ECOLAB INC
Form 10-K
February 25, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2007 **Commission File No. 1-9328**

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

For the transition period from to

ECOLAB INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-0231510**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
370 Wabasha Street North, St. Paul, Minnesota	**55102**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x YES o NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

o YES x NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x YES o NO

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

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. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o YES x NO

Aggregate market value of voting and non-voting common equity held by non-affiliates of registrant on June 30, 2007: $10,446,188,400 (see Item 12, under Part III hereof), based on a closing price of registrant s Common Stock of $42.70 per share.

The number of shares of registrant s Common Stock, par value $1.00 per share, outstanding as of January 31, 2008: 247,200,121 shares.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant s Annual Report to Stockholders for the year ended December 31, 2007 (hereinafter referred to as Annual Report) are incorporated by reference into Parts I and II.

2. Portions of the registrant s Proxy Statement for the Annual Meeting of Stockholders to be held May 2, 2008 and to be filed within 120 days after the registrant s fiscal year ended December 31, 2007 (hereinafter referred to as Proxy Statement) are incorporated by reference into Part III.

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PART I

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

Forward-Looking Statements

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operation incorporated by reference into Item 7 of this Form 10-K, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning business progress and expansion, business acquisitions, currency translation, cash flows, debt repayments, environmental and regulatory considerations, share repurchases, global economic conditions, pension expenses and potential contributions, income taxes and liquidity requirements. Without limiting the foregoing, words or phrases such as will likely result, are expected to, will continue, is anticipated, we believe, we expect, estimate, project (including the negative or va thereof) or similar terminology, generally identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. We caution that undue reliance should not be placed on such forward-looking statements, which speak only as of the date made. Some of the factors which could cause results to differ from those expressed in any forward-looking statement are set forth under Item 1A of this Form 10-K, entitled Risk Factors.

Item 1. Business.

Item 1(a) General Development of Business.

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

During 2007, we continued to make business acquisitions to broaden our product offerings and expand our geographic coverage, consistent with our Circle the Customer Circle the Globe strategy.

In January 2007, we established a direct operation in the United Arab Emirates. We previously operated in the country through a distributor, and purchased that business to form the new direct operation in the country. Annual sales are approximately $3 million and became part of our International operations beginning in the first quarter of 2007.

In February 2007, we acquired Apprise Technologies, Inc., a Minnesota-based developer of optical sensor technology solutions. Annual sales are approximately $1 million and became part of our U.S. Cleaning & Sanitizing operations beginning in the first quarter of 2007.

In March 2007, we acquired Green Harbour, a Hong Kong-based provider of pest elimination services in China and Hong Kong. Annual sales are approximately $4 million and became part of our International operations beginning in the second quarter of 2007.

In May 2007, we acquired Fuma Pest, a New Zealand-based provider of pest elimination services. Annual sales are approximately $2 million and became part of our International operations beginning in the second quarter of 2007.

In June 2007, we acquired Eagle Environmental Systems, a provider of pest elimination services based in Sydney, Australia. Annual sales are approximately $4 million and became part of our International operations beginning in the third quarter of 2007.

In September 2007, we made a minority investment in Site Controls, LLC, a leading provider of energy management and business intelligence solutions.

In November 2007, we acquired Microtek Medical Holdings, Inc., a manufacturer and marketer of infection control products for healthcare and acute care facilities. Microtek s specialized product lines include infection barrier equipment drapes, patient drapes, fluid control products and operating room cleanup systems. Microtek s 2006 sales were approximately $150 million and became part of our U.S. Cleaning & Sanitizing and International operations.

Regarding business dispositions, we completed the sale of Peter Cox Limited, a leading United Kingdom provider of damp proofing, waterproofing, timber preservation and wall stabilization for residential, commercial and public properties, in September 2007. We acquired Peter Cox Limited in connection with our 2002 purchase of the Terminix Pest Control business in the United Kingdom. 2006 revenues for the Peter Cox business were GBP 16 million (approximately $32 million).

Additional details regarding certain of the above transactions are found in Note 5 located on pages 35 and 36 of the Annual Report, and incorporated into Item 8 of this Form 10-K.

Item 1(b) Financial Information About Operating Segments.

The financial information about reportable segments appearing under the heading Operating Segments in Note 16, located on pages 45 and 46 of the Annual Report, is incorporated herein by reference.

Item 1(c) Narrative Description of Business.

General: Ecolab develops and markets premium products and services for the hospitality, foodservice, healthcare and industrial markets. We provide cleaning and sanitizing products and programs, as well as pest elimination, maintenance and repair services primarily to hotels and restaurants, healthcare and educational facilities, quick-service (fast-food and other convenience store) units, grocery stores, commercial and institutional laundries, light industry, dairy plants and farms, food and beverage processors and the vehicle wash industry. A strong commitment to customer support and sustainable solutions is a distinguishing characteristic of our business. Additional information on our business philosophy is found below under the heading Additional Information Competition of this Item 1(c).

The following description of our business is based upon our three reportable segments as reported in our consolidated financial statements. However, we pursue a Circle the Customer Circle the Globe strategy by providing products, systems and services which serve our customer base, and do so on a global basis to meet the needs of our customers various operations around the world. Therefore, one customer may utilize the products or services of all three of the segments and there is interdependence among the operating segments. Revenues of our International segment include sales outside the United States by our Kay and Pest Elimination businesses.

