

Rockwood Holdings, Inc.  
Form 10-Q  
November 05, 2010

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

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

**Or**

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

**Commission file number 001-32609**

**Rockwood Holdings, Inc.**

(Exact name of Registrant as specified in its charter)

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

**52-2277366**  
(I.R.S. Employer  
Identification No.)

**100 Overlook Center, Princeton, New Jersey 08540**

(Address of principal executive offices) (Zip Code)

**(609) 514-0300**

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(Registrant's telephone number, including area code)

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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of November 1, 2010, there were 75,645,987 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

TABLE OF CONTENTS

FORM 10-Q

PART I- FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements (Unaudited)</u> <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u> <u>Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u> <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u> <u>Condensed Consolidated Statements of Equity for the nine months ended September 30, 2010 and 2009</u> <u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4</u>	<u>Controls and Procedures</u>

PART II- OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>
<u>Item 1A</u>	<u>Risk Factors</u>
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4</u>	<u>(Removed and Reserved)</u>
<u>Item 5</u>	<u>Other Information</u>
<u>Item 6</u>	<u>Exhibits</u>
	<u>Signatures</u>

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 860.9	\$ 786.2	\$ 2,569.3	\$ 2,176.6
Cost of products sold	584.2	555.0	1,744.4	1,560.1
Gross profit	276.7	231.2	824.9	616.5
Selling, general and administrative expenses	171.6	154.8	514.4	450.9
Restructuring and other severance costs	1.5	4.2	4.9	16.0
Loss (gain) on sale of assets and other	0.1	(0.4)	0.2	(0.3)
Operating income	103.5	72.6	305.4	149.9
Other expenses, net:				
Interest expense, net (a)	(38.6)	(53.6)	(116.7)	(131.4)
Loss on early extinguishment of debt	(1.6)	(0.9)	(1.6)	(26.6)
Foreign exchange gain, net	0.9	4.5	0.8	15.4
Other, net			0.5	0.4
Other expenses, net	(39.3)	(50.0)	(117.0)	(142.2)
Income from continuing operations before taxes	64.2	22.6	188.4	7.7
Income tax provision	20.7	13.0	53.4	6.9
Income from continuing operations	43.5	9.6	135.0	0.8
(Loss) income from discontinued operations, net of tax		(0.1)		3.3
Net income	43.5	9.5	135.0	4.1
Net (income) loss attributable to noncontrolling interest	(3.0)	0.6	(5.2)	6.2
Net income attributable to Rockwood Holdings, Inc.	\$ 40.5	\$ 10.1	\$ 129.8	\$ 10.3
Amounts attributable to Rockwood Holdings, Inc.:				
Income from continuing operations	\$ 40.5	\$ 10.2	\$ 129.8	\$ 7.0
(Loss) income from discontinued operations		(0.1)		3.3
Net income	\$ 40.5	\$ 10.1	\$ 129.8	\$ 10.3
Basic earnings per share attributable to Rockwood Holdings, Inc.:				
Earnings from continuing operations	\$ 0.54	\$ 0.14	\$ 1.74	\$ 0.09
Earnings from discontinued operations				0.05
Basic earnings per share	\$ 0.54	\$ 0.14	\$ 1.74	\$ 0.14

Diluted earnings (loss) per share attributable to Rockwood Holdings, Inc.:

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Earnings from continuing operations	\$	0.52	\$	0.14	\$	1.67	\$	0.09
(Loss) earnings from discontinued operations				(0.01)				0.05
Diluted earnings per share	\$	0.52	\$	0.13	\$	1.67	\$	0.14

Weighted average number of basic shares outstanding		75,199		74,104		74,735		74,084
Weighted average number of diluted shares outstanding		78,086		75,520		77,671		74,372

---

(a) Interest expense, net includes:

Interest expense on debt, net	\$	(38.4)	\$	(50.7)	\$	(121.1)	\$	(126.5)
Mark-to-market gains (losses) on interest rate swaps		1.2		(1.3)		8.9		1.3
Deferred financing costs		(1.4)		(1.6)		(4.5)		(6.2)
Total	\$	(38.6)	\$	(53.6)	\$	(116.7)	\$	(131.4)

See accompanying notes to condensed consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in millions, except per share amounts;****shares in thousands)****(Unaudited)**

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 283.1	\$ 300.5
Accounts receivable, net	517.5	450.4
Inventories	528.6	517.0
Deferred income taxes	3.0	12.5
Prepaid expenses and other current assets	66.9	66.5
Total current assets	1,399.1	1,346.9
Property, plant and equipment, net	1,621.8	1,702.5
Goodwill	894.0	939.2
Other intangible assets, net	624.5	704.7
Deferred debt issuance costs, net of accumulated amortization of \$14.5 and \$10.8, respectively	18.9	26.0
Deferred income taxes	26.2	24.9
Other assets	40.9	37.5
Total assets	\$ 4,625.4	\$ 4,781.7
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 223.0	\$ 237.3
Income taxes payable	20.6	11.5
Accrued compensation	150.4	77.7
Accrued expenses and other current liabilities	169.8	156.9
Deferred income taxes	6.6	2.6
Long-term debt, current portion	90.5	94.2
Total current liabilities	660.9	580.2
Long-term debt	2,105.1	2,434.1
Pension and related liabilities	397.7	410.1
Deferred income taxes	80.1	69.1
Other liabilities	128.7	145.9
Total liabilities	3,372.5	3,639.4
Restricted stock units	7.2	1.5
<b>EQUITY</b>		
Rockwood Holdings, Inc. stockholders' equity:		
Common stock (\$0.01 par value, 400,000 shares authorized, 75,632 shares issued and 75,538 shares outstanding at September 30, 2010; 400,000 shares authorized, 74,259 shares issued and 74,165 shares outstanding at December 31, 2009)	0.8	0.7
Paid-in capital	1,192.4	1,169.2
Accumulated other comprehensive income	156.3	204.5
Accumulated deficit	(392.4)	(522.2)
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	955.7	850.8
Noncontrolling interest	290.0	290.0
Total equity	1,245.7	1,140.8

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Total liabilities and equity	\$	4,625.4	\$	4,781.7
------------------------------	----	---------	----	---------

See accompanying notes to condensed consolidated financial statements.

## ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine months ended September 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 135.0	\$ 4.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax		(3.3)
Depreciation and amortization	193.4	208.5
Deferred financing costs amortization	4.5	6.2
Loss on early extinguishment of debt	1.6	26.6
Foreign exchange gain, net	(0.8)	(15.4)
Fair value adjustment of derivatives	(8.9)	(1.3)
Bad debt provision	(0.5)	0.7
Stock-based compensation	9.6	3.1
Deferred income taxes	29.8	(11.5)
Restructuring and other	2.3	0.1
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(77.8)	(4.6)
Inventories	(24.9)	121.4
Prepaid expenses and other assets	(3.8)	(0.3)
Accounts payable	(3.2)	(32.2)
Income taxes payable	(0.9)	(0.8)
Accrued expenses and other liabilities	95.2	(26.8)
<b>Net cash provided by operating activities</b>	<b>350.6</b>	<b>274.5</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions, including transaction fees and payments for prior acquisitions, net of cash acquired	(0.9)	(6.4)
Capital expenditures, excluding capital leases	(116.2)	(116.5)
Contractual advance to Titanium Dioxide Pigments noncontrolling shareholder		(16.0)
Proceeds on sale of assets	2.0	7.9
Net cash used in investing activities of continuing operations	(115.1)	(131.0)
Net cash used in investing activities of discontinued operations		(0.5)
<b>Net cash used in investing activities</b>	<b>(115.1)</b>	<b>(131.5)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock, net of fees	19.2	0.4
Prepayment of 2014 Notes		(146.8)
Proceeds from Titanium Dioxide Pigments revolving credit facility		14.1
Repayment of Titanium Dioxide Pigments revolving credit facility	(14.3)	
Prepayment of senior secured debt	(200.2)	(102.3)
Repayment of senior secured debt	(30.3)	(49.2)
Proceeds from other borrowings	19.3	
Payments on other long-term debt	(45.2)	(6.2)
Loan from Viance noncontrolling shareholder		2.0
Fees related to early extinguishment of debt		(12.0)
Deferred financing costs	(0.3)	(13.8)
<b>Net cash used in financing activities</b>	<b>(251.8)</b>	<b>(313.8)</b>
Effect of exchange rate changes on cash and cash equivalents	(1.1)	(10.1)



Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Net decrease in cash and cash equivalents		(17.4)		(180.9)
Cash and cash equivalents, beginning of period		300.5		468.7
Cash and cash equivalents, end of period	\$	283.1	\$	287.8
Supplemental disclosures of cash flow information:				
Interest paid	\$	112.8	\$	118.1
Income taxes paid, net of refunds		28.7		18.9
Non-cash investing activities:				
Acquisition of capital equipment		12.1		8.1
Fees related to early extinguishment of debt				1.6

See accompanying notes to condensed consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

(Dollars in millions)

(Unaudited)

	2010			2009		
	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1	\$ 850.8	\$ 290.0	\$ 1,140.8	\$ 823.5	\$ 315.4	\$ 1,138.9
Net income (loss)	129.8	5.2	135.0	10.3	(6.2)	4.1
Other comprehensive (loss) income, net of tax	(48.2)	0.6	(47.6)	60.3	(4.4)	55.9
Comprehensive income (loss)	81.6	5.8	87.4	70.6	(10.6)	60.0
Change in estimate of fair value of assets contributed to the Titanium Dioxide Pigments venture					(16.5)	(16.5)
Foreign currency translation		(5.8)	(5.8)		4.9	4.9
Issuance of common stock	19.2		19.2	0.4		0.4
Deferred compensation, net of tax	4.1		4.1	3.3		3.3
Balance at September 30	\$ 955.7	\$ 290.0	\$ 1,245.7	\$ 897.8	\$ 293.2	\$ 1,191.0

See accompanying notes to condensed consolidated financial statements.

**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**

**Notes To Condensed Consolidated Financial Statements (Unaudited)**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Business Description, Background** Rockwood Holdings, Inc. and Subsidiaries is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes. Unless otherwise indicated, any references to we, our, us, the Company or Rockwood refer to Rockwood Holdings, Inc. and its consolidated subsidiaries.

**Basis of Presentation** The accompanying financial statements of Rockwood are presented on a consolidated basis. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, this information contains all adjustments necessary for a fair presentation of the results for the periods presented.

The interim financial statements included herein are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America ( U.S. GAAP ), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company s 2009 Form 10-K. In the opinion of management, this information contains all adjustments necessary, consisting of normal and recurring accruals, for a fair presentation of the results for the periods presented.

The Company s noncontrolling interest represents the total of the noncontrolling party s interest in certain investments (principally the Titanium Dioxide Pigments venture and the Viance, LLC timber treatment joint venture) that are consolidated but less than 100% owned.

Unless otherwise noted, all balance sheet-related items which are denominated in Euros are converted at the September 30, 2010 exchange rate of 1.00 = \$1.3634.

**Stock-Based Compensation** Under the 2008 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan ) the Company granted stock options, restricted stock and other stock-based awards to the Company s employees and directors and allowed employees and directors to purchase shares of its common stock. However, the Company no longer issues equity awards under this Plan. In April 2009, the Company adopted the 2009 Stock Incentive Plan (the New Plan ; together with the Plan, the Plans ), which has 11,000,000 authorized shares. All equity awards granted after this date will be awarded under the New Plan.

The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plans caused income from continuing operations before taxes to decrease by \$3.8 million and \$1.6 million for the three months ended September 30, 2010 and 2009, respectively, and \$9.6 million and \$3.1 million for the nine months ended September 30, 2010 and 2009, respectively. The total tax benefit recognized related to stock options was \$0.4 million and \$0.2 million for the three months ended September 30, 2010 and 2009, respectively, and \$0.9 million and \$0.3 million for the nine months ended September 30, 2010 and 2009, respectively.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

In December 2009, the Company approved an award of 233,657 performance-based restricted stock units to management and key employees which will vest on December 31, 2012 as long as the employee continues to be employed by the Company on this date and upon the achievement of certain performance targets approved by the Company's compensation committee ( Compensation Committee ). The number of shares of the Company's common stock ultimately awarded upon vesting is determined based on the achievement of specified performance criteria over the period January 1, 2010 through December 31, 2010. However, the Company did not recognize any compensation cost in 2009 for this issuance because the performance targets that form the basis for vesting of these restricted stock units were not known as of December 31, 2009. These performance targets were set in January 2010, when such performance targets were approved by the Compensation Committee, and as a result, the Company began recording compensation cost on a ratable basis over the vesting period. The grant date fair value of these restricted stock units was \$22.00 per stock unit.

All restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment on the vesting date upon a change in control as defined in such agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of September 30, 2010 and December 31, 2009 have been recorded as mezzanine equity (outside of permanent equity) in the condensed consolidated balance sheets.

**Recent Accounting Standards** The following represents the impact of recently issued accounting standards:

In June 2009, the FASB issued a statement that requires an enterprise to perform an analysis to determine whether it has a controlling financial interest in a variable interest entity. It requires additional disclosures about involvement with variable interest entities and any significant changes in risk exposure due to that involvement. The Company adopted this statement on January 1, 2010. This statement did not have a material impact on its financial statements. See Note 3, Variable Interest Entities, for the disclosure requirements of this statement.

In January 2010, the FASB issued an accounting update that amended guidance and clarified the disclosure requirements about fair market value measurement. This requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, for measurements utilizing significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. The Company adopted this update on January 1, 2010. There was no impact upon adoption of this update on the Company's financial statements. See Note 6, Fair Value Measurements.

## 2. COMPREHENSIVE INCOME:

Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany transactions that are of a long-term investment nature, pension-related adjustments that are recorded directly into a separate section of equity in the balance sheets and net investment and foreign exchange cash flow hedges. Foreign currency translation amounts and intercompany foreign currency loans are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries.

Comprehensive income is summarized as follows:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income	\$ 43.5	\$ 9.5	\$ 135.0	\$ 4.1
Pension related adjustments, net of tax	(2.4)		1.4	(0.1)
Foreign currency translation	65.7	49.6	(11.9)	57.0
Intercompany foreign currency loans	81.5	31.6	(39.5)	35.0
Net investment hedges, net of tax	(20.7)	(36.3)	0.8	(35.7)
Foreign exchange contracts, net of tax	1.9	(0.2)	1.6	(0.3)
Comprehensive income	169.5	54.2	87.4	60.0
Comprehensive (income) loss attributable to noncontrolling interest	(3.6)	0.8	(5.8)	10.6
Comprehensive income attributable to Rockwood Holdings, Inc.	\$ 165.9	\$ 55.0	\$ 81.6	\$ 70.6

## 3. VARIABLE INTEREST ENTITIES:

**Viance LLC Joint Venture**

In January 2007, Chemical Specialties, Inc. ( CSI ), a wholly-owned subsidiary of the Company within the Timber Treatment Chemicals business of the Performance Additives segment, and Rohm and Haas Company (a subsidiary of The Dow Chemical Company) completed the formation of Viance, LLC ( Viance ), a joint venture that provides an extensive range of advanced wood treatment technologies and services to the global wood treatment industry. The Company has concluded that Rockwood is the primary beneficiary of Viance and as such has consolidated the joint venture and reported Rohm and Haas' interest as noncontrolling interest. This conclusion was made as Rockwood has the obligation to absorb losses of Viance that could potentially be significant to Viance and/or the right to receive benefits from Viance that could potentially be significant to Viance. In addition, CSI has the power to direct the activities of Viance that most significantly impact Viance's performance as Viance does not own manufacturing facilities. As a result, Viance primarily relies on CSI to provide product and distribution requirements through a supply agreement.

