charges and discrete tax items from 2014 and 2013 results, our adjusted effective income tax rate was 27.7% and 28.4% for the third quarter of 2014 and 2013, respectively.

Results of Operations – Third Quarter and Nine Months Ended September 30, 2014

Net Sales

(millions)	Third Quarter Ended September 30			%	Nine Months Ended September 30			%
	2014	2013	Change		2014	2013	Change	
Reported GAAP net sales	\$ 3,694.9	\$ 3,484.0	6%	\$ 10,599.7	\$ 9,693.9	9%		
Effect of foreign currency translation	(32.5)	(36.9)		(96.0)	(169.1)			
Non-GAAP fixed currency sales	\$ 3,662.4	\$ 3,447.1	6%	\$ 10,503.7	\$ 9,524.8	10%		

As shown in the previous table, foreign currency exchange had a minimal impact on sales growth during the third quarter and first nine months of 2014. The percentage change components of the period-over-period 2014 sales increase are shown below:

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(percent)	Third Quarter Ended September 30	Nine Months Ended September 30
Volume	5%	4%
Price changes	1	1
Acquisition adjusted fixed currency sales increase	6	5
Acquisitions & divestitures		5
Fixed currency sales increase	6	10
Foreign currency exchange		(1)
Total net sales increase	6%	9%

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)Cost of Sales (COS) and Gross Margin

(millions / percent)	2014		Third Quarter Ended		2013	
	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin
Reported GAAP COS and gross margin	\$ 1,970.6	46.7%	\$ 1,866.1	46.4%	\$ 1,866.1	46.4%
Special (gains) and charges	0.8	0.0	6.3	0.2	6.3	0.2
Non-GAAP adjusted COS and gross margin	\$ 1,969.8	46.7%	\$ 1,859.8	46.6%	\$ 1,859.8	46.6%

(millions / percent)	2014		Nine Months Ended		2013	
	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin
Reported GAAP COS and gross margin	\$ 5,699.2	46.2%	\$ 5,216.0	46.2%	\$ 5,216.0	46.2%
Special (gains) and charges	7.9	0.1	23.5	0.2	23.5	0.2
Non-GAAP adjusted COS and gross margin	\$ 5,691.3	46.3%	\$ 5,192.5	46.4%	\$ 5,192.5	46.4%

Our cost of sales (COS) and corresponding gross profit margin (gross margin) are shown in the table above. Our gross margin is defined as sales less cost of sales divided by sales.

Our reported gross margin was 46.7% and 46.4% for the third quarter of 2014 and 2013, respectively. Our reported gross margin for the first nine months of 2014 and 2013 was 46.2% for both periods. Our third quarter and first nine months of 2014 reported gross margins were negatively impacted by special (gains) and charges of \$0.8 million and \$7.9 million, respectively. Our third quarter and first nine months of 2013 reported gross margins were negatively impacted by special (gains) and charges of \$6.3 million and \$23.5 million, respectively. Special (gains) and charges items included within COS are shown within the table on page 46.

Excluding the impact of special (gains) and charges, our third quarter 2014 adjusted gross margin was unchanged at 46.7% and our adjusted gross margin for the first nine months of 2014 was 46.3%. These percentages compared against a third quarter 2013 adjusted gross margin of 46.6% and an adjusted gross margin of 46.4% for the first nine months of 2013.

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The small increase in adjusted gross margin when comparing the third quarter of 2014 against the third quarter of 2013 is attributable primarily to pricing gains. For the first nine months of 2014 and 2013, the small decrease in adjusted gross margin was impacted by unfavorable business mix within Global Energy, including the impact of the Champion acquisition, which generally has lower gross margins compared to our other businesses, which more than offset pricing gains.

The impact of acquisitions and divestitures had a minimal impact on adjusted gross margins when comparing the third quarter of 2014 to the third quarter of 2013. Including the impact of acquisitions and divestitures, adjusted gross margins increased 0.4 percentage points for comparable first nine months of 2014 and 2013.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expenses as a percentage of sales were 31.0% for the third quarter of 2014 compared to 32.0% in 2013. For the nine month periods, SG&A expenses were 32.4% of sales in 2014 compared to 33.4% in 2013. The decrease in SG&A to sales ratio during 2014 was driven by sales leverage and net synergies and cost savings.

The net impact of acquisitions and divestitures had minimal impact on the SG&A to sales ratio for the third quarter of 2014 compared to the third quarter of 2013. Including the net impact of acquisitions and divestitures, the SG&A to sales ratio decreased 0.8 percentage points for the first nine months of 2014 compared to the first nine months of 2013.

Special (Gains) and Charges

Special (gains) and charges reported on the Consolidated Statement of Income included the following items:

(millions)	Third Quarter Ended		Nine Months Ended	
	2014	September 30 2013	2014	September 30 2013
Cost of sales				
Restructuring charges	\$ 0.4	\$ 1.9	\$ 7.5	\$ 5.5
Recognition of inventory fair value step-up	0.4	4.4	0.4	18.0
Subtotal	0.8	6.3	7.9	23.5
Special (gains) and charges				
Restructuring charges	6.3	11.9	34.9	75.4
Champion acquisition and integration costs	4.1	10.7	15.8	42.5
Nalco merger and integration costs	2.0	5.3	4.8	13.5
Venezuela currency devaluation		(0.1)		23.3
Litigation activity, settlements and other gains	(5.4)		(25.0)	(3.6)
Subtotal	7.0	27.8	30.5	151.1
Operating income subtotal	7.8	34.1	38.4	174.6

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Interest expense, net								
Acquisition debt costs								2.5
Net income attributable to noncontrolling interest								
Venezuela currency devaluation								(0.5)
Total special (gains) and charges	\$	7.8	\$	34.1	\$	38.4	\$	176.6

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)

Restructuring charges

Energy Restructuring Plan

In April 2013, following the completion of the Champion acquisition, we commenced plans to undertake restructuring and other cost-saving actions to realize our acquisition-related cost synergies as well as streamline and strengthen our position in the fast growing global energy market (the Energy Restructuring Plan). Actions associated with the acquisition to improve the effectiveness and efficiency of the business include a reduction of the combined business's current global workforce by approximately 500 positions. A number of these reductions are expected to be achieved through eliminating open positions and attrition. We also anticipate leveraging and simplifying our global supply chain, including the reduction of plant and distribution center locations and product line optimization, as well as the reduction of other redundant facilities.