United States Cleaning & Sanitizing Segment

The United States Cleaning & Sanitizing segment is comprised of seven business units which provide cleaning and sanitizing products and programs to United States markets.

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

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

The Institutional Division sells its products and programs primarily through company-employed field sales personnel. However, to a significant degree, we also utilize independent, third-party foodservice distributors to market and sell our products to smaller accounts or accounts which purchase through food distributors. We provide the same customer support to accounts supplied by food distributors as to direct customers.

Effective January 1, 2007, we integrated our former Professional Products division into the Institutional Division to deliver a broad range of cleaning and floor care products and programs to customers in hospitality, health care and commercial facilities. The Institutional sales force, along with a network of independent, third-party distributors serving the commercial janitorial industry, market Professional Products proprietary offerings (detergents, general purpose cleaners, carpet care, stone care, furniture polishes, disinfectants, floor care products, hand soaps and odor counteractants).

Kay: Our Kay Division (which consists of certain wholly-owned subsidiaries of Ecolab Inc.) supplies chemical cleaning and sanitizing products primarily to national and regional quick-service restaurant chains. Kay s products include specialty and general purpose hard surface cleaners, degreasers, sanitizers, polishes, hand care products and assorted cleaning tools. Products are sold under the Kay brand or the customer s private label. In addition, Kay supports its product sales with employee training programs and technical support designed to meet the special needs of its customers. Kay s customized cleaning and sanitation programs are designed to reduce labor costs and product usage while increasing sanitation levels, cleaning performance, equipment life and safety levels.

Kay employs a direct field sales force which primarily calls upon national and regional quick-service restaurants and franchisees, although the sales are made to distributors who supply the chain or franchisee s units.

We believe that our Kay Division is the leading supplier of chemical cleaning and sanitizing products to the traditional quick-service restaurant industry in the United States. While Kay s customer base has been growing, Kay s business is largely dependent upon a limited number of major quick-service restaurant chains and franchisees. Kay continues to seek growth and diversification opportunities.

In addition, through Kay s Food Retail business, the Division supplies cleaning and sanitizing products to the food retail (i.e., grocery store) industry. Food Retail products are sold primarily through distributors and include specialty and general purpose hard surface cleaners, degreasers, sanitizers, polishes, hand care products, assorted cleaning tools and floor care products. We provide the same customer support to accounts supplied by distributors as to direct customers.

Food & Beverage: Our Food & Beverage Division addresses cleaning and sanitation at the beginning of the food chain to facilitate the production of products for human consumption. The Division provides detergents, cleaners, sanitizers, lubricants and animal health products, as well as cleaning systems, electronic dispensers and chemical injectors for the application of chemical products, primarily to dairy plants, dairy farms, breweries, soft-drink bottling plants, and meat, poultry and other food processors. The Food & Beverage Division is also a leading developer and marketer of antimicrobial products used in direct contact with meat, poultry, seafood and produce during processing in order to reduce microbial contamination on those surfaces. The Division also designs, engineers and installs CIP (clean-in-place) process control systems and facility cleaning systems for its customer base. Farm products are sold through dealers and independent, third-party distributors, while plant products are sold primarily by our field sales personnel.

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

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Textile Care: Our Textile Care Division provides chemical laundry products and proprietary dispensing systems, as well as related programs, to large industrial and commercial laundries. Typically these customers process a minimum of 1,000,000 pounds of linen each year and include free-standing laundry plants used by institutions such as hotels, restaurants and healthcare facilities as well as industrial and textile rental laundries. Products and programs include laundry cleaning and specialty products, related dispensing equipment, plus water and energy management which are marketed primarily through a Company-employed sales force and, to a lesser extent, through independent, third-party distributors. The Division s programs are designed to meet our customer s need for exceptional cleaning, while extending the useful life of linen and reducing the customer s overall operating cost.

Healthcare: Our Healthcare Division provides infection prevention and healthcare offerings to hospital, acute care and long-term care markets in the United States. Healthcare s proprietary infection prevention/healthcare products (skin care, disinfectants and instrument cleaners) are sold primarily under the Ecolab , Huntington and Microtek brand names.

Vehicle Care: Our Vehicle Care Division provides vehicle appearance products which include soaps, polishes, sealants, wheel and tire treatments and air fresheners. Products are sold to vehicle rental, fleet and consumer car wash and detail operations. Brand names utilized by the Vehicle Care Division include Blue Coral®, Black Magic® and Rain-X®.

Water Care Services: Water Care Services provides water and wastewater treatment products, services and systems for commercial/institutional customers (full service hotels, cruise ships, hospitals, healthcare, commercial real estate, government, and commercial laundries), food and beverage customers (dairies, meat, poultry, food processing and beverage) and other light industry. Water Care Services works closely with our Institutional, Textile Care and Food & Beverage Divisions to offer customized water care strategies to their accounts that have water care needs, primarily to treat water used in heating and cooling systems and manufacturing processes and to treat wastewater.

United States Other Services Segment

The United States Other Services segment is comprised of two business units: Pest Elimination and GCS Service. In general, these businesses provide service or equipment which can augment or extend our product offering to our business customers as a part of our Circle the Customer approach.