At September 30, 2010 and December 31, 2009, no consolidated assets of the Company were pledged as collateral for any joint venture obligations and the general creditors of the joint venture had no recourse against the Company. The partners have provided \$4.0 million of short-term financing to the venture. However, this financing is not subordinated and management believes that such financing could have been readily obtained externally. All intercompany accounts, balances and transactions have been eliminated. Viance's assets can only be used to settle direct obligations of Viance.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The carrying values of the assets and liabilities of the Viance joint venture included in the condensed consolidated balance sheets are as follows:

	September 30, 2010		December 31, 2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5.8	\$	6.3
Accounts receivable, net	9.0		6.9
Inventories	0.8		1.1
Prepaid expenses and other current assets	4.9		4.4
Total current assets	20.5		18.7
Property, plant and equipment, net	1.9		2.0
Other intangible assets, net	73.2		78.0
Other assets	1.8		1.9
Total assets	\$ 97.4	\$	100.6
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 0.8	\$	1.5
Income taxes payable	0.3		0.1
Accrued compensation	0.8		1.5
Accrued expenses and other current liabilities	3.0		2.0
Long-term debt, current portion	2.0		2.0
Total current liabilities	6.9		7.1
Deferred income taxes	0.1		0.1
Other liabilities	0.8		0.8
Total liabilities	\$ 7.8	\$	8.0

### Titanium Dioxide Pigments Venture

In September 2008, the Company completed the formation of a Titanium Dioxide Pigments venture with Kemira Oyj ( Kemira ) that focuses on specialty titanium dioxide pigments. The venture includes the combination of the Company's titanium dioxide pigments and functional additives businesses, including its production facility in Duisburg, Germany, and Kemira's titanium dioxide business, including Kemira's titanium dioxide plant in Pori, Finland. The Company has not identified significant variable interests in this venture and accordingly has concluded that this venture does not meet the definition of a variable interest entity ( VIE ). The Company owns 61% of the venture and consolidates it based on the voting interest model given its majority ownership and ability to control decision making. Kemira only has certain protective rights to limit Rockwood's control.

In conjunction with this venture, there is a power plant that is legally owned and operated by a Finnish power cooperative ( PVO ). Kemira is a cooperative participant and has an indirect interest in the power plant via ownership of a special share class. The venture utilizes the majority of power supplied. This power plant was determined to be a VIE as the equity holders of the power plant as a group (including Kemira) lack the ability to influence decision making since PVO effectively controls the power plant. It was determined that Rockwood and Kemira jointly form the primary beneficiary of the power plant. The venture has a long-term agreement expiring in August 2018 to purchase steam and electricity ( energy ) from Kemira. Due to the terms of this agreement under which Kemira has the risks and benefits of the majority of the expected life of the power plant, the Company concluded that Kemira is the party most closely associated with the venture and therefore is the primary beneficiary within the related party group. Accordingly, the Company does not consolidate the power plant. The venture purchased \$8.6 million and \$9.0 million of energy from Kemira in the three months ended September 30, 2010 and 2009, respectively, and \$26.9 million and \$24.5 million of energy from Kemira in the nine months ended September 30, 2010 and 2009, respectively. Minimum annual payments under the energy agreement are approximately \$14.7 million. In connection with this energy arrangement, the venture has approximately \$29.2 million (includes a contractual advance of \$16.0 million made in 2009) of non-interest bearing notes receivable from Kemira that are due in

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

August 2028. The carrying value of the notes receivable were \$5.5 million at September 30, 2010. Interest is imputed at an effective rate of 8.96%. Apart from routine payables to Kemira or PVO in connection with this agreement, no results or balances of the power plant are reflected in the Company's financial statements.



**Other**

Rockwood's Specialty Chemicals segment has several unconsolidated ventures. Two of these ventures do not fit the criteria for classification as a VIE as they are financially self-sustaining, 50/50 ventures both as to control and economics. Other ventures manufacture and market products in China and an additional venture is a service provider at a key manufacturing facility. As the parties share risks and benefits disproportionate to their voting interests, the Company has concluded that these ventures are VIEs. However, the Company has also concluded that it should not consolidate these VIEs as it is not the primary beneficiary. The Company does not have the power and/or ability to direct the activities most affecting venture performance due to governance structure and significant expertise provided and/or functions performed by its venture partners. As of September 30, 2010, Rockwood's aggregate net investment in these ventures was \$12.5 million. This investment is classified as Other assets in the condensed consolidated balance sheet and represents Rockwood's approximate exposure to losses on these investments. Rockwood does not guarantee debt for or have other financial support obligations to these ventures.

**4. SEGMENT INFORMATION:**

Rockwood operates in five reportable segments according to the nature and economic characteristics of its products and services as well as the manner in which the information is used internally by the Company's key decision maker, who is the Company's Chief Executive Officer. The five segments are: (1) Specialty Chemicals, which consists of the surface treatment and fine chemicals business lines; (2) Performance Additives, which consists of color pigments and services, timber treatment chemicals and clay-based additives; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics; and (5) Specialty Compounds.

Items that cannot be readily attributed to individual segments have been classified as Corporate and other. Corporate and other operating loss primarily represents payroll, professional fees and other operating expenses of centralized functions such as treasury, tax, legal, internal audit and consolidation accounting as well as the cost of operating the Company's central offices (including some costs maintained based on legal or tax considerations). The primary components of Corporate and other loss, in addition to operating loss, are interest expense on external debt (including the amortization of deferred financing costs), foreign exchange losses or gains, and mark-to-market gains or losses on derivatives. Major components within the reconciliation of income from continuing operations before taxes (described more fully below) include systems/organization establishment expenses, interest expense on external debt, foreign exchange losses or gains, and refinancing expenses related to external debt. Corporate and other identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing, deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The Corporate and other classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel and the wafer reclaim business. The wafer reclaim business works with semiconductor manufacturers to refurbish used test wafers and return them to the manufacturer for reuse in test and process monitor applications.

Summarized financial information for each of the reportable segments is provided in the following table:

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
<b>Three months ended September 30, 2010</b>							
Net sales	\$ 283.6	\$ 187.8	\$ 192.7	\$ 131.0	\$ 63.9	\$ 1.9	\$ 860.9
Total Adjusted EBITDA	70.8	34.1	34.2	40.3	9.4	(19.7)	169.1

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

**Three months ended**

**September 30, 2009**

Net sales	\$	261.5	\$	182.2	\$	177.5	\$	108.6	\$	54.8	\$	1.6	\$	786.2
Total Adjusted EBITDA		68.1		28.3		24.6		31.4		8.8		(10.1)		151.1

**Nine months ended**

**September 30, 2010**

Net sales	\$	860.5	\$	564.4	\$	564.1	\$	385.3	\$	189.9	\$	5.1	\$	2,569.3
Total Adjusted EBITDA		218.0		100.6		94.5		117.9		28.6		(53.3)		506.3

**Nine months ended**

**September 30, 2009**

Net sales	\$	723.0	\$	517.6	\$	480.8	\$	293.6	\$	157.5	\$	4.1	\$	2,176.6
Total Adjusted EBITDA		175.9		71.2		65.6		75.3		25.5		(27.9)		385.6

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Eliminations (a)	Consolidated
Identifiable assets as of:								
September 30, 2010	\$ 2,098.8	\$ 757.5	\$ 888.7	\$ 841.6	\$ 140.0	\$ 293.0	\$ (394.2)	\$ 4,625.4
December 31, 2009	2,088.9	762.7	945.1	866.3	124.9	323.6	(329.8)	4,781.7

(a) Amounts contained in the Eliminations column represent the individual subsidiaries' retained interest in their cumulative net

cash balance (deposits less withdrawals) included in the corporate centralized cash system and within the identifiable assets of the respective segment. These amounts are eliminated as the corporate centralized cash system is included in the Corporate and other segment's identifiable assets.

Geographic information regarding net sales based on seller's location and long-lived assets are described in Note 3, Segment Information, in the Company's 2009 Form 10-K.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges deemed by senior management to be non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the Company's senior secured credit agreement, which reflects management's interpretations thereof. The indenture governing the senior subordinated notes, due in 2014 (2014 Notes), and the facility agreement related to the Titanium Dioxide Pigments venture exclude certain adjustments permitted under the senior credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company's business segments and reporting units. Because the Company views Adjusted EBITDA on a segment basis as an operating performance measure, the Company uses income (loss) from continuing operations before taxes as the most comparable GAAP measure.

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
<b>Three months ended September 30, 2010</b>							
Income (loss) from continuing operations before taxes	\$ 37.6	\$ 11.8	\$ 14.0	\$ 20.8	\$ 4.6	\$ (24.6)	\$ 64.2
Interest expense, net (a)	15.1	7.6	4.2	6.8	2.5	2.4	38.6
Depreciation and amortization	18.4	14.0	16.2	12.0	1.9	1.0	63.5
Restructuring and other severance costs	0.1	0.3		0.7	0.3	0.1	1.5
Systems/organization establishment expenses	0.1						0.1
Acquisition and disposal costs	(0.1)	0.1				0.4	0.4
Loss on early extinguishment of debt	0.7	0.3		0.4	0.1	0.1	1.6
Loss on sale of assets and other	0.1						0.1
Foreign exchange (gain) loss, net	(1.2)	(0.1)		(0.4)		0.8	(0.9)
Other		0.1	(0.2)			0.1	
Total Adjusted EBITDA	\$ 70.8	\$ 34.1	\$ 34.2	\$ 40.3	\$ 9.4	\$ (19.7)	\$ 169.1
<b>Three months ended September 30, 2009</b>							
Income (loss) from continuing operations before taxes	\$ 33.4	\$ 2.0	\$ (2.5)	\$ 8.0	\$ 2.7	\$ (21.0)	\$ 22.6
Interest expense, net (a)	18.7	8.5	6.4	9.7	2.8	7.5	53.6
Depreciation and amortization	18.3	15.9	19.5	13.4	3.0	1.4	71.5
Restructuring and other severance costs	2.3	1.0	0.1	0.7	0.1		4.2
Systems/organization establishment expenses	0.2	0.6	1.1	0.1		0.4	2.4
Loss (gain) on early extinguishment of debt	1.1	0.2		0.3	0.1	(0.8)	0.9
Gain on sale of assets and other	(0.4)						(0.4)
Foreign exchange (gain) loss, net	(5.4)	(0.1)		(0.8)		1.8	(4.5)
Other	(0.1)	0.2			0.1	0.6	0.8
Total Adjusted EBITDA	\$ 68.1	\$ 28.3	\$ 24.6	\$ 31.4	\$ 8.8	\$ (10.1)	\$ 151.1
<b>Nine months ended September 30, 2010</b>							
Income (loss) from continuing operations before taxes	\$ 115.8	\$ 30.6	\$ 32.3	\$ 58.4	\$ 14.7	\$ (63.4)	\$ 188.4
Interest expense, net (a)	46.4	22.9	12.1	22.2	7.5	5.6	116.7
Depreciation and amortization	54.9	42.9	50.0	36.5	6.0	3.1	193.4
Restructuring and other severance costs	0.7	2.9		0.8	0.3	0.2	4.9
Systems/organization establishment expenses	0.8	0.3	0.3	0.1			1.5
Acquisition and disposal costs	0.4	0.1				0.5	1.0
Loss on early extinguishment of debt	0.7	0.3		0.4	0.1	0.1	1.6
Loss on sale of assets and other	0.2						0.2
Foreign exchange (gain) loss, net	(1.3)			(0.5)		1.0	(0.8)
Other	(0.6)	0.6	(0.2)			(0.4)	(0.6)
Total Adjusted EBITDA	\$ 218.0	\$ 100.6	\$ 94.5	\$ 117.9	\$ 28.6	\$ (53.3)	\$ 506.3
<b>Nine months ended September 30, 2009</b>							
	\$ 59.7	\$ (8.6)	\$ (14.2)	\$ (1.5)	\$ 8.7	\$ (36.4)	\$ 7.7

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Income (loss) from continuing operations before taxes								
Interest expense, net (a)	48.6	23.0	21.0	25.9	7.4	5.5	131.4	
Depreciation and amortization	54.9	46.4	56.2	38.1	8.3	4.6	208.5	
Restructuring and other severance costs	4.4	5.6	0.1	5.5	0.2	0.2	16.0	
Systems/organization establishment expenses	0.6	1.7	2.5	0.3		0.4	5.5	
Loss on early extinguishment of debt	11.6	2.4		7.2	0.8	4.6	26.6	
Gain on sale of assets and other	(0.3)						(0.3)	
Foreign exchange gain, net	(6.0)			(0.2)		(9.2)	(15.4)	
Other	2.4	0.7			0.1	2.4	5.6	
Total Adjusted EBITDA	\$ 175.9	\$ 71.2	\$ 65.6	\$ 75.3	\$ 25.5	\$ (27.9)	\$ 385.6	

(a) Includes gains of \$1.2 million and losses of \$1.3 million for the three months ended September 30, 2010 and 2009, respectively, and gains of \$8.9 million and \$1.3 million for the nine months ended September 30, 2010 and 2009, respectively, representing the movement in the mark-to-market valuation of the Company's interest rate and cross-currency hedging instruments.

The summary of segment information above includes Adjusted EBITDA, a financial measure used by the Company's chief decision maker and senior management to evaluate the operating performance of each segment.

*Items excluded from Adjusted EBITDA*

Certain items are added to or subtracted from income (loss) from continuing operations before taxes to derive Adjusted EBITDA, as defined below. These items include the following:

- *Restructuring and other severance costs:* Restructuring and other severance costs of \$1.5 million and \$4.2 million were recorded in the three months ended September 30, 2010 and 2009, respectively, and \$4.9 million and \$16.0 million were

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

recorded in the nine months ended September 30, 2010 and 2009, respectively, for miscellaneous restructuring activities, including headcount reductions, asset write-offs and facility closures (see Note 14, Restructuring and Other Severance Costs, for further details).