The pre-tax restructuring charges under the Energy Restructuring Plan are expected to be approximately \$80 million (\$55 million after tax) through substantial completion of the Plan in 2015. During 2013, we incurred \$27 million (\$19 million after tax) of charges related to the Energy Restructuring Plan. Approximately \$15 million (\$10 million after tax) of charges are expected to occur in 2014.

We anticipate that approximately \$60 million of the \$80 million pre-tax charges will represent cash expenditures. The remaining pre-tax charges represent estimated asset write-downs and disposals. No decisions have been made for any remaining asset disposals and estimates could vary depending on the actual actions taken.

We recorded restructuring charges related to the Energy Restructuring Plan of \$1.3 million (\$0.7 million after tax) or less than \$0.01 per diluted share and \$8.4 million (\$6.7 million after tax) or \$0.02 per diluted share during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, we incurred charges of \$8.9 million (\$5.9 million after tax) or \$0.02 per diluted share and \$20.6 million (\$14.3 million after tax) or \$0.05 per diluted share, respectively.

Cash payments under the Energy Restructuring Plan during the first nine months of 2014 were \$12.8 million. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over the next twelve months. We anticipate the remaining cash expenditures will be funded from operating activities.

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We anticipate cumulative cost savings from the Energy Restructuring Plan, along with synergies achieved in connection with the acquisition, of at least \$80 million in 2014, with annual cost savings and synergies of \$150 million by the end of 2015. For the first nine months of 2014, the Energy Restructuring Plan has achieved approximately \$45 million of savings as compared to 2013.

Combined Restructuring Plan

In February 2011, we commenced a comprehensive plan to substantially improve the efficiency and effectiveness of our European business, as well as to undertake certain restructuring activities outside of Europe (the 2011 Restructuring Plan). Additionally, in January 2012 and following the merger with Nalco, we formally commenced plans to undertake restructuring actions related to the reduction of our global workforce and optimization of our supply chain and office facilities, including planned reduction of plant and distribution center locations (the Merger Restructuring Plan). During the first quarter of 2013, we determined that because the objectives of the plans discussed above were aligned, the previously separate restructuring plans should be combined into one plan.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)

Restructuring charges (continued)

The combined restructuring plan (the Combined Plan) combines opportunities and initiatives from both plans and continues to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of the global workforce and plant and distribution center locations.

During 2013, we incurred \$64 million (\$48 million after tax) of charges related to the Combined Plan. We recorded restructuring charges related to the Combined Plan of \$5.4 million (\$3.3 million after tax) or \$0.01 per diluted share and \$5.3 million (\$2.1 million after tax) or \$0.01 per diluted share during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, we incurred charges of \$33.4 million (\$27.0 million after tax) or \$0.09 per diluted share and \$60.5 million (\$42.5 million after tax) or \$0.14 per diluted share, respectively.

Through substantial completion of the Combined Plan at the end of 2015, we expect to incur pre-tax charges of approximately \$50 million (\$40 million after tax) during the remainder of 2014 and 2015.

We anticipate that substantially all of the remaining Combined Plan pre-tax charges will represent net cash expenditures.

Net cash payments under the Combined Plan during the first nine months of 2014 were \$51.8 million. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. Cash payments are expected to continue at a consistent level through the end of the Plan, and subsequently are expected to progressively decline. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

We anticipate cumulative cost savings and synergies from the Combined Plan of at least \$335 million in 2014. The 2014 expected savings are consistent with the original goals established under the previously separate plans. For the first nine months of 2014, the Combined Plan has achieved approximately \$60 million of savings as compared to 2013.

Restructuring charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income. Further details related to our reported restructuring charges are included in Note 2.

Non-restructuring special (gains) and charges

Champion acquisition and integration costs

As a result of the Champion acquisition completed in 2013, we incurred charges of \$4.1 million (\$2.7 million after tax) or \$0.01 per diluted share and \$15.1 million (\$10.3 million after tax) or \$0.03 per diluted share during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, we incurred charges of \$15.8 million (\$10.2 million after tax) or \$0.03 per diluted share and \$63.0 million (\$44.9 million after tax) or \$0.15 per diluted share, respectively.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)

Non-restructuring special (gains) and charges (continued)

Champion related costs have been included as a component of cost of sales, special (gains) and charges and net interest expense on the Consolidated Statement of Income. Amounts within cost of sales include the recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis. Amounts within special (gains) and charges include acquisition costs, advisory and legal fees and integration charges. Amounts included in net interest expense include the interest expense through the close date of the Champion transaction of the company's \$500 million public debt issuance in December 2012 as well as amortizable fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition.

Nalco merger and integration costs

As a result of the Nalco merger completed in 2011, we incurred net charges of \$2.0 million (\$2.0 million after tax), or \$0.01 per diluted share and \$5.3 million (\$3.5 million after tax), or \$0.01 per diluted share during the third quarter of 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, we incurred charges of \$4.8 million (\$4.0 million after tax) or \$0.01 per diluted share and \$13.5 million (\$9.2 million after tax) or \$0.03 per diluted share, respectively.

Nalco related special charges for 2014 and 2013 have been included as a component of special (gains) and charges on the Consolidated Statement of Income, and include integration charges.

Venezuelan currency devaluation

On February 8, 2013, the Venezuelan government devalued the bolivar from 4.30 bolivars to 1 U.S. dollar to 6.30 bolivars to 1 U.S. dollar, resulting in a charge during 2013 of \$22.7 million (\$16.1 million after tax) or \$0.05 per diluted share, due to the remeasurement of the local balance sheet. As a result of the ownership structure in place in Venezuela, we also reflected a portion of the devaluation impact as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

Further details related to Venezuela's foreign currency are included in the Global Environment section of this MD&A, beginning on page 59.

Other special (gains) and charges

We recognized other special gains of \$5.0 million (\$3.1 million after tax), or \$0.01 per diluted share and \$24.6 million (\$19.5 million after tax), or \$0.06 per diluted share during the third quarter and first nine months of 2014, respectively. The gain recognized in the third quarter of 2014 resulted from the consolidation of the Emirates National Chemicals Company LLC (Emochem) entity and removal of the corresponding equity method investment. The gains recognized during the first six months of 2014 related to a favorable licensing settlement and other settlement gains.