Pest Elimination: Our Pest Elimination Division provides services for the detection, elimination and prevention of pests to restaurants, food and beverage processors, educational and healthcare facilities, hotels, quick-service restaurant and grocery operations and other institutional and commercial customers. These services are sold and performed by Company-employed sales and service personnel. In addition, through our EcoSure Food Safety Management business, we provide customized on-site evaluations, training and quality assurance services to foodservice operations.

GCS Service: GCS Service provides commercial cooking and refrigeration equipment repair and maintenance services for restaurant and other foodservice operations. Repair services are offered for in-warranty repair, acting as the Manufacturer s Authorized Service Agent, as well as after warranty repair. In addition, GCS Service operates as a parts distributor to repair service companies and end users.

International Segment

We conduct business in approximately 70 countries outside of the United States through wholly-owned subsidiaries or, in the case of Israel and Venezuela, through joint ventures with local partners. In other countries, selected products are sold by our export operations to distributors, agents or licensees, although the volume of those sales is not significant in terms of our overall revenues. Our largest International operations are located in Europe, Asia Pacific, Latin America and Canada, with smaller operations in Africa and the Middle East.

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

Our Pest Elimination business continues to expand its geographic coverage. Since 2001, we have entered markets in Asia, Western Europe and Latin America, with the largest operations in France and the United Kingdom.

Our other businesses are conducted less extensively in our International locations. However, in general, most of the principal businesses conducted in the United States are operated in Canada.

International businesses are subject to the usual risks of foreign operations, including possible changes in trade and foreign investment laws, tax laws, currency exchange rates and economic and political conditions abroad. The profitability of our International operations has historically been lower than the profitability of our businesses in the United States. This has been due to the smaller scale of the International operations as well as the additional cost of operating in numerous and diverse foreign jurisdictions.

Additional Information

Competition: Our business units have two significant classes of competitors. First, each business unit competes with a small number of large companies selling directly or through distributors on a national or international scale. Second, all of our business units have numerous smaller regional or local competitors which focus on more limited geographies, product lines and/or end-user segments.

Our objective is to achieve a significant presence in each of our business markets. In general, competition is based on customer support, product performance and price. We believe we compete principally by providing superior value, premium customer support and differentiated products to help our customer protect its brand reputation. Value is provided by state-of-the-art cleaning, sanitation and maintenance products and systems coupled with high customer support standards and continuing dedication to customer satisfaction. This is made possible, in part, by our significant on-going investment in training and technology and by our standard practice of advising customers on means to lower operating costs and helping them comply with safety, environmental and sanitation regulations. In addition, we emphasize our ability to uniformly provide a variety of related premium cleaning and sanitation programs to our customers and to provide that level of customer support to multiple locations of chain customer organizations worldwide. This approach is succinctly stated in our Circle the Customer - Circle the Globe strategy which is discussed above in this Item 1(c) under the heading General.

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

Number of Employees: We have approximately 26,050 employees.

Customers and Classes of Products: We believe that our business is not materially dependent upon a single customer although, as described above in this Item 1(c) under the description of the Kay business, Kay is largely dependent upon a limited number of national and international quick-service chains and franchisees. Additionally, although we have a diverse customer base and no customer or distributor constitutes 10 percent or more of our consolidated revenues, we do have customers and independent, third-party distributors, the loss of which could have a material negative effect on results of operations for the affected earnings periods; however, we consider it unlikely that such an event would have a material adverse impact on our financial position. No material part of our business is subject to renegotiation or termination at the election of a governmental unit. We sell two classes of products which each constitute 10 percent or more of our sales. Sales of warewashing products in 2007, 2006 and 2005 approximated 22, 21 and 21 percent, respectively, of our consolidated net sales. In addition, through our Institutional and Textile Care businesses, we sell laundry products and provide customer support to a broad range of laundry customers. Sales of laundry products and services in 2007, 2006 and 2005 approximated 10, 10 and 11 percent, respectively, of our consolidated net sales.

Patents and Trademarks: We own and license a number of patents, trademarks and other intellectual property, including through a license agreement with Henkel KGaA. While we have an active program to protect our intellectual property by filing for patents or trademarks, and pursuing legal action, when appropriate, to prevent infringement, we do not believe that our overall business is materially dependent on any individual patent or trademark.

Seasonality: Overall our business does not have a significant degree of seasonality. However, we do experience variability in our quarterly operating results due to sales volume and business mix fluctuations in our operating segments. Note 17, entitled Quarterly Financial Data located on page 47 of the Annual Report, is incorporated herein by reference.

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

Manufacturing and Distribution: We manufacture most of our products and related equipment in Company-owned manufacturing facilities. Some products are also produced for us by third-party contract manufacturers, including Henkel KGaA. Other products and equipment are purchased from third-party suppliers. Additional information on product/equipment sourcing is found in the segment discussions above and additional information on our manufacturing facilities is located beginning at page 16 of this Form 10-K under the heading Properties.

Deliveries to customers are made from our manufacturing plants and a network of distribution centers and public warehouses. We use common carriers, our own delivery vehicles, and distributors. Additional information on our plant and distribution facilities is located beginning at page16 of this Form 10-K under the heading Properties.

Raw Materials: Raw materials purchased for use in manufacturing our products are inorganic chemicals, including alkalis, acids, phosphates, silicates and salts, and organic chemicals, including surfactants and solvents. These materials are generally purchased on an annual contract basis from a diverse group of chemical manufacturers. When practical, global sourcing is used so that purchasing or production locations can be shifted to control product costs at globally competitive levels. Pesticides used by our Pest Elimination Division are purchased as finished products under contract or purchase order from the producers or their distributors. We also purchase packaging materials for our manufactured products and components for our specialized cleaning equipment and systems. Most raw materials, or substitutes for those materials, used by us, with the exception of a few specialized chemicals which we manufacture, are available from several suppliers.