- *Systems/organization establishment expenses:* For the nine months ended September 30, 2010, expenses of \$1.5 million were recorded primarily related to costs incurred in conjunction with reorganizing certain business functions within the Specialty Chemicals segment and the integration of the Titanium Dioxide Pigments venture completed in September 2008. For the three and nine months ended September 30, 2009, expenses of \$2.4 million and \$5.5 million were recorded related to the integration of businesses acquired, primarily related to the completion of the Titanium Dioxide Pigments venture and the acquisition of the global color pigments business of Elementis plc in the Performance Additives segment.
- *Acquisition and disposal costs:* Costs of \$0.4 million and \$1.0 million were recorded in the three and nine months ended September 30, 2010, respectively, in connection with potential and actual acquisitions and dispositions.
- *Loss on early extinguishment of debt:* For the three and nine months ended September 30, 2010, the Company recorded a loss on early extinguishment of debt of \$1.6 million related to the write-off of deferred financing costs associated with the voluntary prepayment of \$200.2 million of senior secured term loans in July 2010. For the three months ended September 30, 2009, the Company recorded a loss on early extinguishment of debt of \$0.9 million primarily related to lender fees to extend the maturity of its revolving credit facility. For the nine months ended September 30, 2009, the Company recorded a loss on early extinguishment of debt of \$26.6 million related to the write-off of deferred financing costs of \$20.9 million and lender fees related to the early extinguishment of debt of \$12.0 million, partially offset by a discount of \$6.3 million related to the repurchase of \$153.2 million in aggregate principal amount of the 2014 Notes.
- *Foreign exchange (gain) loss, net:* For the three and nine months ended September 30, 2010, the Company recorded foreign exchange gains of \$0.9 million and \$0.8 million primarily related to Euro-denominated debt, cash and intercompany loans. For the three months ended September 30, 2009, the Company recorded foreign exchange gains of \$4.5 million primarily due to the impact of the stronger Euro as of September 30, 2009 versus June 30, 2009 in connection with non-operating Euro-denominated transactions. For the nine months ended September 30, 2009, the Company recorded foreign exchange gains of \$15.4 million primarily due to the impact of the stronger pound sterling as of September 30, 2009 versus December 31, 2008 in connection with non-operating Euro-denominated transactions.
- *Other:* For the nine months ended September 30, 2010, the Company recorded income of \$0.6 million primarily related to a gain on the sale of an investment previously accounted for under the equity method and the reversal of a reserve covering legacy obligations assumed in connection with the acquisition of the Dynamit Nobel businesses in 2004. For the nine months ended September 30, 2009, the Company recorded expenses of \$5.6 million primarily related to an increase in reserves covering legacy obligations assumed in connection with the KKR acquisition in 2000 and the acquisition of the Dynamit Nobel businesses in 2004.

### 5. DERIVATIVES:

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates. The Company manages its exposure to these market risks through regular operating and financing activities and through the use of derivatives. When used, derivatives are employed as risk management tools and not for trading purposes.

### Interest Rate Risk

After hedging, the Company had \$957.3 million and \$1,186.9 million of variable rate debt outstanding as of September 30, 2010 and December 31, 2009, respectively, a portion of which is subject to a Libor or Euribor floor of 2.00%. Historically, the Company has entered into interest rate swaps to manage its exposure to changes in interest rates related to variable rate debt. As of September 30, 2010 and December 31, 2009, these contracts cover notional amounts of 463.8 million (at interest rates ranging from 2.995% to 4.416%) and 482.2 million (at interest rates ranging from 2.995% to 4.416%), respectively. These derivative contracts were originally entered into to effectively convert a portion of the senior secured credit obligations and a portion of the obligations under the Titanium Dioxide Pigments term loan facility to fixed rate obligations. These contracts will mature between December 2010 and July 2012. The Company has not applied hedge accounting for these interest rate swaps and has recorded the mark-to-market of these derivatives as a component of interest expense in its condensed consolidated statements of operations. The Company may in the future consider adjusting the amounts covered by these derivative contracts to better suit its capital structure. The Company may allow all or a portion of these swaps to lapse, enter into replacement swaps or settle these swaps prior to expiration.

In July 2010, the Company entered into forward starting interest rate swaps to manage its exposure to changes in interest rates related to variable rate debt. These derivative contracts replace the contracts expiring in December 2010 and effectively convert all of the

obligations under the Titanium Dioxide Pigments term loan facility to fixed rate obligations and amortize over their respective lives. These contracts cover notional amounts of 220.0 million (at a fixed contract rate of 1.40%) beginning in December 2010 and maturing in June 2013. The Company has not applied hedge accounting for these interest rate swaps and records the mark-to-market of these derivatives as a component of interest expense in its consolidated statements of operations.

During 2003, the Company entered into a cross-currency interest rate swap with a notional amount of \$20.3 million that effectively converted \$20.3 million of U.S. dollar borrowings into Euro-based obligations at an effective interest rate of Euribor plus 4.00%. As of December 31, 2009, the notional amounts of this cross-currency interest rate hedge were \$19.1 million and 17.0 million. This contract had a final maturity date of July 2010. In May 2010, the Company settled this swap and paid \$3.3 million to the counterparty. The Company had not applied hedge accounting for this cross-currency interest rate swap and had recorded the mark-to-market of this derivative as a component of interest expense in its condensed consolidated statements of operations.

### **Foreign Currency Risk**

In December 2008, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on certain forecasted sales denominated in a currency other than the functional currency of the legal entity in its Specialty Chemicals segment. These foreign currency forward contracts hedged the exposure to movements in foreign exchange rates for forecasted transactions for twelve months, and expired in December 2009. The instruments were designated as foreign exchange cash flow hedges and were effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction.

In February 2010, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on forecasted sales denominated in a currency other than the functional currency of the legal entity. As of September 30, 2010, the Company had notional amounts outstanding for these foreign currency forward contracts of \$1.5 million. The Company has not applied hedge accounting for these foreign currency forward contracts.

In June 2010, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on cash flows on certain forecasted sales denominated in a currency other than the functional currency of a legal entity in its Titanium Dioxide segment. These foreign currency forward contracts hedge the exposure to movements in foreign exchange rates for forecasted transactions for six months, and expire in December 2010. As of September 30, 2010, the Company had notional amounts outstanding for these foreign currency forward contracts of \$24.0 million. The instruments were designated as foreign exchange cash flow hedges and were effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction.

In connection with the offering of the 2014 Notes, the Company entered into a cross-currency interest rate swap with a five-year term which expired in November 2009 and a notional amount of 155.6 million that effectively converted the U.S. dollar fixed rate debt in respect of the 2014 dollar-denominated notes sold into Euro fixed rate debt. The Company paid \$32.9 million in connection with the settlement of this cross-currency swap in November 2009. The Company previously designated this contract as a hedge of the foreign currency exposure of its net investment in its Euro-denominated operations. In addition, the Company has designated a portion of its Euro-denominated debt that is recorded on its U.S. books as a net investment hedge of its Euro-denominated investments (Euro debt of 217.1 million at September 30, 2010; \$296.0 million). Any foreign currency gains and losses resulting from the designated portion of Euro-denominated debt discussed above is accounted for as a component of accumulated other comprehensive income for as long as the hedge remains effective. There was no ineffective portion of the net investment hedge as of September 30, 2010.





Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The following table provides the fair value and balance sheet location of the Company's derivative instruments as of September 30, 2010 and December 31, 2009:

(in millions)	Balance Sheet Location	Asset Derivatives Fair Value as of		Liability Derivatives Fair Value as of	
		September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 2.5	\$	\$	\$
Total derivatives designated as hedging instruments		\$ 2.5	\$	\$	\$
<b>Derivatives not designated as hedging instruments:</b>					
Interest rate swaps	Accrued expenses and other current liabilities	\$	\$	\$ 3.8	\$ 8.8
	Other liabilities			20.5	23.5
Foreign exchange contracts	Accrued expenses and other current liabilities			0.1	
Cross-currency interest rate swaps	Accrued expenses and other current liabilities				5.2
Total derivatives not designated as hedging instruments		\$	\$	\$ 24.4	\$ 37.5
<b>Total derivatives</b>		\$ 2.5	\$	\$ 24.4	\$ 37.5

The following table provides the gains and losses reported in Other Comprehensive Income (OCI) within Equity for the three and nine months ended September 30, 2010 and 2009:

(in millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives and Other Financial Instruments (Effective Portion)			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign exchange contracts	\$ 2.9	\$	\$ 2.5	\$ (0.2)
<b>Derivatives and Other Financial Instruments in Net Investment Hedging Relationships:</b>				
Cross-currency interest rate swaps - net investment hedge	\$	\$ (9.5)	\$	\$ (11.6)
Euro-denominated debt	(20.7)	(28.2)	0.8	(24.1)
	\$ (20.7)	\$ (37.7)	\$ 0.8	\$ (35.7)

In the three and nine months ended September 30, 2010, no gains or losses were reclassified from accumulated other comprehensive income into income.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The following table provides the gains and losses reported in the condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009:

(in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives				Location of Gain or (Loss) Recognized in Income on Derivatives			
	Three months ended September 30, 2010		Nine months ended September 30, 2009					
<b>Derivatives Not Designated as Hedging Instruments</b>								
Foreign exchange contracts	\$	(0.1)	\$	\$	1.0	\$	Selling, general and administrative expenses	
Interest rate contracts		1.2	(0.1)		7.3	1.9	Interest expense, net	
Cross-currency interest rate swaps			(1.2)		1.6	(0.6)	Interest expense, net	
	\$	1.1	\$	(1.3)	\$	9.9	\$	1.3

### 6. FAIR VALUE MEASUREMENTS:

The Company follows a fair value measurement hierarchy to measure assets and liabilities. As of September 30, 2010 and December 31, 2009, the assets and liabilities measured at fair value on a recurring basis are derivatives and marketable securities. In

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

addition, the Company measures its pension plan assets at fair value (see Note 15, "Employee Benefit Plans" in the Company's 2009 Form 10-K for further details). The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

**Level 1** Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

**Level 2** Inputs are directly or indirectly observable, which include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** Inputs are unobservable inputs that are used to measure fair value to the extent observable inputs are not available. The Company does not have any financial assets or liabilities that are classified as Level 3 inputs as of September 30, 2010 and December 31, 2009.

In accordance with the fair value hierarchy, the following table provides the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of September 30, 2010 and December 31, 2009:

(in millions)	As of September 30, 2010	Level 1	Fair Value Measurements		
			Level 2	Level 3	
<b>Assets</b>					
Marketable securities (a)	\$ 11.7	\$ 11.7	\$	\$	
Foreign exchange contracts (b)	2.5		2.5		
Total assets at fair value	\$ 14.2	\$ 11.7	\$ 2.5	\$	
<b>Liabilities</b>					
Interest rate swaps (b)	\$ 24.3		\$ 24.3		
Foreign exchange contracts (b)	0.1		0.1		
Total liabilities at fair value	\$ 24.4		\$ 24.4		

(in millions)	As of December 31, 2009	Level 1	Fair Value Measurements		
			Level 2	Level 3	
<b>Assets</b>					
Marketable securities (a)	\$ 162.0	\$ 162.0	\$		
Total assets at fair value	\$ 162.0	\$ 162.0	\$		
<b>Liabilities</b>					
Interest rate swaps (b)	\$ 32.3		\$ 32.3		
Cross-currency interest rate swaps (b)	5.2		5.2		
Total liabilities at fair value	\$ 37.5		\$ 37.5		

(a) These primarily represent money market funds with an original maturity of three months or less.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(b) See Note 5, Derivatives, for further details of the Company's derivative instruments.

The fair values of marketable securities are based on unadjusted quoted market prices from various financial information service providers and securities exchanges. The fair values of derivatives are based on quoted market prices from various banks for similar instruments. The valuation of these instruments reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward curves.

**Counter-party risk** The Company manages counter-party risk by entering into derivative contracts with only major financial institutions of investment grade quality and by limiting the amount of exposure to each financial institution. The Company has considered credit adjustments in its determination of the fair value of its derivative assets and liabilities as of September 30, 2010 and December 31, 2009 based on market participant assumptions. In addition, based on the credit evaluation of each counter-party institution to its derivatives as of September 30, 2010 and December 31, 2009, the Company believes the carrying values to be fully realizable.

**Debt** The Company estimates that its debt under the senior secured credit facility and Titanium Dioxide Pigments venture facility agreement, based on current interest rates and terms, approximates fair value. Based on quoted market prices at September 30, 2010 and December 31, 2009, the Company estimated the fair value of its 2014 Notes approximated \$554.6 million and \$561.0 million, respectively. As of September 30, 2010 and December 31, 2009, the aggregate principal carrying amount of the 2014 Notes was \$541.0 million and \$558.2 million.

**Cash and Cash Equivalents** All highly liquid instruments and money market funds with an original maturity of three months or less are considered to be cash equivalents. The carrying amount approximates fair value because of the short maturities of these instruments.

**7. INVENTORIES:**

Inventories are comprised of the following:

(\$ in millions)	September 30, 2010	December 31, 2009
Raw materials	\$ 168.8	\$ 165.6
Work-in-process	77.1	73.7
Finished goods	275.2	270.7
Packaging materials	7.5	7.0
Total	\$ 528.6	\$ 517.0

**8. GOODWILL:**

Below are goodwill balances and activity by segment:

(\$ in millions)	Specialty Chemicals	Advanced Ceramics	Total
Balance, December 31, 2009	\$ 661.7	\$ 277.5	\$ 939.2
Foreign exchange	(31.2)	(14.0)	(45.2)
Balance, September 30, 2010	630.5	263.5	894.0

**9. OTHER INTANGIBLE ASSETS, NET:**

Other intangible assets, net consist of:

As of September 30, 2010	As of December 31, 2009
Gross	Gross

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 372.1	\$ (149.4)	\$ 222.7	\$ 384.3	\$ (133.0)	\$ 251.3
Trade names and trademarks	140.1	(37.2)	102.9	146.3	(33.7)	112.6
Customer relationships	377.8	(138.0)	239.8	390.1	(117.7)	272.4
Supply agreements	61.0	(16.3)	44.7	62.8	(12.3)	50.5
Other	43.9	(29.5)	14.4	48.8	(30.9)	17.9
Total	\$ 994.9	\$ (370.4)	\$ 624.5	\$ 1,032.3	\$ (327.6)	\$ 704.7

Amortization of other intangible assets was \$19.1 million and \$20.6 million for the three months ended September 30, 2010 and 2009, respectively, and \$57.9 million and \$60.1 million for the nine months ended September 30, 2010 and 2009, respectively.