Further details related to our reported non-restructuring special (gains) and charges are included in Note 2, and further details related to acquisitions and dispositions are included in Note 3.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations – Third Quarter and Nine Months Ended September 30, 2014 (continued)Operating Income

(millions)	Third Quarter Ended September 30			% Change	Nine Months Ended September 30			% Change
	2014	2013			2014	2013		
Reported GAAP operating income	\$ 571.4	\$ 476.0	20%	\$ 1,434.5	\$ 1,090.0	32%		
Special (gains) and charges	7.8	34.1		38.4	174.6			
Non-GAAP adjusted operating income	579.2	510.1	14%	1,472.9	1,264.6	16%		
Effect of foreign currency translation	(4.4)	(6.4)		(11.3)	(27.0)			
Non-GAAP adjusted fixed currency operating income	\$ 574.8	\$ 503.7	14%	\$ 1,461.6	\$ 1,237.6	18%		

Reported operating income increased 20% and 32% in the third quarter and first nine months of 2014, respectively, versus the comparable periods of 2013.

Our reported operating income for both 2014 and 2013 was impacted by special (gains) and charges. Excluding the impact of special (gains) and charges from 2014 and 2013 reported results, third quarter 2014 adjusted operating income increased 14% when compared against third quarter 2013 adjusted operating income. Our adjusted operating income for the first nine months of 2014 increased 16% when compared against adjusted operating income for the first nine months of 2013. As shown in the previous table, foreign currency had a negative impact on operating income growth during the nine month comparable periods, as adjusted fixed currency operating income increased 18% in the first nine months of 2014. The net impact of acquisitions and divestitures had a minimal impact on our third quarter 2014 adjusted fixed currency operating income growth rate and added approximately 2 percentage points to our first nine months of 2014 adjusted fixed currency operating income growth rate.

The third quarter and first nine months of 2014 adjusted fixed currency operating income increase as compared to 2013 adjusted fixed currency operating income was driven primarily by sales volume increases, pricing gains and net cost savings and synergies.

Interest Expense, Net

	Third Quarter Ended September 30	%	Nine Months Ended September 30	%
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(millions)	2014	2013	Change	2014	2013	Change
Reported GAAP interest expense, net	\$ 63.3	\$ 67.0	(6)%	\$ 194.6	\$ 194.7	
Adjustments:						
Special (gains) and charges					2.5	
Non-GAAP adjusted interest expense, net	\$ 63.3	\$ 67.0	(6)%	\$ 194.6	\$ 192.2	1%

Reported net interest expense was \$63 million in the third quarter of 2014 and \$67 million in the third quarter of 2013. Reported net interest expense was \$195 million in both the first nine months of 2014 and 2013.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)

Interest Expense, Net (continued)

Special (gains) and charges did not impact interest expense in 2014, or the third quarter of 2013. Special (gains) and charges during the first nine months of 2013 included the interest expense through the April 2013 close date of the Champion acquisition of our \$500 million public debt issued in December 2012, as well as fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition.

The decrease in net interest expense when comparing the third quarter of 2014 against the third quarter for 2013 was driven primarily by lower comparable outstanding debt. Our adjusted net interest expense was comparable across the first nine months of 2014 and 2013, as the benefit of lower interest on our euro denominated borrowings was offset by higher interest on our term loan borrowings, increased net expense related to our hedging program and other interest related fees.

Provision for Income Taxes

The following table provides a summary of our tax rate:

(percent)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Reported GAAP tax rate	27.3%	24.9%	29.1%	23.6%
Tax rate impact of:				
Special gains and charges	0.0	0.7	0.0	1.1
Discrete tax items	0.4	2.8	(1.3)	3.7
Non-GAAP adjusted tax rate	27.7%	28.4%	27.8%	28.4%

Our reported tax rate for 2014 and 2013 includes the tax rate impact of special gains and charges and discrete tax items. Depending on the nature of our special gains and charges and discrete tax items, our reported tax rate may not be consistent on a period to period basis, as amounts included in our special gains and charges are derived from tax jurisdictions with rates that vary from our overall non-GAAP adjusted tax rate.

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Our third quarter 2014 reported tax expense included \$2.1 million of net tax benefits on special gains and charges and \$1.9 million of discrete tax net benefits. For the first nine months of 2014, our reported tax expense included \$10.7 million of net tax benefits on special gains and charges and \$16.3 million of discrete tax net expense. The corresponding impact of these items to the reported tax rate is shown in the previous table.

Third quarter 2014 discrete tax net benefits were driven primarily by recognizing adjustments from filing our 2013 U.S. federal income tax return, offset partially by the net impact of foreign audit settlements and adjustments.

Discrete tax net expense for the first nine months of 2014 was also impacted by an update to non-current tax liabilities for global tax audits, an adjustment related to the re-characterization of intercompany payments between our U.S. and foreign affiliates, a rate differential on certain prior year shared costs and the remeasurement of certain deferred tax assets and liabilities resulting from a change in the state tax rate for certain entities following the merger of Champion operations, which collectively more than offset the net change of valuation allowances based on the realizability of foreign deferred tax assets and benefits from other foreign country audit settlements.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations - Third Quarter and Nine Months Ended September 30, 2014 (continued)Provision for Income Taxes (continued)

Our third quarter 2013 reported tax expense included \$11.5 million of net tax benefits on special gains and charges and \$12.5 million of discrete tax net benefits. For the first nine months of 2013, our reported tax expense included \$53.1 million of net tax benefits on special gains and charges and \$40.1 million of discrete tax net benefits. The corresponding impact of these items to the reported tax rate is shown in the previous table.

Third quarter 2013 discrete tax net benefits were driven primarily by recognizing adjustments from filing our 2012 U.S. federal tax return and the recognition of settlements related to prior year income tax audits, partially offset by the remeasurement of certain deferred tax assets. Discrete tax net benefits for the first nine months of 2013 were also impacted by the release of a valuation allowance related to the realizability of foreign deferred tax assets, law changes within a foreign jurisdiction, recognition of settlements related to our 2009 through 2010 U.S. income tax returns, the remeasurement of certain deferred tax assets and liabilities and the retroactive extension during first quarter 2013 of the U.S. R&D credit, all of which were partially offset by foreign audit adjustments.

The decrease in the 2014 adjusted effective tax rate compared to 2013 was due primarily to favorable geographic income mix, which more than offset the expired U.S. R&D credit.