Research and Development: Our research and development program consists principally of devising and testing new products, processes, techniques and equipment, improving the efficiency of existing ones, improving service program content, and evaluating the environmental compatibility of products. Key disciplines include analytical and formulation chemistry, microbiology, process and packaging engineering and product dispensing technology. Substantially all of our principal products have been developed by our research, development and engineering personnel. At times, technology has also been licensed from third parties to develop offerings. Note 13, entitled Research Expenditures located on page 41 of the Annual Report, is incorporated herein by reference.

Environmental and Regulatory Considerations: Our businesses are subject to various legislative enactments and regulations relating to the protection of the environment and public health. While we cooperate with governmental authorities and take commercially practicable measures to meet regulatory requirements and avoid or limit environmental effects, some risks are inherent in our businesses. Among the risks are costs associated with transporting and managing hazardous substances, waste disposal and plant site clean-up, fines and penalties if we are found to be in violation of law, as well as modifications, disruptions or discontinuation of certain operations or types of operations including product recalls and reformulations. Additionally, although we are not currently aware of any such circumstances, there can be no assurance that future legislation or enforcement policies will not have a material adverse effect on our consolidated results of operations, financial position or cash flows. Environmental and regulatory matters most significant to us are discussed below.

Ingredient Legislation: Various laws and regulations have been enacted by state, local and foreign jurisdictions pertaining to the sale of products which contain phosphorous, volatile organic compounds, or other ingredients that may impact human health or the environment. Under California Proposition 65, label disclosures are required for certain products containing chemicals listed by California. Green chemistry initiatives that promote pollution prevention through research and development of safer chemicals and safer chemical processes are being advanced by certain states, including California, Maine, Massachusetts and Vermont. To date, we generally have been able to comply with such legislative requirements by reformulation or labeling modifications. Such legislation has not had a material negative effect on our consolidated results of operations, financial position or cash flows to date.

Pesticide Legislation: Various international, federal and state environmental laws and regulations govern the manufacture and/or use of pesticides. We manufacture and sell certain disinfecting and sanitizing products which kill or reduce microorganisms (bacteria, viruses, fungi) on hard environmental surfaces and on certain food products. Such products constitute pesticides or antimicrobial pesticides under the current definitions of the Federal Insecticide Fungicide and Rodenticide Act (FIFRA), as amended by the Food Quality Protection Act of 1996, the principal federal statute governing the manufacture, labeling, handling and use of pesticides. We maintain approximately 350 product registrations with the U.S. Environmental Protection Agency (EPA). Registration entails the necessity to meet certain efficacy, toxicity and labeling requirements and to pay on-going registration fees. In addition, each state in which these products are sold requires registration and payment of a fee. In general, the states impose no substantive requirements different from those required by FIFRA. However, California and certain other states have adopted additional regulatory programs, and California imposes a tax on total pesticide sales in that State. While the cost of complying with rules as to pesticides has not had a material adverse effect on our consolidated results of operations, financial condition, or cash flows to date, the costs and delays in receiving necessary approvals for these products continue to increase. Total fees paid to the EPA and the states to obtain or maintain pesticide registrations, and for the

California tax, were approximately $2,800,000 in 2007 and $3,400,000 in 2006. In Europe, the Biocidal Product Directive (98/8/EC) (BPD) established a program to evaluate and authorize marketing of biocidal active substances and products. We are working with suppliers and industry groups to manage requirements associated with the BPD, and have met the first relevant deadline of the program by the timely submission of dossiers for active substances. Anticipated registration costs are not expected to significantly affect our consolidated results of operations, financial position or cash flows.

In addition, our Pest Elimination Division applies restricted-use pesticides which it generally purchases from third parties. That Division must comply with certain standards pertaining to the use of such pesticides and to the licensing of employees who apply such pesticides. Such regulations are enforced primarily by the states or local jurisdictions in conformity with federal regulations. We have not experienced material difficulties in complying with these requirements.

FDA Antimicrobial Product Requirements: Various laws and regulations have been enacted by federal, state, local and foreign jurisdictions regulating certain products manufactured and sold by us for controlling microbial growth on humans, animals, foods and medical devices. In the United States, these requirements generally are administered by the U.S. Food and Drug Administration (FDA). However, the U.S. Department of Agriculture and EPA also may share in regulatory jurisdiction of antimicrobials applied to food. The FDA also has been expanding requirements applicable to such products, including proposing regulations in a Tentative Final Monograph for Healthcare Antiseptic Drug Products dated June 17, 1994, which may impose additional requirements associated with antimicrobial hand care products and associated costs when finalized by the FDA. To date, such requirements have not had a material adverse effect on our consolidated results of operations, financial position or cash flows.