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Estimated amortization expense for each of the five succeeding fiscal years is as follows:

(\$ in millions) Year ended	Amortization Expense
2010	\$ 78.0
2011	76.3
2012	73.2
2013	70.9
2014	63.7

**10. LONG-TERM DEBT:**

Long-term debt and loans payable are summarized as follows:

(\$ and in millions)	September 30, 2010	December 31, 2009
Senior secured credit facilities:		
Tranche A-1 term loans ( 3.4 and 4.2, respectively)	\$ 4.6	\$ 6.0
Tranche A-2 term loans ( 29.2 and 36.5, respectively)	39.8	52.3
Tranche E term loans	116.1	139.4
Tranche G term loans ( 59.8 and 65.1, respectively)	81.5	93.2
Tranche H term loans	781.1	937.2
Tranche I term loans ( 178.7 and 194.7, respectively)	243.6	278.8
2014 Notes ( 250.1 and \$200.0 as of September 30, 2010 and December 31, 2009)	541.0	558.2
Titanium Dioxide Pigments venture term loans ( 230.0 and 240.0, respectively)	313.6	343.7
Titanium Dioxide Pigments venture revolving short-term loans ( 10.0 as of December 31, 2009)		14.3
Capitalized lease obligations ( 29.9 and 31.9, respectively)	40.8	45.7
Other loans	33.5	59.5
	2,195.6	2,528.3
Less current maturities	(90.5)	(94.2)
	\$ 2,105.1	\$ 2,434.1

On July 29, 2010, the Company voluntarily prepaid \$200.2 million of its senior secured term loans. This included \$22.5 million of tranche E term loans, 5.0 million (\$6.6 million using the exchange rate in effect at the time of the transaction) of tranche G terms loans, \$151.5 million of tranche H term loans, and 15.0 million (\$19.6 million using the exchange rate in effect at the time of the transaction) of tranche I term loans. This prepayment was funded with available cash and cash equivalents. In connection with this prepayment, the Company recorded a loss on early extinguishment of debt of \$1.6 million related to the write-off of deferred financing costs.

**11. INCOME TAXES:**

The effective tax rate for the nine months ended September 30, 2010 and 2009 was 28.3% and 89.6%, respectively. The decrease in the effective tax rate from the prior year is primarily related to domestic income in 2010 that was not tax effected since the Company had provided a



## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

valuation allowance and higher foreign earnings resulting in additional favorable foreign rate differentials. Also, in 2010 the Company favorably settled certain tax positions. In 2009, the Company had domestic losses that were not tax benefited due to the recording of additional valuation allowances. In both periods, federal taxes are zero as a result of a full valuation allowance. For the nine months ended September 30, 2009, other differences between the effective tax rate and the U.S. statutory rate of 35.0% primarily relate to a nonrecurring tax benefit regarding functional currency changes.

In the nine months ended September 30, 2010, the Company increased its worldwide valuation allowances by \$10.9 million, primarily due to changes in deferred tax assets that were not tax benefited.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The following table reflects the activity in the valuation allowance for worldwide net operating losses and other deferred income tax assets:

(\$ in millions)	Valuation Allowance	
Balance as of December 31, 2009	\$	132.9
Increase as reflected in income tax expense		10.7
Other		0.2
Balance as of September 30, 2010	\$	143.8

In the nine months ended September 30, 2010, based on the Company's policy and review of available information, including the Company's steady-state analysis, it was determined that there was not sufficient positive evidence of future taxable income to release the U.S. federal valuation allowance that has been recorded. During the nine months ended September 30, 2010, the Company's net U.S. federal deferred tax assets and liabilities were maintained at a zero level, other than a noncurrent deferred tax liability relating to goodwill with an indefinite reversal period. It is the Company's policy that the valuation allowance is reversed in the year management determines it is more likely than not that the deferred tax assets will be realized.

Unrecognized tax benefits at September 30, 2010 were \$15.0 million, all of which if recognized, would impact the effective tax rate. The Company had accrued \$8.5 million for interest and penalties as of September 30, 2010. The Company recognizes interest and penalties related to unrecognized tax benefits in its income tax provision.

During the next twelve months, it is reasonably possible that resolution of uncertain tax benefits could result in a benefit of up to \$3.0 million or a cost of up to \$6.0 million. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

The Company is subject to taxation in the U.S., various states, and foreign jurisdictions. The Company's tax filings in major jurisdictions are open to investigation by tax authorities; in the U.S. from 2005, in the U.K. from 2007, and in Germany from 2001.

### 12. EMPLOYEE BENEFIT PLANS:

The Company's overall unfunded position in its defined benefit plans as of September 30, 2010 is \$415.2 million and the funded status of our plans is 38%. However, 82% of the Company's unfunded position is concentrated in plans mostly in Germany, where funding is neither legally required nor customary. When only the plans that have funding requirements are considered, the unfunded portion is \$74.2 million, and the funded status is 76%. The Company was in compliance with local funding requirements as of September 30, 2010. Almost all of the Company's pension obligations are long-term in nature. The Company's annual cash outflows to meet funding requirements and benefit obligations historically have not significantly exceeded its pension expense. Such cash outflows were less than pension expense in 2009 and during the nine months ended September 30, 2010. The measurement of our pension obligations and plan assets is dependent on a variety of assumptions used by our actuaries and is performed annually. Therefore, the funded status as of December 31, 2010 could differ significantly.

The following table represents the net periodic benefit costs and related components:

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Three months ended September 30,				Nine months ended September 30,			
		2010		2009		2010		2009
Service cost	\$	1.9	\$	2.1	\$	5.7	\$	6.3
Interest cost		8.2		9.1		24.9		26.1
Expected return on assets		(3.7)		(4.0)		(11.0)		(11.4)
Amortization of actuarial losses		0.6		0.2		1.7		0.6
Amortization of prior service cost		0.2				0.5		
Other						0.3		
Net periodic pension cost		7.2		7.4		22.1		21.6
Settlement/curtailment				(0.1)				(0.3)
Total pension cost	\$	7.2	\$	7.3	\$	22.1	\$	21.3

**13. EARNINGS PER COMMON SHARE:**

Basic and diluted earnings per common share ( EPS ) were computed using the following common share data:

(\$ in millions, except per share amounts; shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>EPS Numerator:</b>				
Amounts attributable to Rockwood Holdings, Inc.:				
Income from continuing operations	\$ 40.5	\$ 10.2	\$ 129.8	\$ 7.0
(Loss) income from discontinued operations		(0.1)		3.3
Net income	\$ 40.5	\$ 10.1	\$ 129.8	\$ 10.3
<b>EPS Denominator:</b>				
Basic weighted average number of common shares outstanding				
	75,199	74,104	74,735	74,084
Effect of dilutive stock options and other incentives				
	2,887	1,416	2,936	288
Diluted weighted average number of common shares outstanding and common stock equivalents				
	78,086	75,520	77,671	74,372
<b>Basic earnings per common share attributable to Rockwood Holdings, Inc.:</b>				
Earnings from continuing operations	\$ 0.54	\$ 0.14	\$ 1.74	\$ 0.09
Earnings from discontinued operations, net of tax				0.05
Basic earnings per common share	\$ 0.54	\$ 0.14	\$ 1.74	\$ 0.14
<b>Diluted earnings (loss) per common share attributable to Rockwood Holdings, Inc.:</b>				
Earnings from continuing operations	\$ 0.52	\$ 0.14	\$ 1.67	\$ 0.09
(Loss) earnings from discontinued operations, net of tax		(0.01)		0.05
Diluted earnings per common share	\$ 0.52	\$ 0.13	\$ 1.67	\$ 0.14

Stock-based awards under employee compensation plans representing common stock of 1,269,540 and 1,275,548 shares were outstanding during the three and nine months ended September 30, 2010, respectively, and 1,051,164 and 5,230,586 shares were outstanding during the three and nine months ended September 30, 2009, respectively, but were not included in the computation of diluted earnings per common share because their inclusion would have had an anti-dilutive effect.

**14. RESTRUCTURING AND OTHER SEVERANCE COSTS:**

The Company records restructuring liabilities that represent charges incurred in connection with consolidations and cessations of certain of its operations, including operations from acquisitions, as well as headcount reduction programs. These charges consist primarily of severance and facility closure costs. Severance charges are based on various factors including the employee's length of service, contract provisions, salary levels and local governmental legislation. At the time a related charge is recorded, the Company calculates its best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

For the three and nine months ended September 30, 2010, the Company expensed \$1.1 million and \$4.0 million of restructuring charges, primarily in the Specialty Chemicals segment, primarily for facility closures and an asset write-off in connection with the elimination of a duplicate manufacturing facility in the Performance Additives segment.

For the three and nine months ended September 30, 2009, the Company expensed \$1.7 million and \$4.4 million, respectively, of restructuring charges. For the nine months ended September 30, 2009, the primary components of the restructuring charge of \$4.4 million included \$2.0 million recorded in the Specialty Chemicals segment primarily for headcount reduction and facility closure costs as part of restructuring plans in 2008 and 2007. In addition, \$0.4 million of asset write-offs were recorded in the Specialty Chemicals segment as part of restructuring plans in 2008 and 2007. The Company recorded \$1.4 million in the Color Pigments and Services business within the Performance Additives segment related to a restructuring plan implemented in March 2008 in connection with the integration of the businesses acquired from Elementis plc. In addition, \$0.2 million of asset write-offs were recorded in the Color Pigments and Services segment related to a 2009 restructuring plan.

Restructuring and other severance costs in the condensed consolidated statements of operations also included other severance-related costs of \$0.4 million and \$2.5 million for the three months ended September 30, 2010 and 2009, respectively, and \$0.9 million and \$11.6 million for the nine months ended September 30, 2010 and 2009, respectively, related to headcount reductions undertaken throughout the Company.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

All restructuring actions still in progress as of September 30, 2010 are expected to be substantially complete by the end of the year. However, payouts of certain liabilities resulting from these actions will take place over several years. In particular, as of September 30, 2010, restructuring liabilities of \$4.5 million includes \$1.8 million in the Corporate and other segment related to an unexpired lease in connection with the 2006 restructuring of the Wafer Reclaim business. Management believes that the majority of the remaining \$2.7 million obligation will be utilized in 2010. Selected information for outstanding liabilities from recent restructuring actions is as follows:

(\$ in millions)	Severance/ Relocation	Facility Closure	Total
Liability balance, December 31, 2009	\$ 4.2	\$ 3.3	\$ 7.5
Restructuring charge in 2010 (a)	0.5	0.6	1.1
Utilized	(2.4)	(1.5)	(3.9)
Foreign exchange and other	(0.2)		(0.2)
Liability balance, September 30, 2010	\$ 2.1	\$ 2.4	\$ 4.5

(a) Excludes asset write-off described above.

Restructuring reserves by segment are as follows:

(\$ in millions)	September 30, 2010	December 31, 2009
Specialty Chemicals	\$ 1.8	\$ 3.7
Performance Additives	0.1	0.7
Advanced Ceramics	0.6	1.0
Corporate and other	2.0	2.1
	\$ 4.5	\$ 7.5

### 15. COMMITMENTS AND CONTINGENCIES:

**Legal Proceedings** The Company is involved in various legal proceedings, including commercial, intellectual property, product liability, regulatory and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these matters if it is probable that a liability has been incurred and an amount can be reasonably estimated. It is the Company's policy to disclose such matters when there is at least a reasonable possibility that a material loss may have been incurred.

#### Advertising Matter

On March 3, 2009, Osmose, Inc. ( "OI" ) filed an action against Viance, the joint venture in the Timber Treatment Chemicals business, Rockwood Holdings, Inc., and certain individuals, in the U.S. District Court, Northern District of Georgia, claiming that recent advertisements by Viance comparing its ACQ product and OI's MCQ product were false and misleading in violation of the Lanham Act, constituted unfair competition, violated the Georgia Deceptive Trade Practices Act, were defamatory and that Viance tortiously interfered with OI's business relationships. OI is seeking damages, including their attorney's fees and costs and punitive damages. OI also sought a temporary restraining order ( "TRO" ) and a preliminary injunction prohibiting Viance from continuing to make certain claims in advertisements related to their MCQ product. On March 20,

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

2009, the district court granted Osmose's motion for a TRO. Viance raised certain counterclaims related to OI's advertisements and both parties' claims were heard. In September 2009, the district court issued a preliminary injunction prohibiting Viance from making certain claims related to MCQ in its advertisements and denied Viance's request for a preliminary injunction related to certain claims in Osmose's advertisements, which Viance subsequently appealed. The U.S. Court of Appeals, Eleventh Circuit heard oral arguments on May 20, 2010 and rendered its decision on July 30, 2010 remanding in part, affirming in part, and vacating in part the preliminary injunction. The trial court entered an order revising the preliminary injunction and an order lifting the stay and commencing discovery. The Company will continue to vigorously defend this matter. While the Company believes the defendants have meritorious defenses against OI's claims and does not believe that resolution of this matter will have a material adverse effect on its business or financial condition, the Company cannot predict the ultimate outcome of this litigation, and the resolution of this matter may have a material adverse effect on its results of operations or cash flows in any quarterly or annual reporting period.

### **EC Heat Stabilizers Investigation**

The European Commission ( EC ) has investigated possible infringement of certain antitrust regulations in the market for heat

stabilizers from 1986 until at least 2000 by certain industry participants, which included a business sold by a subsidiary in the Specialty Chemicals segment in 2000. On March 23, 2009, the EC confirmed that it commenced a proceeding against certain participants in the heat stabilizers market, including the business formerly owned by this subsidiary and the Company's subsidiary. Neither the Company nor any of its subsidiaries are active in the market for heat stabilizers; however, the business sold in 2000 was active in this market. On November 11, 2009, the EC issued its decision imposing fines on several companies including a fine jointly and severally against the Company's subsidiary and two other parties in the amount of \$1.9 million, and against the Company's subsidiary and one other party in the amount of \$1.4 million. By decision of February 8, 2010, the EC amended its decision of November 11, 2009 to apply the cap pursuant to the applicable European Council Regulation limiting the amount for which the Company's subsidiary and the two other parties are jointly and severally liable to \$1.1 million. The Company's subsidiary and one of the two other parties have each paid one third of the \$1.1 million fine. The third party, however, has appealed the decision and did not remit any payment. Therefore, the Company's maximum remaining exposure in connection with this matter is \$0.4 million, which is the outstanding amount of the fine. The Company does not believe that resolution of this matter will have a material adverse effect on its business, results of operations or financial condition.

### **Lanxess Matter**

On January 18, 2010, Lanxess Deutschland GmbH filed suit in the District Court of Satakunta, Finland against Sachtleben Pigments Oy (Sachtleben), a subsidiary of the Company's Titanium Dioxide Pigments venture, claiming breach of contract in connection with Sachtleben's termination of a supply agreement with plaintiff. The plaintiff is seeking up to \$7.0 million in damages plus accrued interest and legal fees. Sachtleben's answer and plea of jurisdiction were filed on March 19, 2010. The Court held a hearing on October 28, 2010 related to the proper jurisdiction for this matter and the Company is awaiting the Court's ruling. The Company believes Sachtleben has meritorious defenses against the plaintiff's claims, and although Sachtleben does not believe that resolution of this matter will have a material adverse effect on its business or financial condition, the Company cannot predict the ultimate outcome of this litigation, and the resolution of this matter may have a material adverse effect on its results of operations or cash flows in any quarterly or annual reporting period.