Net Income Attributable to Ecolab

(millions)	Third Quarter Ended September 30			%	Nine Months Ended September 30		
	2014	2013	Change		2014	2013	Change
Reported GAAP net income	\$ 364.9	\$ 308.0	18%	\$ 867.3	\$ 680.7	27%	
Adjustments:							
Special (gains) and charges, net of tax	5.7	22.6		27.7	123.5		
Discrete tax net expense (benefits)	(1.9)	(12.5)		16.3	(40.1)		
Non-GAAP adjusted net income	\$ 368.7	\$ 318.1	16%	\$ 911.3	\$ 764.1	19%	

Diluted Earnings Per Share Attributable to Ecolab (EPS)

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(dollars)	Third Quarter Ended September 30			% Change	Nine Months Ended September 30			% Change
	2014	2013			2014	2013		
Reported GAAP diluted EPS	\$ 1.19	\$ 1.00		19%	\$ 2.83	\$ 2.23		27%
Adjustments:								
Special (gains) and charges	0.02	0.07			0.09	0.40		
Discrete tax net expense (benefits)	(0.01)	(0.04)			0.05	(0.13)		
Non-GAAP adjusted diluted EPS	\$ 1.21	\$ 1.04		16%	\$ 2.98	\$ 2.50		19%

Note: Per share amounts in the table above do not necessarily sum due to changes in shares outstanding and rounding.

Currency translation had an insignificant impact on diluted earnings per share for the third quarter of 2014 and an unfavorable impact of approximately \$0.03 on diluted earnings per share for first nine months of 2014, compared to the same periods of 2013.

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ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Segment Performance

Fixed currency sales and operating income for the third quarter and first nine months of 2014 and 2013 for each of our reportable segments were as follows:

(millions)	Net Sales Third Quarter Ended September 30			% Change	Net Sales Nine Months Ended September 30			% Change
	2014	2013			2014	2013		
Global Industrial	\$ 1,251.1	\$ 1,219.5	3%	\$ 3,602.7	\$ 3,504.1	3%		
Global Institutional	1,125.5	1,086.9	4%	3,195.8	3,092.2	3%		
Global Energy	1,089.2	957.2	14%	3,145.0	2,400.3	31%		
Other	196.6	183.5	7%	560.2	528.2	6%		
Subtotal at fixed currency rates	3,662.4	3,447.1	6%	10,503.7	9,524.8	10%		
Effect of foreign currency translation	32.5	36.9		96.0	169.1			
Consolidated	\$ 3,694.9	\$ 3,484.0	6%	\$ 10,599.7	\$ 9,693.9	9%		

(millions)	Operating Income Third Quarter Ended September 30			% Change	Operating Income Nine Months Ended September 30			% Change
	2014	2013			2014	2013		
Global Industrial	\$ 175.2	\$ 171.9	2%	\$ 456.7	\$ 433.0	5%		
Global Institutional	237.5	225.8	5%	593.0	565.8	5%		
Global Energy	174.1	125.1	39%	462.5	306.2	51%		
Other	33.0	28.6	15%	84.6	78.0	8%		
Corporate	(52.8)	(81.8)		(173.6)	(320.0)			
Subtotal at fixed currency rates	567.0	469.6	21%	1,423.2	1,063.0	34%		
Effect of foreign currency translation	4.4	6.4		11.3	27.0			
Consolidated	\$ 571.4	\$ 476.0	20%	\$ 1,434.5	\$ 1,090.0	32%		

Global Industrial

Net Sales	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Sales at fixed currency (millions)	\$ 1,251.1	\$ 1,219.5	\$ 3,602.7	\$ 3,504.1

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Percentage change at fixed currency		3%		3%
Acquisition adjusted percentage change at fixed currency		2%		3%
Percentage change at public currency		2%		1%
Operating Income				
Operating income at fixed currency (millions)	\$	175.2	\$	171.9
			\$	456.7
				\$
				433.0
Percentage change at fixed currency		2%		5%
Acquisition adjusted percentage change at fixed currency		1%		5%
Percentage change at public currency		1%		3%
Operating income margin		14.0%		14.1%
				12.7%
				12.4%

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Segment Performance (continued)*Net Sales*

Fixed currency sales for our Global Industrial segment increased 3% in both the third quarter and first nine months of 2014. As shown in the previous table, acquisitions had a small impact on sales growth for the third quarter of 2014. Sales growth was driven by both volume gains and pricing. Our Water and Food & Beverage operating units led the sales growth for both the third quarter and nine month periods. At a regional level, both the third quarter and nine month periods were impacted by strong growth in Latin America, with modest gains in Asia Pacific, North America and EMEA.

At an operating unit level, **Water** fixed currency sales increased 4% in both the third quarter and first nine months of 2014 (increase of 3% acquisition adjusted for the third quarter of 2014), led by gains in the heavy and light industries, with modest gains in mining. **Food & Beverage** fixed currency sales increased 4% in both the third quarter and first nine months of 2014, impacted by continued gains in the dairy, agri and beverage & brewing markets. **Paper** fixed currency sales decreased 2% (decrease of 3% acquisition adjusted) in the third quarter and were flat (decrease of 1% acquisition adjusted) in the first nine months of 2014, with continued unfavorable impact from low plant utilization at customer locations and other customer plant closures. **Textile Care** fixed currency sales decreased 4% and 2% in the third quarter and first nine months of 2014, respectively. The sales decrease was impacted by lower sales in EMEA.

Operating Income

Fixed currency operating income for our Global Industrial segment increased 2% for the third quarter and 5% for the first nine months of 2014. As shown in the previous table, acquisitions had a small impact on operating income growth for the third quarter of 2014. The operating income margin decreased 0.1 percentage points in the third quarter and increased 0.3 percentage points in the first nine months of 2014. Fixed currency operating income growth benefited from pricing gains and sales volume growth, with the mixed results in operating income margins impacted by underlying business mix changes, particularly within our Paper operating unit.

Global Institutional

Third Quarter Ended September 30		Nine Months Ended September 30	
2014	2013	2014	2013

Net Sales

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Sales at fixed currency (millions)	\$	1,125.5	\$	1,086.9	\$	3,195.8	\$	3,092.2
Percentage change at fixed currency		4%				3%		
Acquisition adjusted percentage change at fixed currency		4%				4%		
Percentage change at public currency		4%				3%		
Operating Income								
Operating income at fixed currency (millions)	\$	237.5	\$	225.8	\$	593.0	\$	565.8
Percentage change at fixed currency		5%				5%		
Acquisition adjusted percentage change at fixed currency		6%				5%		
Percentage change at public currency		5%				4%		
Operating income margin		21.1%		20.8%		18.6%		18.3%

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance (continued)*Net Sales*

Fixed currency sales for our Global Institutional segment increased 4% in the third quarter of 2014 and 3% in the first nine months of 2014. As shown in the previous table, divestitures had a small impact in sales growth for the first nine months of 2014. Sales growth was driven by both volume gains and pricing. Our Specialty and Institutional operating units showed strong and moderate sales growth, respectively, for both the third quarter and nine month periods. At a regional level, both the third quarter and nine month periods were led by good growth in Latin America, Asia Pacific and North America which collectively offset lower sales in EMEA.