Europe: The European Union is developing a new regulatory framework for the Registration, Evaluation and Authorization of Chemicals (REACH). The European Parliament and Council adopted the REACH regulation in December 2006, which became effective in June 2007. It established a new European Chemicals Agency in Helsinki, Finland, which is responsible for evaluating data to determine hazards and risks and to manage this program for authorizing chemicals for sale and distribution in Europe. All new and existing chemicals produced or imported into the European Union in quantities above one ton per year must be registered in a central database. For chemicals deemed to be of most concern, industry must gain specific authorization for particular uses which have been demonstrated to be safe. Other uses would be prohibited. To manage this new program, we are simplifying our product line and working with chemical suppliers to comply with registration requirements. The eventual impact of REACH will also be felt by our competitors. Potential costs to us are not yet fully quantifiable, but are not expected to significantly affect our consolidated results of operations, financial position or cash flows.

In 2003, the United Nations issued a standard on hazard communication and labeling of chemical products known as the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). GHS is designed to facilitate international trade and increase safe handling and use of hazardous chemicals through a worldwide, uniform system that classifies chemicals based on their intrinsic hazards and communicates information about those hazards through standardized safety labeling and safety warnings. Individual countries and regional organizations either have begun to implement GHS or are considering what portions of it will be adopted and within what timeframe. Most countries in which we operate will adopt GHS-related legislation. The primary cost of compliance will revolve around labeling, and we are working toward a phased-in approach to mitigate risks of GHS implementation. Potential costs to us are not yet fully quantifiable but are not expected to have a material adverse effect on our consolidated results of operations, financial position or cash flows.

Other Environmental Legislation: Our manufacturing plants are subject to federal, state, local or foreign jurisdiction laws and regulations relating to discharge of hazardous substances into the environment and to the transportation, handling and disposal of such substances. The primary federal statutes that apply to our activities are the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act. We are also subject to the Superfund Amendments and Reauthorization Act of 1986, which imposes certain reporting requirements as to emissions of hazardous substances into the air, land and water. We make capital investments and expenditures to comply with environmental laws and regulations, to ensure employee safety and to carry out our announced environmental sustainability principles. To date, such expenditures have not had a significant adverse effect on our consolidated results of operations, financial position or cash flows. Our capital expenditures for environmental health and safety projects worldwide were approximately $8,100,000 in 2007 and $6,400,000 in 2006. Approximately $7,800,000 has been budgeted globally for projects in 2008.

Climate Change: Various laws and regulations pertaining to climate change have been implemented or are being considered for implementation at the international, national, regional and state levels, particularly as they relate to the reduction of greenhouse gas (GHG) emissions. None of these laws and regulations directly applies to Ecolab at the present time, however, as a matter of corporate policy, Ecolab supports a balanced approach to reducing GHG emissions while sustaining economic growth and competitiveness. Ecolab has joined U.S. EPA s Climate Leaders program, and as part of that program we have pledged to develop a corporate-wide U.S. GHG emission inventory and work with EPA to set a GHG reduction goal in 2008.

Environmental Remediation and Proceedings: Along with numerous other potentially responsible parties (PRPs), we are currently involved with waste disposal site clean-up activities imposed by the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or state equivalents at 19 sites in the United States. Additionally, we have similar liability at nine sites outside the United States. In general, under CERCLA, we and each other PRP that actually contributes hazardous substances to a Superfund site are jointly and severally liable for the costs associated with cleaning up the site. Customarily, the PRPs will work with the EPA to agree and implement a plan for site remediation. Pursuant to an Environmental Agreement dated December 7, 2000 with Henkel KGaA, Henkel agreed to indemnify us for certain environmental liabilities associated with the parties former joint venture in Europe. We received euro 626,763 (approximately $917,000) from Henkel in 2007 for such environmental liabilities and we recently requested an additional euro 203,890 (approximately $300,000 at December 31, 2007) for new environmental costs.

Based on an analysis of our experience with such environmental proceedings, our estimated share of all hazardous materials deposited on the sites referred to in the preceding paragraph, and our estimate of the contribution to be made by other PRPs which we believe have the financial ability to pay their shares, we have accrued our best estimate of our probable future costs relating to such known sites. Unasserted claims are not reflected in the accrual. In establishing accruals, potential insurance reimbursements are not included. The accrual is not discounted. It is not feasible to predict when the amounts accrued will be paid due to the uncertainties inherent in the environmental remediation and associated regulatory processes.

Our worldwide net expenditures for contamination remediation were approximately $1,060,000 in 2007 and $950,000 in 2006. Including the ChemLawn matters described below, our worldwide accruals at December 31, 2007 for probable future remediation expenditures totaled approximately $3,990,000. We review our exposure for contamination remediation costs periodically and our accruals are adjusted as considered appropriate. While the final resolution of these issues could result in costs below or above current accruals and, therefore, have an impact on our consolidated financial results in a future reporting period, we believe the ultimate resolution of these matters will not have a material effect on our consolidated results of operations, financial condition or liquidity. In addition, we have retained responsibility for certain sites where our former ChemLawn business is a PRP. Currently there are five such locations and, at each, ChemLawn is a *de minimis* party. Anticipated costs currently accrued for these matters were included in our loss from our discontinued ChemLawn operations in 1991. The accrual remaining reflects our best estimate of probable future costs.

Item 1(d) Financial Information About Geographic Areas.

The financial information about geographic areas appearing under the heading Operating Segments in Note 16, located on pages 45 and 46 of the Annual Report, is incorporated herein by reference.

Item 1(e) Available Information.

Our Internet address is www.ecolab.com. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports, are available free of charge on our website at www.ecolab.com/investor as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission.