### **Former Glass Sealants Business**

A subsidiary in the Specialty Chemicals segment that formerly manufactured sealants for insulating glass and resins for laminated glass prior to and after the sale of this business has been named as a defendant in several lawsuits relating to alleged negligent manufacturing of those products. Pursuant to the sale and purchase agreement with respect to the divested glass business, this subsidiary may be required to pay indemnity claims related to these lawsuits. Although the Company expects its subsidiary to have coverage under its product liability insurance policies should damages ultimately be awarded or agreed to, in such an event, its insurance may not cover such claims and, if not, its subsidiary may not have sufficient cash flow to pay these claims. Although the Company does not believe that resolution of these matters will have a material adverse effect on its business or financial condition, the Company cannot predict the ultimate outcome of these claims, and the resolution of one or more of these claims may have a material adverse effect on its results of operations or cash flows in any quarterly or annual reporting period.

### **Inspector General Subpoena**

In February 2010, a subsidiary of the Company received a subpoena from the Inspector General of the Department of Defense (DOD) seeking information related to a product in the Timber Treatment Chemicals business in the Performance Additives segment. This subsidiary has and will continue to comply with the request of the DOD to provide the relevant information. The Company cannot predict the likelihood of further legal action in connection with this matter or the resolution of this matter.



**Pension Receivable Matter**

Rockwood's pension liability includes defined benefit obligations to employees of a previously divested company which cannot legally be transferred to the current owners under local law. The current owner of the business has agreed to indemnify the Company for these obligations, however, such company has filed for bankruptcy. Accordingly, the Company has partially reserved against our related receivable due from the current owner. The Company believes the maximum remaining exposure is \$5.4 million, which represents the remaining receivable due from the current owner. The Company cannot predict the ultimate outcome of this matter. The Company does not believe that resolution of this matter will have a material adverse effect on its business or financial condition, however, resolution of this matter may have a material adverse effect on its results of operations or cash flows in any quarterly or annual reporting period.

**Other Matters**

Although the Company expects to continue to pay legal fees in connection with the above matters and other legal actions such as chromated copper arsenate and other product liability matters, based on currently available facts, the Company does not believe that any other individual action will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Reserves in connection with product liability matters do not individually exceed \$1.1 million and in the aggregate \$3.1 million as of September 30, 2010. The Company's reserve estimates are based on available facts, including damage claims and input from its internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by its insurer, known insurance recoveries. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available. Further, the Company cannot predict the outcome of any litigation or the potential for future litigation.

**Indemnity Matters** The Company may be indemnified by third parties in connection with certain matters related to acquired businesses. Although the Company has no reason to believe that the financial condition of those parties who may have indemnification obligations to the Company is other than sound, in the event the Company seeks indemnity under any of these agreements or through other means, there can be no assurance that any party who may have obligations to indemnify the Company will adhere to their obligations and the Company may have to resort to legal action to enforce its rights under the indemnities. In cases where the Company's indemnification claims to such third parties are uncontested, the Company expects to realize recoveries within the short term.

In addition, the Company may be subject to indemnity claims relating to properties or businesses it divested. The Company has agreed to indemnify the buyer of its former Electronics business, Groupe Novasep segment and pool and spa chemicals business. For example, the Company is required to indemnify the buyer of its Electronics business for certain known and unknown environmental actions which may arise in the future that relate to the period prior to the closing.

In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to the Company or by the Company is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows, but may have a material adverse effect on the Company's results of operations or cash flow in any quarterly or annual reporting period.

### ***Safety, Health and Environmental Matters***

#### **General**

The Company is subject to extensive environmental, health and safety laws in the United States, the European Union ( EU ) and elsewhere at the international, national, state, and local levels. Many of these laws impose requirements relating to clean up of contamination, and impose liability in the event of damage to human beings, natural resources or property, and provide for substantial fines, injunctions and potential criminal sanctions for violations. Other laws require post-closure reclamation of landfills and surface mining sites for damage resulting from normal operation of these facilities. The products, including the raw materials handled, are also subject to rigorous industrial hygiene regulations and investigation. The nature of the Company's operations exposes it to risks of liability for breaches of these laws and regulations as a result of the production, storage, transportation and sale of materials that can cause contamination or personal injury when released into the environment. Environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws, or the enactment of new environmental laws, could result in materially increased capital, operating and compliance costs.

#### **Safety, Health and Environmental Management Systems**

The Company is committed to achieving and maintaining compliance with all applicable safety, health and environmental ( SHE ) legal requirements. The Company's subsidiaries have developed policies and management systems that are intended to identify the SHE legal requirements applicable to their operations, enhance compliance with such requirements, ensure the safety of the Company's employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although SHE legal requirements are constantly changing, these SHE management systems are designed to assist the Company in meeting its compliance goals and minimizing overall risk.

#### **SHE Capital Expenditures**

The Company will incur future costs for capital improvements and general compliance under SHE laws. For the year ended December 31, 2009, the capital expenditures for SHE matters totaled \$17.9 million, excluding costs to maintain and repair pollution control equipment. For 2010, the Company estimates capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in existing and new SHE laws, the Company cannot provide assurance that its recent expenditures will be

indicative of future amounts required to comply with these laws.

### **Regulatory Developments**

Greenhouse gases have increasingly become the subject of international, national, state and local attention. On September 22, 2009, the Environmental Protection Agency ( EPA ) passed its final greenhouse gas monitoring and reporting rule that requires certain facilities in the U.S. to measure their greenhouse gases beginning January 1, 2010 and begin reporting these measurements on March 31, 2011. Currently, the Company believes that this rule will affect four of its facilities. The Company does not believe, based upon currently available information, that this rule will have a material impact on its results of operations. However, further legislation of greenhouse gases and carbon dioxide has been proposed in the U.S., U.K. and other jurisdictions. Any such laws may directly and indirectly have a material adverse impact on our results of operations, such as through higher costs for energy and certain raw materials and additional capital expenditures to comply with such laws.

On June 1, 2007, the Registration, Evaluation and Authorization of Chemicals ( REACH ) legislation became effective in the EU. REACH requires manufacturers and importers of certain chemicals to register those chemicals, perform health and environmental risk analyses of those chemicals, and in certain instances, obtain authorizations for the use of the chemicals. Covered substances were pre-registered by November 30, 2008. REACH is expected to be implemented in three phases over an eleven year period based on known product hazards and/or volume of product in commerce. Under REACH, where warranted by a risk assessment, specified uses of some hazardous substances may be restricted. As a specialty chemicals company, it is possible that the Company is the only manufacturer of one or more substances to be regulated under REACH and thus could potentially bear the full cost of compliance with

REACH for some or all of the Company's products. The Company estimates it has approximately 350 products that are subject to REACH. The Company is taking steps to comply with REACH, which included the pre-registration of its products. The Company does not believe these costs will have a material impact on its results of operations, financial position or liquidity. In addition, it is possible that REACH may affect raw material supply, customer demand for certain products and the Company's decision to continue to manufacture and sell certain products.

The Company is also subject to the Homeland Security Agency's regulations, which address chemical plant safety, the Kyoto Protocol, which relates to the emission of greenhouse gases and the European Union Integrated Pollution Prevention and Control Directive, which relates to environmental permitting programs for individual facilities. In addition, legislation was recently introduced in Congress seeking to reform the Toxic Control Substances Act, which among other things, would require manufacturers to develop and submit additional safety data for each chemical it produces, similar to REACH. The Company does not believe, based upon currently available information, that these regulations will have a material adverse impact on its results of operations, financial position or liquidity.

### **Environmental Liabilities**

Environmental laws have a significant effect on the nature and scope of any clean-up of contamination at current and former operating facilities, the costs of transportation and storage of chemicals and finished products and the costs of the storage and disposal of wastes. In addition,

Superfund statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. All responsible parties may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The following table provides a list of the Company's present and former facilities with environmental contamination or reclamation obligations for which the Company has reserved for at September 30, 2010:

Country	Location	(a)	(b)	(c)	(d)	(e)
Brazil	Diadema			X		
Chile	Salar de Atacama				X	
China	Shenzhen			X		
Finland	Kipsikorpi				X	
	Pori				X	
France	Clichy			X		
	Sens	X				
Germany	Duisburg	X			X	
	Hainhausen	X				
	Schwarzheide				X	
	Marktredwitz		X			
	Plochingen		X			
	Stadeln	X	X			
	Troisdorf	X	X	X		
Italy	Turin			X		
The Netherlands	Oss	X				
United Kingdom	Barrow-in Furness	X				
	Birtley			X		
	Kidsgrove			X		
United States	Beltsville, MD	X		X		
	East St. Louis, IL			X		
	Easton, PA			X		
	Gonzales, TX				X	
	Harrisburg, NC	X		X		
	La Mirada, CA	X				
	Laurens, SC		X			
	Middletown, NY (formerly owned)	X		X		X
	New Johnsonville, TN		X	X		
	Silver Peak, NV	X			X	
	Sunbright, VA (facility closed)	X				X
	Valdosta, GA	X				

(a) The Company is currently operating groundwater monitoring and/or remediation systems at these locations.

(b) The Company is currently operating groundwater monitoring and/or remediation systems at these locations for which prior owners or insurers have assumed responsibility.

(c) The Company is currently conducting investigations into additional possible soil and/or groundwater contamination at these locations.

(d) The Company has land restoration obligations relating to landfill activities or surface mining at these locations.

(e) The Company is responsible for liabilities related to environmental matters at these closed facilities.

The Company is also responsible for environmental matters at some of its former off-site disposal locations owned by third parties. These sites are considered Superfund sites as defined by the EPA or state regulatory authority. The Company is a potentially responsible party or *de minimis* participant at the following Superfund locations: Casmalia, CA; Laurel, MD; Niagara Falls, NY; South Gate, CA; and Whittier, CA and has reserves for these matters totaling \$0.1 million at September 30, 2010. In addition, the German authorities have ordered the Company to investigate and, depending on the results, potentially remediate a portion of a former site in Liebenau, Germany. The Company is currently in the process of gathering additional information regarding the site and cannot predict the potential scope of any such remediation.

Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material adverse effect on its business or financial condition, but may have a material adverse effect on the results of operations or cash flows in any given quarterly or annual reporting period. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company's or its predecessor's former and present properties and/or at sites where the Company

and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

### *Environmental Reserves*

The Company has established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs, which are reviewed at least quarterly based on currently available information. Liabilities are recorded when potential liabilities are either known or believed to be probable and can be reasonably estimated. In the event that the Company establishes a financial reserve in connection with site remediation costs, the Company records a reserve for the estimated cost of the remediation, even though the costs of the remediation will likely be spread out over many years. The Company does not include unasserted claims in its reserves.

The Company's liability estimates are based upon available facts, existing technology, indemnities from third parties, past experience and, in some instances, insurance recoveries where the remediation costs are being paid by its insurers, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company has accrued \$50.5 million and \$55.1 million for known environmental liabilities as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010 and December 31, 2009, \$48.7 million and \$53.6 million, respectively, were classified as other non-current liabilities in the consolidated balance sheets. Included in the \$50.5 million as of September 30, 2010 is \$26.5 million that is discounted using discount rates ranging from 5.0% to 8.0%, with the undiscounted amount of these reserves equaling \$39.1 million. Included in the \$55.1 million as of December 31, 2009 is \$22.8 million that is discounted using discount rates ranging from 5.0% to 7.5%, with the undiscounted amount of these reserves equaling \$33.5 million. In certain cases, the Company's remediation liabilities are payable over periods of up to 30 years. At a number of the sites described above, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable and could potentially affect the range. The Company estimates that the potential range for such environmental matters as of September 30, 2010 is from \$50.5 million to \$75.3 million. For the nine months ended September 30, 2010, the Company recorded charges of \$2.3 million to increase its environmental liabilities and made payments of \$4.5 million for clean-up and remediation costs, which reduced its environmental liabilities. For the nine months ended September 30, 2010, the recurring cost of managing hazardous substances for ongoing operations is \$34.1 million.

The Company believes these accruals are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued; however, based on currently available information, it does not believe the additional amount of potential losses would have a material effect on its results of operations or financial condition, but may have a material effect on the results of operations or cash flows in any given quarterly or annual reporting period. The Company does not believe that any known individual environmental matter would have a material effect on its results of operations or financial condition. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available.

The Company is obligated to undertake soil remediation at two facilities in Europe in the event manufacturing operations are discontinued there at some future date. In addition, in the event that manufacturing operations are discontinued at any of the Company's other facilities with known contamination, regulatory authorities may impose more stringent requirements on the Company including soil remediation. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities' remaining lives are indefinite. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations, the Company does not have sufficient information to estimate a range of potential settlement dates for its obligations. Consequently, the Company cannot employ a present value technique to estimate fair value and, accordingly, has not accrued for any environmental-related costs to remediate soil at these facilities.

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

*The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties, including those set forth in Forward-Looking Statements at the end of this Management's Discussion and Analysis section and the risk factors section of the Company's 2009 Form 10-K. You should read the following discussion and analysis together with our condensed consolidated financial statements and the notes to those statements that appear elsewhere in this Quarterly Report. Amounts may not recalculate due to rounding differences.*

*Unless otherwise noted, all balance sheet-related items which are denominated in Euros are converted at the September 30, 2010 exchange rate of 1.00 = \$1.3634.*

## **General**

We are a global developer, manufacturer and marketer of technologically advanced, high value-added specialty chemicals and



## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

advanced materials. We serve more than 60,000 customers across a wide variety of industries and geographic areas. We operate through five business segments: (1) Specialty Chemicals; (2) Performance Additives; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics; and (5) Specialty Compounds.

Our net sales consist of sales of our products, net of sales discounts, and product returns and allowances. In addition, net sales include shipping and handling costs billed to customers. Sales are primarily made on a purchase order basis.

Our cost of products sold consists of variable and fixed components. Our variable costs are proportional to volume and consist principally of raw materials, packaging and related supplies, certain energy costs, and certain distribution costs including inbound, outbound, and internal shipping and transfer costs. Our fixed costs are not significantly impacted by production volume and consist principally of certain fixed manufacturing costs and other distribution network costs, including warehousing. Fixed manufacturing costs comprise headcount-related costs and overhead, including depreciation, periodic maintenance costs, purchasing and receiving costs, inspection costs and certain energy costs.

Our selling, general and administrative expenses include research and development costs, sales and marketing, divisional management expenses and corporate services including cash management, legal, benefit plan administration and other administrative and professional services.

We are focused on growth, productivity, cost reduction, margin expansion, bolt-on acquisitions, divestment of non-core businesses and debt reduction. In connection with this focus, among other things:

- We continue to reduce overhead and eliminate duplicative facilities and positions throughout the Company as part of our ongoing global cost control initiatives, and we remain focused on reducing costs, improving productivity, and conserving cash by controlling working capital and capital spending;
- In the first half of 2009, we repurchased a portion of our Euro-denominated senior subordinated notes due in 2014, voluntarily prepaid a portion of our senior secured term loans and amended our senior secured credit agreement; and
- As discussed in Note 10, Long-term Debt, we voluntarily prepaid \$200.2 million of our senior secured term loans on July 29, 2010.