At an operating unit level, **Institutional** fixed currency sales increased 3% in both the third quarter and first nine months of 2014 (increase of 4% for the third quarter of 2014 when adjusting for a small divestiture), led by sales initiatives, targeting new accounts and effective product programs. Demand from lodging customers increased moderately while foodservice foot traffic remained soft. **Specialty** fixed currency sales increased 9% in the third quarter of 2014 and 8% in the first nine months of 2014. Our quick service and food retail businesses both continued to produce solid sales gains. **Healthcare** fixed currency sales decreased 1% in the third quarter of 2014 and were flat for the first nine months of 2014, as new accounts and product penetration were negatively impacted by slow overall market trends.

Operating Income

Fixed currency operating income for our Global Institutional segment increased 5% for both the third quarter and first nine months of 2014. As shown in the previous table, divestitures had a small impact on operating income growth for the third quarter of 2014. Our operating income margin increased 0.3 percentage points in both the third quarter of 2014 and the first nine months of 2014. The increase in fixed currency operating income and improved operating income margin were driven primarily by the impact of pricing gains and sales volume increases.

Global Energy

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net Sales				
Sales at fixed currency (millions)	\$ 1,089.2	\$ 957.2	\$ 3,145.0	\$ 2,400.3
Percentage change at fixed currency	14%		31%	

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Acquisition adjusted percentage change at fixed currency		14%				10%
Percentage change at public currency		13%				29%
Operating Income						
Operating income at fixed currency (millions)	\$	174.1	\$	125.1	\$	462.5
Percentage change at fixed currency		39%				51%
Acquisition adjusted percentage change at fixed currency		42%				39%
Percentage change at public currency		37%				48%
Operating income margin		16.0%		13.1%		14.7%
						12.8%

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Segment Performance (continued)

Net Sales

Fixed currency sales for our Global Energy segment increased 14% in the third quarter of 2014 and 31% in the first nine months of 2014. The Champion acquisition fully annualized as of the third quarter of 2014. However, full year sales growth comparability continues to be impacted, as acquisition adjusted fixed currency sales increased 10% during the first nine months of 2014, largely impacted by volume gains.

The increase in acquisition adjusted fixed currency sales reflected double-digit growth in our upstream business, led by a strong international performance and good growth in North America. Deepwater and on-shore conventional sources continued to produce solid results. Sales growth in our downstream business resulted from improved international performance and continued market share gains in North America.

Operating Income

Fixed currency operating income for our Global Energy segment increased 39% for the third quarter of 2014 and 51% for the first nine months of 2014, with continued impact from the Champion acquisition on the comparable nine month periods. Our operating income margin increased 2.9 percentage points in the third quarter and 1.9 percentage points in the first nine months of 2014. Acquisition adjusted fixed currency operating income increased 42% in the third quarter and 39% in the first nine months of 2014, with the operating income margin adjusted for acquisitions increasing 3.1 percentage points for the third quarter and first nine months of 2014.

The strong increase in acquisition adjusted fixed currency operating income and operating income margin gains were largely driven by sales volume increases and business mix changes, with the corresponding impact to operating income. The majority of the remainder of the increase can be attributed to the impact of pricing gains and synergies.

Other

Third Quarter Ended September 30		Nine Months Ended September 30	
2014	2013	2014	2013

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Net Sales								
Sales at fixed currency (millions)	\$	196.6	\$	183.5	\$	560.2	\$	528.2
Percentage change at fixed currency		7%				6%		
Acquisition adjusted percentage change at fixed currency		7%				6%		
Percentage change at public currency		8%				6%		
Operating Income								
Operating income at fixed currency (millions)	\$	33.0	\$	28.6	\$	84.6	\$	78.0
Percentage change at fixed currency		15%				8%		
Acquisition adjusted percentage change at fixed currency		16%				9%		
Percentage change at public currency		17%				9%		
Operating income margin		16.8%		15.6%		15.1%		14.8%

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Segment Performance (continued)

Net Sales

Fixed currency sales for our Other segment increased 7% in the third quarter and 6% in the first nine months of 2014, driven by both volume gains and pricing. At a regional level, both the third quarter and nine month periods were led by strong growth in Asia Pacific and Latin America. North America and EMEA had good gains.

At an operating unit level, **Pest Elimination** fixed currency sales increased 6% in the third quarter of 2014 and 5% in the first nine months of 2014, impacted by gains in the food and beverage and foodservice markets. **Equipment Care** sales increased 10% in the third quarter of 2014 and 9% in the first nine months of 2014, driven largely by increases from service and installed parts sales. Direct parts sales showed improving trends, increasing in both the quarter and year to date periods.

Operating Income

Fixed currency operating income for our Other segment increased 15% for the third quarter and 8% in the first nine months of 2014. As shown in the previous table, acquisitions had a small impact on operating income growth for the third quarter and first nine months of 2014. Our operating income margin increased 1.2 percentage points in the third quarter and 0.3 percentage points in the first nine months of 2014. Fixed currency operating income results and the corresponding operating income margins were impacted largely by pricing gains and sales volume growth.

Corporate

Consistent with the company's internal management reporting, the Corporate segment includes amortization specifically from the Nalco merger and in 2013 it also included certain integration costs for both the Nalco and Champion transactions. The Corporate segment also includes special (gains) and charges reported on the Consolidated Statement of Income. Items included within special (gains) and charges are shown in the table on page 46.

Financial Position and Liquidity

Financial Position

Total assets were \$19.7 billion as of September 30, 2014, compared to total assets of \$19.6 billion at December 31, 2013. The increase in assets from acquisitions and ongoing business activities was offset by intangible amortization and the negative impact of foreign currency exchange rates on the value of our international assets.

Total liabilities were \$11.9 billion and \$12.2 billion as of September 30, 2014 and December 31, 2013, respectively. Total debt was \$6.8 billion as of September 30, 2014 and \$6.9 billion as of December 31, 2013. The ratio of total debt to capitalization (total debt plus total equity) was 47% at September 30, 2014 compared to 48% at December 31, 2013. We are in compliance with our debt covenants and believe we have sufficient borrowing capacity to meet our foreseeable operating needs.

Cash Flows

Cash provided by operating activities totaled \$1,145 million for the first nine months of 2014 compared to \$929 million for the first nine months of 2013.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Position and Liquidity (continued)

Year-over-year comparability was favorably impacted by increased income, driven by the impact of the Champion acquisition and lower comparable special (gains) and charges. We continue to generate strong cash flow from operations which has allowed us to fund our ongoing operations and investments in the business, fund acquisitions, return cash to shareholders through share repurchases and dividend payments and repay debt.