In addition, the following governance materials are available on our website at www.ecolab.com/investor/governance and the same information is available in print to any requesting persons, free of charge, by writing to the Corporate Secretary at our headquarters address, or by submitting an e-mail request to investor.info@ecolab.com: (i) charters of the Audit, Compensation, Finance and Governance Committees of our Board of Directors; (ii) our Board s Corporate Governance Principles; and (iii) our Code of Conduct and Code of Ethics for Senior Officers and Finance Associates.

Executive Officers of the Company

The persons listed in the following table are our current executive officers. Officers are elected annually. There is no family relationship among any of the directors or executive officers, and no executive officer has been involved during the past five years in any legal proceedings described in applicable Securities and Exchange Commission regulations.

Name	Age	Office	Positions Held Since Jan. 1, 2003
Douglas M. Baker, Jr.	49	Chairman of the Board, President and Chief Executive Officer	May 2006 Present
		President and Chief Executive Officer	Jul. 2004 Apr. 2006
		President and Chief Operating Officer	Jan. 2003 Jun. 2004
Lawrence T. Bell	59	General Counsel and Secretary	Feb. 2008 Present
		Senior Vice President, General Counsel and Secretary	Jan. 2003 Jan. 2008
Steven L. Fritze	53	Chief Financial Officer	Feb. 2008 Present
		Executive Vice President and Chief Financial Officer	Feb. 2004 Jan. 2008
		Senior Vice President and Chief Financial Officer	Jan. 2003 Jan. 2004
Robert K. Gifford	50	Senior Vice President Global Supply Chain	Oct. 2005 Present
		Vice President Supply Chain Management	Sep. 2004 Sep. 2005 (1)
Thomas W. Handley	53	President Industrial and Services North America Sector	Dec. 2007 Present
		Executive Vice President Industrial Sector	Apr. 2006 Nov. 2007
		Executive Vice President Specialty Sector	Jan. 2004 Mar. 2006
		Senior Vice President Strategic Planning	Aug. 2003 Dec. 2003 (2)
Michael A. Hickey	46	Senior Vice President Global Business Development	Jan. 2006 Present
		Senior Vice President Global / Corporate Accounts	Nov. 2005 Dec. 2005
		Vice President Global/Corporate Accounts, Institutional Division	Jan. 2003 Oct. 2005
Phillip J. Mason	57	President International Sector	Dec. 2007 Present

Name	Age	Office	Positions Held Since Jan. 1, 2003
Phillip J. Mason (con t.)		Executive Vice President Asia Pacific and Latin America	Dec. 2004 Nov. 2007
		Senior Vice President Strategic Business Development	May 2004 Nov. 2004 (3)
Michael L. Meyer	50	Senior Vice President-Human Resources	Feb. 2008 Present (4)
James A. Miller	51	President Institutional North America Sector	Dec. 2007 Present
		Executive Vice President Institutional Sector North America	Jan. 2004 Nov. 2007
		Vice President and General Manager Institutional	Jan. 2003 Dec. 2003
Susan K. Nestegard	47	Senior Vice President Research, Development and Engineering and Chief Technical Officer	Dec. 2004 Present
		Vice President Research, Development and Engineering and Chief Technical Officer	Mar. 2003 Nov. 2004 (5)
Daniel J. Schmechel	48	Senior Vice President and Controller	Dec. 2005 Present
		Vice President and Controller	Jan. 2003 Nov. 2005
Robert P. Tabb	57	Vice President and Chief Information Officer	Sep. 2003 Present (6)
James H. White	43	President-EMEA Sector	Dec. 2007 Present
		Executive Vice President EMEA	Apr. 2007 Nov. 2007
		Senior Vice President Strategy and Marketing Development	May 2006 Mar. 2007
		Senior Vice President Strategic Planning	Oct. 2005 Apr. 2006 (7)

(1) Prior to joining Ecolab in 2004, Mr. Gifford served as Vice President, World Logistics and Program Manager of Hewlett Packard Corporation for three years. Prior to Hewlett Packard, Mr. Gifford was employed by Compaq and Tandem.

(2) Prior to joining Ecolab in 2003, Mr. Handley was employed by the Procter & Gamble Company for 22 years in various management, marketing and executive positions including assignments in Japan and Mexico. Mr. Handley s last position at P&G was Vice President - Feminine Care Strategic Planning.

(3) Mr. Mason re-joined Ecolab in 2004, where he formerly served 23 years in various management and executive positions, most recently as Vice President Asia Pacific. Prior to re-joining Ecolab, Mr. Mason was employed by HAVI Group, LP, serving as President, HPR Partners from 1997-2004.

(4) Prior to joining Ecolab in February 2008, Mr. Meyer was employed for 24 years by Abbott Laboratories, most recently as Vice President Vascular Business Latin America and Canada. Mr. Meyer s management and executive experience includes 22 years in Human Resources and assignments in Canada and Hong Kong.

Item 1(e) Available Information.

(5) Prior to joining Ecolab in March 2003, Ms. Nestegard was employed by 3M Company for 20 years, most recently as Business Director of Optical Components. Ms. Nestegard s experience includes product and process development and technical management as Director Engineering Systems Technology Center and as Technical Director of the Electronic Products Division of 3M in Austin, Texas.

(6) Prior to joining Ecolab in September 2003, Mr. Tabb held various executive positions in the systems technology industry, most recently with Focus IT Group, a consulting firm. From 2000 2001 Mr. Tabb served as Vice President, Global Information Technology at Nike, Inc. From 1997 2000 Mr. Tabb was employed by CNF Transportation, Inc. as Vice President and Chief Information Officer.