### **Factors Which Affect Our Results of Operations**

### **Our Markets**

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Because the businesses in our segments generally serve many unrelated end-use markets, we discuss the principal market conditions on a segment basis rather than a consolidated basis. The principal market conditions in our segments and regions in which we operate that impacted our results of operations during the periods presented include the following:

### *Specialty Chemicals*

- Demand for Surface Treatment products in our Specialty Chemicals segment generally follows the activity levels of metal processing manufacturers, including the automotive supply, steel and aerospace industries. In 2009, results declined on lower volumes in most businesses, partially offset by increased selling prices. In the first nine months of 2010, results were up from higher volumes in all markets. Sales are expected to continue to be higher throughout the remainder of 2010 primarily from higher volumes across most markets.
- Demand for our lithium carbonate products in the Fine Chemicals business line of our Specialty Chemicals segment is generally driven by demand for battery applications, glass ceramics, cement, the aluminum industry and the general demand in China. Sales of lithium products specifically used in life science applications depend on the trends in drug development and growth in pharmaceuticals markets as well as generic competition. In 2009, lower volumes in most applications, particularly in lithium and metal sulfide applications, had a negative impact on results. In the first nine months of 2010, results were higher primarily from increased volumes of lithium products and metal sulfide applications. This was partially offset by lower selling prices of potash and lithium carbonate. Higher volumes are expected for the remainder of 2010 in lithium applications. Results are expected to be negatively impacted by the highly competitive business environment.

### *Performance Additives*

- Generally, a trend towards the increased use of colored concrete products in the construction market has historically had a positive effect on our Color Pigments and Services business line. However, a general slowdown in the construction market has

negatively impacted construction sales. North American volumes were lower in 2009 and have continued to be lower through the first nine months of 2010. European volumes were lower in 2009. However, European volumes in the first nine months of 2010 were comparable to the same period in the prior year. Higher volumes of coatings products had a favorable impact on results in the first nine months of 2010.

- Demand for our wood protection products, in particular alkaline copper quaternary, or ACQ, is generally driven by both repair and remodeling, as well as new construction. The market position of ACQ was negatively impacted in 2009 by a general slowdown in the construction market, some customer shifts to substitute products and the use of wood substitutes. In the first nine months of 2010, volumes of ACQ products decreased slightly. A continued slowdown in the construction industry and substitute products could have a negative impact on our results in the remainder of 2010.
- In the Clay-based Additives business, net sales decreased in 2009 as lower volumes in most applications were partially offset by increased selling prices. In the first nine months of 2010, higher volumes in most markets, particularly oilfield, had a favorable impact on results. We expect sales growth throughout the remainder of 2010 primarily from higher volumes in most market segments.

#### *Titanium Dioxide Pigments*

- Demand for our titanium dioxide products in anatase grade is driven mainly by demand in the synthetic fiber industry, while demand for titanium dioxide products in rutile grade and our functional additives is driven by demand in the coatings, printing inks, construction, cosmetics, pharmaceutical, food, paper and plastics industries. Market conditions, including pricing pressure and industry overcapacity, have negatively impacted this industry in the past. Sales decreased in 2009 as lower volumes of fiber anatase applications were partially offset by increased selling prices. Sales of titanium dioxide products in rutile grade applications were up in 2009 due to higher volumes as a result of the venture with Kemira that was completed on September 1, 2008, and higher selling prices. In the first nine months of 2010, higher volumes, as well as selling price increases, of both rutile and anatase applications had a favorable impact on results. Our functional additives sales were down in 2009 as lower volumes were partially offset by higher selling prices. In the first nine months of 2010, higher volumes, as well as selling price increases of functional additives had a favorable impact on results. We expect sales of rutile, anatase and functional additives applications to continue to be higher throughout the remainder of 2010.

#### *Advanced Ceramics*

- Demand for our ceramic medical devices is mainly tied to the aging population in Europe and the United States. Sales of our medical device applications increased in 2009 and the first nine months of 2010 on higher volumes. We expect sales for these applications to be higher throughout the remainder of 2010.
- Sales of ceramic products for use in cutting tool applications were lower in 2009. Sales of mechanical systems and applications, electronic applications and multi-functional applications were also down in 2009 from lower volumes, particularly related to the economic downturn in the automotive industry. Sales of all product applications, including cutting tools, mechanical systems and applications, electronic applications and multi-functional applications, were up in the first nine months of 2010 on higher volumes. We expect sales for these applications to continue to increase throughout the remainder of 2010.

*Specialty Compounds*

- Our largest product line in the Specialty Compounds segment is wire and cable compounds. Sales within this product line are dependent upon the telecommunications market and related sectors, specifically demand for high-end voice and data communication wire and cable, for which our Specialty Compounds segment is a significant provider of sheathing materials. Non-halogen products for wire and cable data communication, military and other applications have expanded business in North America for those applications and created opportunities in Europe. However, as a result of a general downturn in the wire and cable market, volumes of wire and cable products were down in 2009. In the first nine months of 2010, higher volumes of wire and cable products had a favorable impact on results. For the remainder of 2010, we expect sales of wire and cable products to be higher.

- Most of the other end-use markets for which Specialty Compounds products are used generally track growth of gross domestic product, but many are also application specific, such as automotive. We are focusing more of our efforts towards increasing high margin specialty products, in particular, thermoplastic elastomers, and less of our efforts in automotive and footwear. Our net sales in consumer/industrial thermoplastic elastomers and regulated packaging were lower in 2009. In the first nine months of 2010, sales of consumer/industrial thermoplastic elastomers and regulated packaging increased on higher volumes. We expect sales for these applications to be higher throughout the remainder of 2010.

- Raw material prices for polyvinyl chloride ( PVC ) resin and plasticizers, key raw materials used in the production of most products, were down in 2009, but were higher in the first nine months of 2010. These raw material prices are expected to be slightly higher throughout the remainder of 2010.

### **Global Exposure**

We operate a geographically diverse business. Of our 2009 net sales, 52% were shipments to Europe, 27% to North America (predominantly the United States) and 21% to the rest of the world. For a geographic description of the origin of our net sales and location of our long-lived assets, see Note 3, Segment Information in our 2009 Form 10-K.

We estimate that we sold to customers in more than 60 countries during this period. Currently, we serve our diverse and extensive customer base with 87 manufacturing facilities in 24 countries. Consequently, we are exposed to global economic and political changes, particularly currency fluctuations that could impact our profitability and demand for our products.

Our sales and production costs are mainly denominated in U.S. dollars or Euros. Our results of operations and financial condition have been historically impacted by the fluctuation of the Euro against our reporting currency, the U.S. dollar. For the three and nine months ended September 30, 2010, the average exchange rate of the Euro against the U.S. dollar was lower compared to the same period in 2009. As a result, our net sales, gross profit and operating income were negatively impacted. Historically, however, our operating margins have not been significantly impacted by currency fluctuations because, in general, sales and costs of products sold are generated or incurred in the same currency, subject to certain exceptions.

### **Raw Materials**

Raw materials constituted approximately 47% of our 2009 cost of products sold. We have a broad raw material base, with the cost of no single raw material representing more than 3% of our cost of products sold in 2009. In 2009, lower raw material costs had a favorable impact on our results of operations. However, higher raw material costs in the first nine months of 2010 had an unfavorable impact on our results of operations. The significant price fluctuations our raw materials have experienced in the past during periods of high demand have had an adverse impact on our results of operations. We cannot accurately predict the impact of any future price increases for raw materials or any raw material shortages on our business as a whole or in specific geographic regions. In addition, we may not be able to pass on raw material price increases to our customers. See details of our ten most significant raw materials (in terms of dollars) in Item 1, Business Raw Materials in our 2009 Form 10-K.

### **Energy Costs**

In 2009, energy purchases represented approximately 8% of our cost of products sold. However, within certain business lines, such as our Titanium Dioxide Pigments segment and the Color Pigments and Services and Clay-based Additives businesses of our Performance Additives segment, energy costs are more significant. The cost of products sold for certain of our businesses, including Color Pigments and Services and Clay-based Additives, increases when the price of natural gas in North America rises. Overall, energy costs in the Company in 2009 were lower in a number of our businesses, particularly in North America. For the first nine months of 2010, energy costs were comparable to the same period in the prior year.

### **Income Taxes**

We recorded an income tax provision of \$20.7 million in the third quarter of 2010 on income from continuing operations before taxes of \$64.2 million. The income tax provision in the third quarter of 2010 was favorably impacted by foreign rate differentials, partially offset by a domestic loss that was not tax effected due to a valuation allowance.

In the third quarter of 2010, the worldwide valuation allowance increased by \$20.7 million. This was primarily due to foreign exchange losses that resulted in a tax effect of \$8.2 million recorded in other comprehensive income, \$10.0 million related to increases in domestic deferred tax assets, as well as \$3.2 million related to taxable losses. Of the \$20.7 million increase in the valuation allowance, \$13.2 million impacted the tax provision.

### **Special Charges and Credits**

During the periods presented, we incurred certain special charges that included systems/organization establishment expenses, restructuring and other severance costs and foreign exchange gains and losses. See **Items excluded from Adjusted EBITDA** section in Note 4, **Segment Information**, for a discussion of special charges and credits recorded in the three and nine months ended September 30, 2010 and 2009.

### Special Note Regarding Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. From time to time in this management's discussion and analysis, we disclose non-GAAP financial measures, primarily Adjusted EBITDA, as defined below.

### Definition of Adjusted EBITDA

The presentation of consolidated Adjusted EBITDA contained in this report is calculated using the definition set forth in the senior secured credit agreement as a basis and reflects management's interpretations thereof. Adjusted EBITDA, which is referred to under the senior secured credit agreement as Consolidated EBITDA, is defined in the senior secured credit agreement as consolidated earnings (which, as defined in the senior secured credit agreement, equals income (loss) before the deduction of income taxes of Rockwood Specialties Group, Inc. and the Restricted Subsidiaries (as such term is defined in the senior secured credit agreement), excluding extraordinary items) plus:

- interest expense;
- depreciation expense;
- amortization expense, including amortization of deferred financing fees;
- extraordinary losses and non-recurring charges;
- non-cash charges;
- losses on asset sales;
- restructuring charges or reserves (including severance, relocation costs and one-time compensation charges and costs relating to the closure of facilities);
- expenses paid by us or any of our subsidiaries in connection with the Dynamit Nobel Acquisition, the senior secured credit agreement, the granting of liens under the security documents (as such term is defined in the senior secured credit agreement), the indenture governing the 2014 Notes and the offering of the 2014 Notes and any other related transactions;
- any expenses or charges incurred in connection with any issuance of debt or equity securities;
- any fees and expenses related to permitted acquisitions; and
- items arising in connection with CCA litigation related to our Timber Treatment Chemicals business of our Performance Additives segment;

less:

- extraordinary gains and non-recurring gains;
- non-cash gains; and
- gains on asset sales,

in all cases, subject to certain exclusions.

For presentation purposes within this report, we use the computation set forth in our senior secured credit agreement as a basis which reflects management's interpretations thereof. Management has determined that stock-based compensation costs, which are non-cash charges, will not be an adjustment in calculating Adjusted EBITDA as these costs will be a recurring cost to the Company. These costs are recorded in selling, general and administrative expenses in the condensed consolidated statements of operations. Specifically, the calculation of Adjusted EBITDA according to the indenture underlying our 2014 Notes and the facility agreement governing our Titanium Dioxide Pigments venture excludes certain adjustments prescribed within our senior secured credit agreement. Given that borrowings under our senior secured credit agreement are secured by most of our assets and given that the calculation does not materially differ from the calculation of Adjusted EBITDA for performance measurement purposes, we believe this is the most appropriate computation of Adjusted EBITDA to present.

#### **Management's Uses**

We use Adjusted EBITDA on a consolidated basis to assess our operating performance. We believe this financial measure on a consolidated basis is helpful in highlighting trends in our overall business because the items excluded in calculating Adjusted EBITDA have been deemed by management to have little or no bearing on our day-to-day operating performance. It is also the most significant criterion in our calculation of performance-based cash bonuses and our determination of whether certain performance-based stock options and restricted stock units vest, all of which are substantially tied to Adjusted EBITDA targets.

We also use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated



basis is important in analyzing our liquidity because our senior secured credit agreement and indenture governing the 2014 Notes contain financial covenants that are determined based on Adjusted EBITDA. These covenants are material terms of these agreements, because they govern substantially all of our long-term debt, which in turn represents a substantial portion of our capitalization. Non-compliance with these financial covenants under our senior secured credit facilities our maximum total leverage ratio and our minimum interest coverage ratio, in particular could result in the lenders requiring us to immediately repay all amounts borrowed. Any such acceleration could also lead to the noteholders accelerating the maturity of the 2014 Notes. In addition, if we cannot satisfy these financial covenants in the indenture governing the 2014 Notes, we cannot engage in certain activities, such as incurring additional indebtedness or making certain payments. Consequently, Adjusted EBITDA is critical to our assessment of our liquidity.

We also use Adjusted EBITDA on a segment basis as the primary measure used by our chief operating decision maker, our Chief Executive Officer, to evaluate the ongoing performance of our business segments and reporting units. On a segment basis, we define Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges determined by our senior management to be non-recurring gains and charges and certain items deemed by our senior management to have little or no bearing on the day-to-day operating performance of our business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement, which reflects management's interpretations thereof.

#### **Limitations**

Adjusted EBITDA has limitations as an analytical tool, and should not be viewed in isolation and is not a substitute for U.S. GAAP measures of earnings and cash flows. Material limitations associated with making the adjustments to our earnings and cash flows to calculate Adjusted EBITDA, and using this non-GAAP financial measure as compared to the most directly comparable U.S. GAAP financial measures, include:

- the cash portion of interest expense, net, income tax provision (benefit), and restructuring as well as non-recurring charges related to securities issuance, acquisition activities, and systems/organization establishment, generally represent charges (gains) which may significantly affect funds available to use in our operating, investing and financing activities;
- non-operating foreign exchange gains (losses), although not immediately affecting cash used in investing activities, may affect the amount of funds needed to service our debt if those currency impacts remain in place as we meet our future principal repayment obligations; and
- depreciation, amortization, non-cash (gains) charges and impairment charges, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of the plant, equipment and intangible assets which permit us to manufacture and/or market our products; these items may be indicative of future needs for capital expenditures, for development or acquisition of intangible assets or relevant trends causing asset value changes.