Cash used for investing activities was \$565 million for the first nine months of 2014 compared to \$1.9 billion for the first nine months of 2013.

The fluctuation across the periods is driven primarily by business acquisitions. During the first nine months of 2014, acquisitions included AkzoNobel's Purate business, AK Kraus & Hiller Schädlingsbekämpfung and the chemical division of AKJ Industries. Acquisitions during the first nine months of 2013 included Champion, Quimiproducos S.A. de C.V. and OOO Master Chemicals. See Note 3 for further information on our business acquisition activity.

Cash used by financing activities was \$714 million for the first nine months of 2014 compared to cash provided by financing activities of \$194 million for the first nine months of 2013.

Our 2014 financing activities included repayments of \$100 million, \$150 million and \$150 million of term loan borrowings in February, April and September 2014, respectively. Our 2013 financing activities included \$900 million of term loan borrowings initiated in connection with the Champion transaction, as well as \$338 million of long-term debt repayments, which included the redemption of debt acquired through the Champion transaction as well as \$100 million repayments of term loan borrowings. During the first nine months of 2014, net issuances and repayments of commercial paper and notes payable led to a net increase of \$310 million, compared to a net decrease of \$91 million in 2013.

We reacquired shares of \$341 million and \$229 million during the first nine months of 2014 and 2013, respectively. Cash payments for dividends are comparably higher for the first nine months of 2014 as the dividend declared in December 2013 was paid in January 2014, whereas the dividend declared in December 2012 was paid in December 2012.

The first nine months of 2014 includes an acquisition related contingent consideration payment of \$86 million made to Champion's former shareholders.

Liquidity and Capital Resources

We currently expect to fund all of the cash requirements which are reasonably foreseeable for the next twelve months, including scheduled debt repayments, new investments in the business, share repurchases, dividend payments, possible business acquisitions and pension and postretirement contributions with cash from operating activities, cash reserves and additional short-term and/or long-term borrowings. We continue to expect our operating cash flow to remain strong.

As of September 30, 2014, we had \$198 million of cash and cash equivalents on hand, of which \$186 million was held outside of the U.S.

As of September 30, 2014 we had a \$1.5 billion multi-year credit facility, which expires in September 2016. The credit facility has been established with a diverse syndicate of banks. There were no borrowings under our credit facility as of September 30, 2014 or December 31, 2013.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources (continued)

The credit facility supports our \$1.5 billion US commercial paper program and \$200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$1.5 billion. As of September 30, 2014, we had \$630 million in outstanding U.S. commercial paper, with an average annual interest rate of 0.3%, and no amounts outstanding under our European commercial paper program. As of September 30, 2014, both programs were rated A-2 by Standard & Poor's and P-2 by Moody's.

As of September 30, 2014, Standard & Poor's and Moody's rated our long-term credit at BBB+ (positive outlook) and Baa1 (negative outlook), respectively.

The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2013 disclosed total notes payable and long-term debt due within one year of \$861 million. As of September 30, 2014, the total notes payable and long-term debt due within one year increased to \$1.9 billion. The increase reflected additional commercial paper borrowing during 2014 and the short-term debt classification of our \$250 million Senior Notes due in February 2015 and our \$500 million Senior Notes due in August 2015.

We repaid \$100 million, \$150 million and \$150 million of term loan borrowings in February, April and September 2014, respectively.

Our gross liability for uncertain tax positions was \$94 million as of September 30, 2014 and \$99 million as of December 31, 2013. We are not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, we do not expect significant payments related to these obligations within the next year.

Global Environment

Approximately half of our sales are outside of the United States. Our international operations subject us to changes in economic conditions and foreign currency exchange rates as well as political uncertainty in some countries which could impact future operating results.

During 2013 and 2014, economic conditions in Europe have remained challenging. Certain countries continued to experience instability in credit markets, including diminished liquidity and credit availability as well as currency fluctuations which could negatively impact our customers located in these and other geographic areas. We currently do not foresee any specific credit or market risks that would have a significant impact

to our results of operations.

We have operations within Ukraine and Russia and have experienced no significant impact from the recent turmoil in the region. Net sales within these countries are approximately 1% of our consolidated net sales. We will continue to monitor economic and political trends within Ukraine and Russia.

We have joint venture operations tied to the Kashagan project, a Caspian Sea shallow-water oil-field located near the Kazakhstan coast, which we acquired with our recent Champion acquisition in April 2013. The startup of the Kashagan project has experienced delays including operations being stopped in October 2013 in order to repair pipeline failures. We have approximately \$25 million invested in a joint venture in the region related to inventory in preparation for production. We anticipate that the pipelines will be restored and operations will be restarted; however, if production is not restored or if we encounter other delays or setbacks, we believe that the impact of such events would not have a material adverse effect on our consolidated financial position or results of operations. We continue to monitor the situation.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Position and Liquidity (continued)

Global Environment (continued)

Venezuela Foreign Currency Translation

Venezuela is a country with a highly inflationary economy under U.S. GAAP. As a result, the U.S. dollar is the functional currency for our subsidiaries in Venezuela. Any currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by our subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings.

On February 8, 2013, the Venezuelan government devalued the bolivar from 4.30 bolivars to 1 U.S. dollar to 6.30 bolivars to 1 U.S. dollar, resulting in a charge during 2013 of \$22.7 million (\$16.1 million after tax), recorded within special (gains) and charges.

In 2013, the Venezuelan government created a new foreign exchange mechanism known as the SICAD 1. It operates similar to an auction system and allows entities to exchange a limited number of bolivars for U.S. dollars at a bid rate established via weekly auctions under SICAD 1. As of August 31, 2014, the fiscal quarter end for our international operations, the SICAD 1 exchange rate closed at 11.5 bolivars to 1 U.S. dollar. We do not use the SICAD 1 rate or expect to use the SICAD 1 currency exchange mechanism.

In January 2014, the Venezuelan government announced the replacement of CADIVI with a new foreign currency administration, CENCOEX. As of August 31, 2014, we have \$102 million of net monetary assets denominated in bolivars that were required to be remeasured to U.S. dollars. During the nine month period ended August 31, 2014, we continued to obtain approvals and authorization to pay amounts at the CENCOEX fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar. As we believe the fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar remains legally available to us and we continue to transact at this rate, we intend to continue to remeasure the net monetary assets of our Venezuela subsidiaries at this rate.