(7) Prior to joining Ecolab in 2005, Mr. White was employed by International Multifoods, and served as President of its U.S. Consumer Products Division. Mr. White s employment also includes marketing experience at General Mills, and nine years at the Pillsbury Company in a succession of management positions.

Item 1A. Risk Factors.

The following are 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-K. See the section entitled Forward-Looking Statements located on page 2 of this Form 10-K.

We may also refer to this disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conference and/or webcasts open to the public.

Except as may be required under applicable law, we undertake no duty to update our Forward-Looking Statements.

Our results depend upon the continued vitality of the markets we serve: Economic downturns, and in particular downturns in the foodservice, hospitality, travel, health care and food processing industries, can adversely impact our end-users who are sensitive to changes in travel and dining activities. During such downturns, these end-users typically reduce their volume of purchases of cleaning, hygiene and appearance products, which would likely in turn have an adverse impact on our consolidated results of operations, financial condition, or cash flows.

Our growth depends upon our ability to successfully compete with respect to value, product offerings and customer support: Our competitive market is made up of numerous national, regional and local competitors. Our ability to compete depends in part upon our ability to maintain a superior technological capability and to continue to identify, develop and commercialize innovative, high value-added products for niche applications. There can be no assurance that we will be able to accomplish this or that technological developments by our competitors will not place certain of our products at a competitive disadvantage in the future. In addition, certain of the new products that we have under development will be offered in markets in which we do not currently compete, and there can be no assurance that we will be able to compete successfully in those new markets. If we fail to timely introduce new technologies, we may lose market share and our consolidated results of operations, financial condition, or cash flows could be adversely affected.

We enter into multi-year contracts with customers that can impact our results: We enter into multi-year contracts with some of our customers which include terms affecting our pricing flexibility. There can be no assurance that these restraints will not have an adverse impact on our margins and operating income.

Consolidation of our customers and vendors can affect our results: Customers and vendors in the foodservice, hospitality and lodging industry have been consolidating in recent years and that trend may continue. This consolidation could have an adverse impact on our ability to retain customers and on our margins and operating income.

Our results can be adversely affected by fluctuations in the cost of raw materials: The prices of raw materials used in our business can fluctuate significantly from time to time, and have increased in recent years. Changes in oil or raw material prices, unavailability of adequate and reasonably priced raw materials or substitutes for those raw materials, or the inability to obtain or renew supply agreements on favorable terms can adversely affect our consolidated results of operations, financial position or cash flows.

If we are unsuccessful in integrating acquisitions, our business could be adversely affected: As part of our long-term strategy, we seek to acquire complementary businesses. There can be no assurance that we will find attractive acquisition candidates or succeed at effectively managing the integration of acquired businesses into existing businesses. If the expected synergies from such transactions do not materialize or we fail to successfully integrate new businesses into our existing businesses, our consolidated results of operations, financial position or cash flows could be adversely affected.

If we are unsuccessful in executing on business investments, our business could be adversely affected: We are making investments to develop business systems and optimize our business structure as part of our ongoing efforts to improve our efficiency and returns. If the projects in which we are investing are not successfully executed, our consolidated results of operations, financial position or cash flows could be adversely affected.

Our business depends on our ability to comply with governmental regulations: Our business is subject to numerous regulations relating to the environment and to the manufacture, storage, distribution, sale and use of our products. Compliance with these regulations, as well as changes in tax, fiscal, governmental and other regulatory policies expose us to potential financial liability and increase our operating costs. Regulation of our products and operations continues to increase with more stringent standards, causing increased costs of operations and potential for liability if a violation occurs. The potential cost to us relating to environmental and product registration laws and regulations is uncertain due to factors such as the unknown magnitude and type of possible contamination and clean-up costs, the complexity and evolving nature of laws and regulations, and the timing and expense of compliance. In addition, changes in accounting standards, including the adoption effective January 1, 2007 of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 , could increase the volatility of our quarterly tax rate.

Our results are impacted by general worldwide economic factors: Economic factors such as the worldwide economy, 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 consolidated results of operations, financial condition, or cash flows in the future.

Extraordinary events may significantly impact our business: The occurrence of (a) litigation or claims, (b) the loss or insolvency of a major customer or distributor, (c) war (including acts of terrorism or hostilities which impact our markets), (d) natural or manmade disasters, or (e) severe weather conditions or public health epidemics affecting the foodservice, hospitality and travel industries may have a significant, adverse impact on our business.

Defense of litigation, particularly certain types of actions such as antitrust, patent infringement, wage hour and class action lawsuits, can be costly and time consuming even if ultimately successful, and if not successful could have a material adverse impact on our consolidated results of operations, financial position or cash flows.

While we have a diverse customer base and no customer or distributor constitutes 10 percent or more of our consolidated revenues, we do have customers and independent, third-party distributors, the loss of which could have a material negative effect on our consolidated results of operations for the affected earnings periods; however, we consider it unlikely that such an event would have a material adverse impact on our financial position.

War (including acts of terrorism or hostilities), natural or manmade disasters or severe weather conditions or public health epidemics affecting the foodservice, hospitality and travel industries cause a downturn in the business of restaurants, motels and hotels and other of our customers, which in turn can have a material adverse impact on our business, financial condition, results of operations and cash flows.