An investor or potential investor may find any one or all of these items important in evaluating our performance, results of operations, financial position and liquidity. Management compensates for the limitations of using non-GAAP financial measures by using them only to supplement our U.S. GAAP results to provide a more complete understanding of the factors and trends affecting our business. Adjusted EBITDA is not an alternative to net income (loss) or income (loss) from continuing operations before taxes or operating income or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on Adjusted EBITDA as a substitute for any such U.S. GAAP financial measures. We strongly urge you to review the reconciliations of Adjusted EBITDA to U.S. GAAP financial measures and

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

other financial information, in each case included elsewhere in this Quarterly Report and in our 2009 Form 10-K. We also strongly urge you not to rely on any single financial measure to evaluate our business. Our measure of Adjusted EBITDA may not be comparable to those of other companies.

### **Results of Operations**

#### **Actual Results of Operations**

The following table presents the major components of our operations on an actual basis and Adjusted EBITDA (the reconciliation from net income is set forth in Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. to Adjusted EBITDA for the three and nine months ended September 30, 2010 and 2009), including as a percentage of net sales, for the periods presented. See Note 4, Segment Information, for segment information and a reconciliation to income (loss) from continuing operations before taxes to Adjusted EBITDA on a segment basis.

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Statement of operations data:</b>				
<b>Net sales:</b>				
Specialty Chemicals	\$ 283.6	\$ 261.5	\$ 860.5	\$ 723.0
Performance Additives	187.8	182.2	564.4	517.6
Titanium Dioxide Pigments	192.7	177.5	564.1	480.8
Advanced Ceramics	131.0	108.6	385.3	293.6
Specialty Compounds	63.9	54.8	189.9	157.5
Corporate and other	1.9	1.6	5.1	4.1
Total net sales	860.9	786.2	2,569.3	2,176.6
Gross profit	276.7	231.2	824.9	616.5
	32.1%	29.4%	32.1%	28.3%
Selling, general and administrative expenses	171.6	154.8	514.4	450.9
	19.9%	19.7%	20.0%	20.7%
Restructuring and other severance costs	1.5	4.2	4.9	16.0
Loss (gain) on sale of assets and other	0.1	(0.4)	0.2	(0.3)
<b>Operating income (loss):</b>				
Specialty Chemicals	52.2	47.7	161.6	113.9
	18.4%	18.2%	18.8%	15.8%
Performance Additives	19.7	10.6	53.8	16.8
	10.5%	5.8%	9.5%	3.2%
Titanium Dioxide Pigments	18.2	4.0	44.5	6.8
	9.4%	2.3%	7.9%	1.4%
Advanced Ceramics	27.6	17.1	80.5	31.3
	21.1%	15.7%	20.9%	10.7%
Specialty Compounds	7.2	5.6	22.3	16.9
	11.3%	10.2%	11.7%	10.7%
Corporate and other	(21.4)	(12.4)	(57.3)	(35.8)
Total operating income	103.5	72.6	305.4	149.9
<b>Other expenses, net:</b>				
Interest expense, net	(38.6)	(53.6)	(116.7)	(131.4)
Loss on early extinguishment of debt	(1.6)	(0.9)	(1.6)	(26.6)
Foreign exchange gain, net	0.9	4.5	0.8	15.4
Other, net			0.5	0.4
Other expenses, net	(39.3)	(50.0)	(117.0)	(142.2)
<b>Income from continuing operations before taxes</b>				
	64.2	22.6	188.4	7.7
Income tax provision	20.7	13.0	53.4	6.9
Income from continuing operations	43.5	9.6	135.0	0.8
(Loss) income from discontinued operations, net of tax		(0.1)		3.3
Net income	43.5	9.5	135.0	4.1
Net (income) loss attributable to noncontrolling interest	(3.0)	0.6	(5.2)	6.2
Net income attributable to Rockwood Holdings, Inc.	\$ 40.5	\$ 10.1	\$ 129.8	\$ 10.3
<b>Adjusted EBITDA:</b>				
Specialty Chemicals	\$ 70.8	\$ 68.1	\$ 218.0	\$ 175.9
	25.0%	26.0%	25.3%	24.3%
Performance Additives	34.1	28.3	100.6	71.2
	18.2%	15.5%	17.8%	13.8%
Titanium Dioxide Pigments	34.2	24.6	94.5	65.6
	17.7%	13.9%	16.8%	13.6%
Advanced Ceramics	40.3	31.4	117.9	75.3
	30.8%	28.9%	30.6%	25.6%

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Specialty Compounds	9.4	8.8	28.6	25.5
	14.7%	16.1%	15.1%	16.2%
Corporate and other	(19.7)	(10.1)	(53.3)	(27.9)
Total Adjusted EBITDA	\$ 169.1	\$ 151.1	\$ 506.3	\$ 385.6

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

The following table presents the changes in the major components of our operations on a historical basis in dollars and percentages:

(\$ in millions)	Change: Three months ended September 30, 2010 versus 2009				Change: Nine months ended September 30, 2010 versus 2009			
	Total	% Change	Constant Currency Effect (a)	Constant Currency Basis	Total	% Change	Constant Currency Effect (a)	Constant Currency Basis
<b>Statement of operations data:</b>								
<b>Net sales:</b>								
Specialty Chemicals	\$ 22.1	8.5%	\$ (12.2)	\$ 34.3	\$ 137.5	19.0%	\$ (0.7)	\$ 138.2
Performance Additives	5.6	3.1	(6.3)	11.9	46.8	9.0	(5.3)	52.1
Titanium Dioxide Pigments	15.2	8.6	(20.4)	35.6	83.3	17.3	(23.5)	106.8
Advanced Ceramics	22.4	20.6	(11.3)	33.7	91.7	31.2	(12.0)	103.7
Specialty Compounds	9.1	16.6	(1.2)	10.3	32.4	20.6	0.5	31.9
Corporate and other	0.3	18.8	(0.2)	0.5	1.0	24.4	(0.2)	1.2
Total net sales	74.7	9.5	(51.6)	126.3	392.7	18.0	(41.2)	433.9
Gross profit	45.5	19.7	(16.2)	61.7	208.4	33.8	(12.1)	220.5
Selling, general and administrative expenses	16.8	10.9	(9.6)	26.4	63.5	14.1	(6.2)	69.7
Restructuring and other severance costs	(2.7)			(2.7)	(11.1)			(11.1)
Loss (gain) on sale of assets and other	0.5			0.5	0.5			0.5
Total operating expenses	14.6	9.2	(9.6)	24.2	52.9	11.3	(6.2)	59.1
<b>Operating income (loss):</b>								
Specialty Chemicals	4.5	9.4	(1.7)	6.2	47.7	41.9	(0.1)	47.8
Performance Additives	9.1	85.8	(0.7)	9.8	37.0	220.2	(0.9)	37.9
Titanium Dioxide Pigments	14.2	355.0	(1.8)	16.0	37.7	554.4	(2.4)	40.1
Advanced Ceramics	10.5	61.4	(2.7)	13.2	49.2	157.2	(3.0)	52.2
Specialty Compounds	1.6	28.6	(0.1)	1.7	5.4	32.0	0.1	5.3
Corporate and other	(9.0)	(72.6)	0.4	(9.4)	(21.5)	(60.1)	0.4	(21.9)
Total	30.9	42.6	(6.6)	37.5	155.5	103.7	(5.9)	161.4
<b>Other expenses, net:</b>								
Interest expense, net	15.0	(28.0)	1.9	13.1	14.7	(11.2)	2.0	12.7
Loss on early extinguishment of debt	(0.7)				25.0			
Foreign exchange gain, net	(3.6)				(14.6)			
Other, net					0.1			
Other expenses, net	10.7				25.2			
<b>Income from continuing operations before taxes</b>								
Specialty Chemicals	4.2				56.1			
Performance Additives	9.8				39.2			
Titanium Dioxide Pigments	16.5				46.5			
Advanced Ceramics	12.8				59.9			
Specialty Compounds	1.9				6.0			
Corporate and other	(3.6)				(27.0)			
Total	41.6				180.7			
Income tax provision	7.7				46.5			
Income from continuing operations	33.9				134.2			
(Loss) income from discontinued operations, net of tax	0.1				(3.3)			
Net income	34.0				130.9			
Net (income) loss attributable to noncontrolling interest	(3.6)				(11.4)			
Net income attributable to Rockwood Holdings, Inc.	\$ 30.4				\$ 119.5			
<b>Adjusted EBITDA:</b>								
Specialty Chemicals	\$ 2.7	4.0%	\$ (2.4)	\$ 5.1	\$ 42.1	23.9%	\$ (0.5)	\$ 42.6

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

Performance Additives	5.8	20.5	(1.3)	7.1	29.4	41.3	(1.5)	30.9
Titanium Dioxide Pigments	9.6	39.0	(3.6)	13.2	28.9	44.1	(4.3)	33.2
Advanced Ceramics	8.9	28.3	(3.8)	12.7	42.6	56.6	(4.0)	46.6
Specialty Compounds	0.6	6.8	(0.2)	0.8	3.1	12.2	0.1	3.0
Corporate and other	(9.6)	(95.0)	0.3	(9.9)	(25.4)	(91.0)	0.3	(25.7)
<b>Total Adjusted EBITDA</b>	<b>\$ 18.0</b>	<b>11.9%</b>	<b>\$ (11.0)</b>	<b>\$ 29.0</b>	<b>\$ 120.7</b>	<b>31.3%</b>	<b>\$ (9.9)</b>	<b>\$ 130.6</b>

---

(a) The constant currency effect is the translation impact calculated based on the change in the applicable rate, primarily the Euro, to the U.S. dollar exchange rate for the applicable period.

*Three months ended September 30, 2010 compared to three months ended September 30, 2009*

**Overview**

Net sales increased \$74.7 million, or 9.5%, in the third quarter of 2010 compared with the same period in the prior year primarily due to higher volumes, as well as higher selling prices and a favorable product mix. This was partially offset by the negative impact of currency changes of \$51.6 million. See further discussion by segment below.

Operating income and Adjusted EBITDA increased in the third quarter of 2010 compared with the same period in the prior year primarily due to the higher net sales noted above. This was partially offset by higher raw material, production and maintenance costs, as well as increased variable compensation-related costs and the negative impact of currency changes.

Net income from continuing operations increased \$33.9 million to \$43.5 million in the third quarter of 2010 from \$9.6 million in the same period in the prior year primarily due to the reasons noted above, lower interest expense and a lower effective tax rate in the third quarter of 2010. This was partially offset by decreased foreign exchange gains on financing activities.

Net income attributable to noncontrolling interest of \$3.0 million in the third quarter of 2010 was primarily related to higher earnings in the Titanium Dioxide Pigments venture in the third quarter of 2010. Net loss attributable to noncontrolling interest of \$0.6 million in the third quarter of 2009 was primarily related to losses recorded in our Titanium Dioxide Pigment s venture.

Net income attributable to Rockwood Holdings, Inc. increased \$30.4 million to \$40.5 million in the third quarter of 2010 from \$10.1 million in the same period in the prior year due to the reasons noted above.

**Net sales**

*Specialty Chemicals.* Net sales increased \$22.1 million, or 8.5%, over the prior year primarily due to higher volumes, partially offset by the negative impact of currency changes of \$12.2 million. In the Fine Chemicals business, higher volumes of lithium products were partially offset by lower selling prices of potash and lithium carbonate. Net sales in the Surface Treatment business were higher on increased volumes in all markets, particularly in automotive and general industrial applications.

*Performance Additives.* Net sales increased \$5.6 million, or 3.1%, over the prior year primarily due to higher volumes of oilfield and other applications in our Clay-based Additives business and a favorable product mix and increased selling prices in our Color Pigments and Services business. This was partially offset by the negative impact of currency changes of \$6.3 million and lower construction volumes in the United States.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

*Titanium Dioxide Pigments.* Net sales increased \$15.2 million, or 8.6%, over the prior year primarily from higher selling prices, as well as increased volumes in all applications and a favorable product mix. This was partially offset by the negative impact of currency changes of \$20.4 million.

*Advanced Ceramics.* Net sales increased \$22.4 million, or 20.6%, over the prior year from higher volumes in all applications, primarily medical, automotive and electronic applications. This was partially offset by the negative impact of currency changes of \$11.3 million and lower selling prices.

*Specialty Compounds.* Net sales increased \$9.1 million, or 16.6%, over the prior year from higher selling prices, as well as increased volumes in most applications, primarily in wire and cable.

### **Gross profit**

Gross profit increased \$45.5 million, or 19.7%, over the prior year primarily due to the volume increases noted above. This was partially offset by the negative impact of currency changes of \$16.2 million and higher raw material, production and maintenance costs. Gross profit as a percentage of net sales were 32.1% in the third quarter of 2010 compared to 29.4% in the third quarter of 2009.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses ( SG&A ) increased \$16.8 million, or 10.9%, over the prior year primarily due to the impact of the higher net sales noted above and higher variable compensation-related costs. This was partially offset by the impact of currency changes of \$9.6 million. SG&A expenses as a percentage of net sales were 19.9% in the third quarter of 2010 compared to 19.7% in the third quarter of 2009.



### **Restructuring and other severance costs**

We recorded restructuring and other severance costs of \$1.5 million and \$4.2 million in the three months ended September 30, 2010 and 2009, respectively, for miscellaneous restructuring activities, including headcount reductions, asset write-offs and facility closures. See Note 14, Restructuring and Other Severance Costs, for further details.

### **Operating income**

*Specialty Chemicals.* Operating income increased \$4.5 million, or 9.4%, over the prior year primarily due to the higher net sales discussed above and lower restructuring and other severance costs of \$2.2 million. This increase was partially offset by higher raw material costs and the negative impact of currency changes of \$1.7 million.

*Performance Additives.* Operating income increased \$9.1 million, or 85.8%, over the prior year primarily due to the higher net sales noted above, lower depreciation and amortization costs of \$1.9 million and lower restructuring and other severance costs of \$0.7 million. This was partially offset by higher raw material costs and the negative impact of currency changes of \$0.7 million.

*Titanium Dioxide Pigments.* Operating income increased \$14.2 million to \$18.2 million in the third quarter of 2010 from \$4.0 million in the same period in the prior year primarily due to the higher net sales noted above and lower depreciation and amortization costs of \$3.3 million. This was partially offset by higher raw material and production costs and the negative impact of currency changes of \$1.8 million.

*Advanced Ceramics.* Operating income increased \$10.5 million, or 61.4%, over the prior year primarily due to the higher net sales noted above and lower depreciation and amortization costs of \$1.4 million. This was partially offset by higher maintenance costs and the negative impact of currency changes of \$2.7 million.

*Specialty Compounds.* Operating income increased \$1.6 million, or 28.6%, over the prior year primarily due to the higher net sales noted above and lower depreciation and amortization costs of \$1.1 million. This was partially offset by higher raw material costs.

*Corporate and other.* Operating loss increased \$9.0 million, or 72.6%, primarily due to higher variable compensation-related costs.