In March 2014, the Venezuelan government introduced SICAD 2, an additional currency exchange auction mechanism. At August 31, 2014, the SICAD 2 exchange rate closed at 49.97 bolivars to 1 U.S. dollar. We do not use the SICAD 2 rate, but are evaluating whether we will use the SICAD 2 currency exchange mechanism in future periods.

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If we determine our net monetary assets should be remeasured utilizing the SICAD 2 rate in a subsequent period, we could recognize a currency devaluation pre-tax loss of approximately \$90 million based on the August 31, 2014 rates and net monetary assets. This loss would be a component of special (gains) and charges within our Consolidated Statement of Income.

Net sales within Venezuela are approximately 1% of our consolidated net sales. Assets held in Venezuela at August 31, 2014 represented less than 2% of our consolidated assets.

New Accounting Pronouncements

For information on new accounting pronouncements, see Note 16 to the Consolidated Financial Statements.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Subsequent Events

In September 2014, subsequent to our third quarter end for international operations, we acquired certain assets in Turkey. The transaction is not significant to our operations.

In September 2014, subsequent to our third quarter end for international operations, we entered into a series of euro denominated forward starting swap agreements to hedge against changes in interest rates that could impact a future debt issuance.

In September 2014, subsequent to our third quarter end for international operations, we entered into a forward contract with a notional amount of euro 495 million to hedge future foreign currency exposures.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 2, contains financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S. (GAAP). These non-GAAP measures include:

- Fixed currency sales
- Acquisition adjusted fixed currency sales
- Adjusted cost of sales
- Adjusted gross margin
- Fixed currency operating income
- Adjusted operating income
- Adjusted fixed currency operating income
- Acquisition adjusted fixed currency operating income

- Adjusted net interest expense
- Adjusted tax rate
- Adjusted net income
- Adjusted diluted earnings per share

We provide these measures as additional information regarding our operating results. We use these non-GAAP measures internally to evaluate our performance and in making financial and operational decisions, including with respect to incentive compensation. We believe that our presentation of these measures provides investors with greater transparency with respect to our results of operations and that these measures are useful for period-to-period comparison of results.

We include in special (gains) and charges items that are unusual in nature and significant in amount. In order to better allow investors to compare underlying business performance period-to-period, we provide adjusted cost of sales, adjusted gross margin, adjusted operating income, adjusted fixed currency operating income, acquisition adjusted fixed currency operating income, adjusted net interest expense, adjusted net income and adjusted diluted earnings per share, which exclude special (gains) and charges and discrete tax items. The exclusion of special (gains) and charges and discrete tax items in such adjusted amounts help provide a better understanding of underlying business performance.

The adjusted tax rate measure promotes period-to-period comparability of the underlying effective tax rate because it excludes the tax rate impact of special (gains) and charges and discrete tax items which do not necessarily reflect costs associated with historical trends or expected future results.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-GAAP Financial Measures (continued)

We evaluate the performance of our international operations based on fixed currency rates of foreign exchange. Fixed currency sales, acquisition adjusted fixed currency sales, fixed currency operating income, adjusted fixed currency operating income and acquisition adjusted fixed currency operating income measures eliminate the impact of exchange rate fluctuations on our international sales, acquisition adjusted sales, operating income, adjusted operating income and acquisition adjusted operating income, respectively, and promote a better understanding of our underlying sales and operating income trends. Fixed currency amounts are based on translation into U.S. dollars at fixed foreign currency exchange rates established by management at the beginning of 2014.

Acquisition adjusted growth rates generally exclude the results of any acquired business from the first twelve months post acquisition and exclude the results of divested businesses from the previous twelve months prior to divestiture. Champion is an exception. Due to the rapid pace at which the business has been integrated within our Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is no longer available post acquisition. As such, to allow for the most meaningful period-over-period comparison, specific to the Champion transaction, Champion's results for the comparable period of the prior year have been included for purposes of providing acquisition adjusted growth rates.

These non-GAAP measures are not in accordance with, or an alternative to, GAAP and may be different from non-GAAP measures used by other companies. Investors should not rely on any single financial measure when evaluating our business. We recommend that investors view these measures in conjunction with the GAAP measures included in this MD&A and have provided reconciliations of reported GAAP amounts to the non-GAAP amounts on pages 44-52.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning the timing, scope, costs, cash expenditures, timing of cash payments, benefits and headcount impact of our restructuring initiatives; synergies; utilization of recorded restructuring liabilities; payment of contingent consideration; contributions to pension and post-retirement health care benefit plans; tax deductibility of goodwill; amortization expense; share repurchases and dividends; the impact of new accounting pronouncements; the impact of potential lawsuits or claims; payment of litigation settlement funds; gross liability for uncertain tax positions and payments related thereto; timing of hedged transactions; borrowing capacity; potential additional devaluation of Venezuelan currency; the impact of delay or shutdown of Kashagan operations; global market risk; future cash flow; cash requirements and sources of funding; anticipated future debt issuances; and nonperformance of financial counterparties.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements (continued)

Without limiting the foregoing, words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "we believe," "estimate," "project" (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. In particular, the ultimate results of any restructuring and business improvement actions, including cost synergies, depend on a number of factors, including the development of final plans, the impact of local regulatory requirements regarding employee terminations, the time necessary to develop and implement the restructuring and other business improvement initiatives and the level of success achieved through such actions in improving competitiveness, efficiency and effectiveness. 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 Part II, Item 1A of this Form 10-Q. Except as required under applicable law, we undertake no duty to update our Forward-Looking Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We primarily use foreign currency forward contracts, foreign currency debt and interest rate swaps to manage risks generally associated with interest rate and foreign exchange rate volatility and net investments in our foreign operations. We do not hold derivative financial instruments of a speculative nature. For a more detailed discussion of derivative instruments, refer to Note 8, entitled "Derivatives and Hedging Transactions," of the consolidated financial statements located under Part I, Item 1 of this quarterly report on Form 10-Q, beginning on page 25.

Item 4. Controls and Procedures

As of September 30, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the period July 1 through September 30, 2014, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Note 15, entitled "Commitments and Contingencies" located under Part I, Item 1 of this Form 10-Q beginning on page 36, is incorporated herein by reference.

Item 1A. Risk Factors

In our report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on February 28, 2014, we identify under Item 1A important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Form 10-Q. See the section entitled Forward-Looking Statements located on pages 62-63 of this Form 10-Q. We may also refer to such disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conferences and/or webcasts open to the public.

The discussion below includes updates to these risk factors.