We depend on key personnel to lead our business: Our continued success will largely depend on our ability to attract and retain a high caliber of talent and on the efforts and abilities of our executive officers and certain other key employees. Our operations could be adversely affected if for any reason such officers or key employees did not remain with us.

Item 1B. Unresolved Staff Comments

We have no unresolved comments from the staff of the Securities and Exchange Commission.

Item 2. Properties

Our manufacturing philosophy is to manufacture products wherever an economic, process or quality assurance advantage exists or where proprietary manufacturing techniques dictate internal production processes. Currently, most products sold by us are manufactured at our facilities.

Our manufacturing facilities produce chemical products or equipment for all of our businesses, although the businesses constituting the United States Other Services segment purchase the majority of their products and equipment from outside suppliers. Our chemical production process consists primarily of blending and packaging powders and liquids and casting solids. Our equipment manufacturing operations consist primarily of producing chemical product dispensers and injectors and other mechanical equipment and dishwasher racks and related sundries.

The following chart profiles our main manufacturing facilities with ongoing production activities. In general, manufacturing facilities located in the United States serve the United States Cleaning & Sanitizing segment and facilities located outside of the United States serve the International segment. However, certain of the United States facilities do manufacture products for export and which are used by the International segment. The facilities having export involvement are marked with an asterisk (*).

ECOLAB OPERATIONS PLANT PROFILES

Location	Size (Sq. Ft.)	Types of Products	Majority Owned or Leased
UNITED STATES			
Joliet, IL*	610,000	Solids, Liquids, Powders	Owned
South Beloit, IL*	313,000	Equipment	Owned
Garland, TX*	239,000	Solids, Liquids	Owned
Martinsburg, WV	228,000	Liquids	Owned
Hebron, OH	196,000	Liquids	Owned
Greensboro, NC	193,000	Liquids, Powders	Owned
San Jose, CA	175,000	Liquids	Owned
McDonough, GA*	141,000	Solids, Liquids	Owned
Eagan, MN*	133,000	Solids, Liquids, Emulsions, Powders	Owned
Huntington, IN*	127,000	Liquids	Owned
City of Industry, CA	125,000	Liquids	Owned
Elk Grove Village, IL*	115,000	Equipment	Leased
Fort Worth, TX	101,000	Equipment	Leased
Jacksonville, FL*	88,000	Medical Devices	Leased
Carrollton, TX	70,000	Liquids	Owned
Tyler, TX*	63,000	Medical Devices	Leased
Columbus, MS	49,000	Medical Devices	Owned
St. Louis, MO	37,000	Equipment	Leased
INTERNATIONAL			
Chalons, FRANCE	280,000	Liquids, Powders	Owned
Nieuwegein, NETHERLANDS	168,000	Powders	Owned
La Romana, DOMINICAN REPUBLIC	160,000	Medical Devices	Leased
Tessenderlo, BELGIUM	153,000	Solids, Liquids	Owned
Melbourne, AUSTRALIA	145,300	Liquids, Powders	Owned
Rozzano, ITALY	126,000	Liquids	Owned
Mississauga, CANADA	120,400	Liquids	Leased
Johannesburg, SOUTH AFRICA	100,000	Liquids, Powders	Owned
Hamilton, NEW ZEALAND	96,000	Solids, Liquids, Powders	Owned
Mullingar, IRELAND	74,300	Liquids	Leased
Mosta, MALTA	73,000	Medical Devices	Leased
Valby, DENMARK	70,000	Liquids	Owned
Sao Paulo, BRAZIL	62,325	Solids, Liquids	Leased
Shika, JAPAN	60,000	Liquids	Owned
Santiago, CHILE	60,000	Liquids, Powders	Leased
Revesby, AUSTRALIA	59,200	Liquids, Powders	Owned
Cheadle (Hulme), UNITED KINGDOM	52,575	Liquids	Leased

Location	Size (Sq. Ft.)	Types of Products	Majority Owned or Leased
Guangzhou, CHINA	50,230	Liquids, Powders	Leased
Noda, JAPAN	49,000	Solids, Liquids, Powders	Owned
Siegsdorf, GERMANY	42,000	Equipment	Owned
Zutphen, NETHERLANDS	41,000	Medical Devices	Leased
Mexico City, MEXICO	40,000	Liquids, Powders	Owned
Maribor, SLOVENIA	39,000	Liquids, Powders	Owned
Leeds, UNITED KINGDOM	35,000	Liquids	Owned
Pilar, ARGENTINA	30,000	Liquids, Powders	Owned
Shanghai, CHINA	27,000	Solids, Liquids, Powders	Owned
Perth, AUSTRALIA	26,900	Liquids, Powders	Owned
Dorado, PUERTO RICO	25,000	Liquids, Powders	Leased
Singapore, SINGAPORE	25,000	Liquids, Powders	Owned
Dar es Salaam, TANZANIA	22,900	Liquids, Powders	Leased
Seoul, SOUTH KOREA	22,160	Liquids, Powders	Owned
Racibor, POLAND	20,000	Liquids	Leased
Toulon, FRANCE	20,000	Medical Devices	Leased
Mandras, GREECE	18,000	Liquids	Owned
Varssesveld, NETHERLANDS	17,000	Medical Devices	Leased
San Jose, COSTA RICA	11,000	Liquids, Powders	Owned