Our results are impacted by general worldwide economic factors: Economic factors such as the worldwide economy, capital flows, interest rates and currency movements, including, in particular, our exposure to foreign currency risk, have affected our business in the past and may have a material adverse impact on our business in the future. In 2008 and 2009, the global economy experienced considerable disruption and volatility, and the disruption was particularly acute in the global credit markets. In 2011 and 2012, the European Union's sovereign debt crisis negatively impacted economic activity in that region as well as the strength of the euro versus the U.S. dollar. Other regions of the world, including emerging market areas, also expose us to foreign currency risk. For example, we do business in Venezuela, which experienced a currency devaluation in 2010 and again in 2013, and as discussed on page 60 of this Form 10-Q, we may experience the recognition of a currency devaluation loss in future periods in the event we utilize current or future foreign exchange mechanisms established by the Venezuelan government. Similar currency devaluations, credit market disruptions or other economic turmoil in other countries could have a material adverse impact on our consolidated results of operations, financial position and cash flows by negatively impacting economic activity, including in our key end-markets, and by further weakening the local currency versus the U.S. dollar, resulting in reduced sales and earnings from our foreign operations, which are generated in the local currency, and then translated to U.S. dollars.

Risk Factors (continued)

Our significant non-U.S. operations expose us to global economic, political and legal risks that could impact our profitability: We have significant operations outside the United States, including joint ventures and other alliances. We conduct business in approximately 170 countries and, in 2013, approximately 49% of our net sales originated outside the United States. There are inherent risks in our international operations, including:

- exchange controls and currency restrictions;
- currency fluctuations and devaluations;
- tariffs and trade barriers;
- export duties and quotas;
- changes in the availability and pricing of raw materials, energy and utilities;
- changes in local economic conditions;
- changes in laws and regulations;
- difficulties in managing international operations and the burden of complying with foreign laws;
- difficulties in collecting receivables or realizing other assets, including with respect to a joint venture investment in Kazakhstan as discussed at page 58 of this Form 10-Q;
- requirements to include local ownership or management in our business;

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- economic and business objectives that differ from those of our joint venture partners;
- exposure to possible expropriation, nationalization or other government actions;
- restrictions on our ability to repatriate dividends from our subsidiaries;
- unsettled political conditions, military action, civil unrest, acts of terrorism, force majeure, war or other armed conflict; and
- countries whose governments have been hostile to U.S.-based businesses.

Also, because of uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights, we face risks in some countries that our intellectual property rights and contract rights would not be enforced by local governments. We are also periodically faced with the risk of economic uncertainty, which has impacted our business in some countries. Other risks in international business also include difficulties in staffing and managing local operations, including managing credit risk to local customers and distributors.

Risk Factors (continued)

Further, our operations outside the United States require us to comply with a number of United States and international regulations, including anti-corruption laws such as the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act, as well as U.S. economic sanctions regulations. We have internal policies and procedures relating to such regulations; however, there is risk that such policies and procedures will not always protect us from the reckless acts of employees or representatives, particularly in the case of recently acquired operations that may not have significant training in applicable compliance policies and procedures. Violations of such laws and regulations could result in disruptive investigations of the Company, significant fines and sanctions, which could adversely affect our consolidated results of operations, financial position or cash flows.

Our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social, legal and political conditions. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business, which could adversely affect our consolidated results of operations, financial position or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased(1)	(b) Average price paid per share(2)	(c) Number of shares purchased as part of publicly announced plans or programs(3)	(d) Maximum number of shares that may yet be purchased under the plans or programs(3)
July 1-31, 2014	475	\$ 109.4101	0	9,886,298
August 1-31, 2014	33,567	\$ 109.3740	0	9,886,298
September 1-30, 2014	5,780	\$ 115.3251	0	9,886,298
Total	39,822	\$ 110.2382	0	9,886,298

(1) Represents 39,822 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

(2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.

(3) As announced on August 23, 2011, the Finance Committee, via delegation by our Board of Directors, authorized the repurchase of up to an additional 10,000,000 shares contingent upon completion of the merger with Nalco. We intend to repurchase all shares under this remaining authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

Item 4.

Mine Safety Disclosures

Not applicable.

Item 6.

Exhibits

(a) The following documents are filed as exhibits to this report:

(10.1) Documents comprising global Commercial Paper Programs:

U.S. \$1,500,000,000 U.S. Commercial Paper Program

(a) Form of Commercial Paper Dealer Agreement for 4(a)(2) Program dated as of September 22, 2014. The dealers for the program are Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc. and Wells Fargo Securities, LLC.

(b) Commercial Paper Issuing and Paying Agency Agreement dated as of September 22, 2014 between Ecolab Inc. and Deutsche Bank Trust Company Americas as Issuing and Paying Agent.

(c) Corporate Commercial Paper Master Note dated September 22, 2014, together with Annex thereto.

- (10.2) Ecolab Inc. Management Performance Incentive Plan, as amended and restated effective February 27, 2014.
- (15.1) Letter regarding unaudited interim financial information.
- (31.1) Rule 13a - 14(a) Certifications.
- (32.1) Section 1350 Certifications.
- (101.1) Interactive Data File.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ECOLAB INC.

Date: October 30, 2014

By:

/s/Bryan L. Hughes
Bryan L. Hughes
Senior Vice President & Corporate Controller
(duly authorized Officer and
Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Document	Method of Filing
(10.1)	Documents comprising global Commercial Paper Programs:	
	U.S. \$1,500,000,000 U.S. Commercial Paper Program	
	(a) Form of Commercial Paper Dealer Agreement for 4(a)(2) Program dated as of September 22, 2014. The dealers for the program are Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc. and Wells Fargo Securities, LLC.	Filed herewith Electronically
	(b) Commercial Paper Issuing and Paying Agency Agreement dated as of September 22, 2014 between Ecolab Inc. and Deutsche Bank Trust Company Americas as Issuing and Paying Agent.	Filed herewith Electronically
	(c) Corporate Commercial Paper Master Note dated September 22, 2014, together with Annex thereto.	Filed herewith electronically
(10.2)	Ecolab Inc. Management Performance Incentive Plan, as amended and restated effective February 27, 2014.	Incorporated by reference to Exhibit (10.1) of our Form 8-K dated May 8, 2014.
(15.1)	Letter regarding unaudited interim financial information.	Filed herewith electronically
(31.1)	Rule 13a - 14(a) Certifications.	Filed herewith electronically
(32.1)	Section 1350 Certifications.	Filed herewith electronically
(101.1)	Interactive Data File.	Filed herewith electronically