### **Other income (expenses)**

*Interest expense, net.* Interest expense, net decreased \$15.0 million, or 28.0%, over the prior year. The third quarter of 2010 and 2009 included non-cash gains and losses of \$1.2 million and \$(1.3) million, respectively, representing the movement in the mark-to-market valuation of our interest rate hedges. Excluding the impact of these gains and losses, interest expense, net decreased \$12.5 million primarily due to the

termination of interest rate swaps in November 2009 and debt repayments.

*Loss on early extinguishment of debt.* In the third quarter of 2010, we recorded a loss on early extinguishment of debt of \$1.6 million related to the write-off of deferred financing costs associated with the voluntary prepayment of \$200.2 million of our senior secured term loans in July 2010. In the third quarter of 2009, we recorded a loss on early extinguishment of debt of \$0.9 million primarily related to lender fees to extend the maturity of our revolving credit facility.

*Foreign exchange, net.* In the third quarter of 2010, we had foreign exchange gains of \$0.9 million primarily related to Euro-denominated debt, cash and intercompany loans. In the third quarter of 2009, we recorded foreign exchange gains of \$4.5 million primarily due to the impact of the stronger Euro as of September 30, 2009 versus June 30, 2009 in connection with non-operating Euro-denominated transactions.

#### **Provision for income taxes**

We recorded an income tax provision of \$20.7 million in the third quarter of 2010 on income from continuing operations before taxes of \$64.2 million. The income tax provision in the third quarter of 2010 was favorably impacted by foreign rate differentials, partially offset by a domestic loss that was not tax effected due to a valuation allowance.

We recorded an income tax provision of \$13.0 million in the third quarter of 2009 on income from continuing operations before taxes of \$22.6 million. The income tax provision in the third quarter of 2009 was negatively impacted by the absence of a tax benefit for the Company's domestic losses as a result of a full valuation allowance.

#### **Income from continuing operations**

Income from continuing operations for the third quarter of 2010 was \$43.5 million as compared to income from continuing operations

of \$9.6 million for same period in the prior year for the reasons described above.

**Net (income) loss attributable to noncontrolling interest**

Net income attributable to noncontrolling interest of \$3.0 million in the third quarter of 2010 was primarily related to higher earnings in the Titanium Dioxide Pigments venture in the third quarter of 2010. Net loss attributable to noncontrolling interest of \$0.6 million in the third quarter of 2009 was primarily related to losses recorded in our Titanium Dioxide Pigment s venture.

**Net income attributable to Rockwood Holdings, Inc.**

Net income attributable to Rockwood Holdings, Inc. for the third quarter of 2010 was \$40.5 million as compared to net income attributable to Rockwood Holdings, Inc. of \$10.1 million for the same period in the prior year for the reasons described above.

**Adjusted EBITDA**

*Specialty Chemicals.* Adjusted EBITDA increased \$2.7 million, or 4.0%, over the prior year primarily due to the higher net sales discussed above. This increase was partially offset by higher raw material costs and the negative impact of currency changes of \$2.4 million.

*Performance Additives.* Adjusted EBITDA increased \$5.8 million, or 20.5%, over the prior year primarily due to the higher net sales noted above. This was partially offset by higher raw material costs and the negative impact of currency changes of \$1.3 million.

*Titanium Dioxide Pigments.* Adjusted EBITDA increased \$9.6 million, or 39.0%, over the prior year primarily due to the higher net sales noted above. This was partially offset by higher raw material and production costs and the negative impact of currency changes of \$3.6 million.

*Advanced Ceramics.* Adjusted EBITDA increased \$8.9 million, or 28.3%, over the prior year primarily due to the higher net sales noted above. This was partially offset by the negative impact of currency changes of \$3.8 million.

*Specialty Compounds.* Adjusted EBITDA increased \$0.6 million, or 6.8%, over the prior year primarily due to the higher net sales noted above. This was partially offset by higher raw material costs.

*Corporate and other.* Adjusted EBITDA loss increased \$9.6 million, or 95.0%, primarily due to higher variable compensation-related costs.

*Nine months ended September 30, 2010 compared to nine months ended September 30, 2009*

**Overview**

Net sales increased \$392.7 million, or 18.0%, in the nine months ended September 30, 2010 compared with the same period in the prior year primarily due to higher volumes, partially offset by the negative impact of currency changes of \$41.2 million. See further discussion by segment below.

Operating income and Adjusted EBITDA increased in the nine months ended September 30, 2010 compared with the same period in the prior year primarily due to higher sales volumes. This was partially offset by higher raw material, production and maintenance costs, as well as increased variable compensation-related costs and the negative impact of currency changes.

Net income from continuing operations increased \$134.2 million to \$135.0 million for the nine months ended September 30, 2010 from \$0.8 million in the same period in the prior year primarily due to the reasons noted above, a loss on early extinguishment of debt of \$26.6 million recorded in the nine months ended September 30, 2009 and lower interest expense. This was partially offset by decreased foreign exchange gains on financing activities.

Income from discontinued operations, net of tax was \$3.3 million in the nine months ended September 30, 2009 and was primarily due to the favorable resolution of a claim against the Company's former Groupe Novasep business and the reversal of certain reserves in connection with the sale of the Electronics business in December 2007.

Net income attributable to noncontrolling interest of \$5.2 million in the nine months ended September 30, 2010 was primarily related to higher earnings in the Titanium Dioxide Pigments venture, partially offset by losses recorded in our Viance venture. Net loss attributable to noncontrolling interest of \$6.2 million in the nine months ended September 30, 2009 was due to losses recorded in our Viance and Titanium Dioxide Pigment's ventures.

Net income attributable to Rockwood Holdings, Inc. increased \$119.5 million to \$129.8 million in the nine months ended September 30, 2010 from \$10.3 million in the same period in the prior year due to the reasons noted above.

#### **Net sales**

*Specialty Chemicals.* Net sales increased \$137.5 million, or 19.0%, over the prior year primarily due to higher sales volumes. In the Fine Chemicals business, higher volumes of lithium products and metal sulfide applications were partially offset by lower selling prices of potash and lithium carbonate. Net sales in the Surface Treatment business were higher on increased volumes in all markets, particularly in automotive, coil/cold forming and general industrial applications.

*Performance Additives.* Net sales increased \$46.8 million, or 9.0%, over the prior year primarily due to higher volumes of oilfield and other applications in our Clay-based Additives business and higher volumes of coatings applications in our Color Pigments and Services business. This was partially offset by the negative impact of currency changes of \$5.3 million and lower construction volumes in the United States.

*Titanium Dioxide Pigments.* Net sales increased \$83.3 million, or 17.3%, over the prior year primarily from higher volumes in all applications, as well as higher selling prices. This was partially offset by the negative impact of currency changes of \$23.5 million.

*Advanced Ceramics.* Net sales increased \$91.7 million, or 31.2%, over the prior year primarily from higher volumes in all applications, primarily medical, electronics and multi-functional applications. This was partially offset by the negative impact of currency changes of \$12.0 million and lower selling prices.

*Specialty Compounds.* Net sales increased \$32.4 million, or 20.6%, over the prior year primarily due to higher volumes in most applications, particularly in wire and cable applications, as well as increased selling prices.

#### **Gross profit**

Gross profit increased \$208.4 million, or 33.8%, over the prior year primarily due to the net sales increases noted above, partially offset by the negative impact of currency changes of \$12.1 million and higher raw material, production and maintenance costs. Gross profit as a percentage of net sales were 32.1% and 28.3% in the nine months ended September 30, 2010 and 2009, respectively.

#### **Selling, general and administrative expenses**

Selling, general and administrative expenses ( SG&A ) increased \$63.5 million, or 14.1%, over the prior year primarily due to the impact of the higher net sales noted above, higher variable compensation-related costs and the negative impact of currency changes of \$6.2 million. SG&A

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

expenses in the nine months ended September 30, 2009 include the reversal of discretionary profit-sharing plan accruals of \$2.6 million and the reversal of certain long-term incentive compensation program accruals of \$2.7 million for which related targets were no longer expected to be achieved. SG&A expenses as a percentage of net sales decreased to 20.0% in the nine months ended September 30, 2010 from 20.7% in the same period in the prior year.

### **Restructuring and other severance costs**

We recorded restructuring and other severance costs of \$4.9 million in the nine months ended September 30, 2010 for miscellaneous restructuring activities, including asset write-offs, headcount reductions and facility closures. For the nine months ended September 30, 2009, we recorded restructuring and other severance costs of \$16.0 million primarily related to headcount reductions as part of our global cost initiatives. See Note 14, Restructuring and Other Severance Costs, for further details.

### **Operating income**

*Specialty Chemicals.* Operating income increased \$47.7 million, or 41.9%, over the prior year primarily due to the higher net sales noted above, lower raw material costs in our Surface Treatment business, particularly for phosphoric acid, and lower restructuring and other severance costs of \$3.7 million. This increase was partially offset by lower selling prices, particularly for potash and lithium carbonate in our Fine Chemicals business.

*Performance Additives.* Operating income increased \$37.0 million to \$53.8 million in the nine months ended September 30, 2010 from \$16.8 million in the same period in the prior year primarily due to the higher net sales noted above, lower depreciation and amortization costs of \$3.5 million and lower restructuring and other severance costs of \$2.7 million. This increase was partially offset by higher raw material costs.

*Titanium Dioxide Pigments.* Operating income increased \$37.7 million to \$44.5 million in the nine months ended September 30, 2010 from \$6.8 million in same period in the prior year primarily due to the higher net sales noted above, lower depreciation and amortization costs of \$6.2 million and lower systems/organization establishment expenses of \$2.2 million related to the formation of the venture completed in September 2008. This was partially offset by higher production and raw material costs and the negative impact of currency changes of \$2.4 million. In addition, operating income in the nine months ended September 30, 2009 included the termination of a long-term incentive plan of \$2.6 million and the receipt of a vendor rebate related to prior years of \$1.7 million.

*Advanced Ceramics.* Operating income increased \$49.2 million to \$80.5 million in the nine months ended September 30, 2010 from \$31.3 million in the same period in the prior year primarily due to the higher net sales noted above, decreased restructuring and other severance costs of \$4.7 million and lower depreciation and amortization costs of \$1.6 million. This increase was partially offset by higher maintenance and production costs, lower selling prices and the negative impact of currency changes of \$3.0 million.

*Specialty Compounds.* Operating income increased \$5.4 million, or 32.0%, over the prior year primarily due to the higher net sales noted above and lower depreciation and amortization costs of \$2.3 million. This was partially offset by higher raw material costs, primarily PVC resin, ethylene and plasticizer costs.

*Corporate and other.* Operating loss increased \$21.5 million, or 60.1% over the prior year primarily due to higher variable compensation-related costs. Corporate compensation-related costs in the nine months ended September 30, 2009 included the reversal of certain long-term incentive compensation accruals of \$2.7 million related to performance targets that were no longer expected to be achieved.

#### **Other income (expenses)**

*Interest expense, net.* Interest expense, net decreased \$14.7 million, or 11.2%, over the prior year. The nine months ended September 30, 2010 and 2009 included non-cash gains of \$8.9 million and \$1.3 million, respectively, representing the movement in the mark-to-market valuation of our interest rate hedging instruments. Excluding the impact of these gains, interest expense, net decreased \$7.1 million primarily due to the termination of interest rate swaps in November 2009 and debt repayments, partially offset by higher interest rates related to the amendment of our senior secured credit facility in June 2009.

*Loss on early extinguishment of debt.* For the nine months ended September 30, 2010, we recorded a loss on early extinguishment of debt of \$1.6 million related to the write-off of deferred financing costs associated with the voluntary prepayment of \$200.2 million of our senior secured term loans in July 2010. For the nine months ended September 30, 2009, we recorded a loss on early extinguishment of debt of \$26.6 million primarily related to the write-off of deferred financing costs of \$20.9 million and lender fees related to the early extinguishment of debt of \$12.0 million, partially offset by a discount of \$6.3 million related to the repurchase of \$153.2 million in aggregate principal amount of the 2014 Notes.

*Foreign exchange, net.* For the nine months ended September 30, 2010, foreign exchange gains of \$0.8 million were reported primarily related to Euro-denominated debt, cash and intercompany loans. For the nine months ended September 30, 2009, foreign exchange gains of \$15.4 million were reported primarily due to the impact of the stronger pound sterling, as well as a stronger euro, as of September 30, 2009 versus December 31, 2008, in connection with non-operating Euro-denominated transactions.

**Provision for income taxes**

We recorded an income tax provision of \$53.4 million in the nine months ended September 30, 2010 on income from continuing operations before taxes of \$188.4 million. The income tax provision was favorably impacted by domestic income that was not tax effected due to a valuation allowance and the favorable settlement of certain tax positions. As a result of these benefits and geographic earnings mix, the effective tax rate was 28.3% for the nine months ended September 30, 2010.

We recorded an income tax provision of \$6.9 million in the nine months ended September 30, 2009 on income from continuing operations before taxes of \$7.7 million. The income tax provision in the nine months ended September 30, 2009 was negatively impacted by the absence of a tax benefit for the Company's domestic tax losses as a result of a full valuation allowance and was positively impacted by a nonrecurring tax benefit related to foreign currency changes and favorable foreign rate differentials.

**Income (loss) from continuing operations**

Income from continuing operations for the nine months ended September 30, 2010 was \$135.0 million as compared to income from continuing operations of \$0.8 million for the nine months ended September 30, 2009 for the reasons described above.



**Income from discontinued operations, net of tax**

Income from discontinued operations, net of tax was \$3.3 million in the nine months ended September 30, 2009 and was due to the favorable resolution of a claim against the Company's former Groupe Novasep business and the reversal of certain reserves no longer deemed necessary in connection with the sale of the Electronics business in December 2007.

**Net (income) loss attributable to noncontrolling interest**

Net income attributable to noncontrolling interest of \$5.2 million in the nine months ended September 30, 2010 was primarily related to higher earnings in the Titanium Dioxide Pigments venture, partially offset by losses recorded in our Viance venture. Net loss attributable to noncontrolling interest of \$6.2 million in the nine months ended September 30, 2009 was due to losses recorded in our Viance and Titanium Dioxide Pigment's ventures.

**Net income attributable to Rockwood Holdings, Inc.**

Net income attributable to Rockwood Holdings, Inc. for the nine months ended September 30, 2010 and 2009 was \$129.8 million and \$10.3 million, respectively, for the reasons described above.

**Adjusted EBITDA**

*Specialty Chemicals.* Adjusted EBITDA increased \$42.1 million, or 23.9%, over the prior year primarily due to the higher net sales noted above and lower raw material costs in our Surface Treatment business, particularly for phosphoric acid. This increase was partially offset by lower selling prices, particularly for potash and lithium carbonate in our Fine Chemicals business.

*Performance Additives.* Adjusted EBITDA increased \$29.4 million, or 41.3% over the prior year primarily due to the higher net sales noted above. This increase was partially offset by higher raw material costs.

*Titanium Dioxide Pigments.* Adjusted EBITDA increased \$28.9 million, or 44.1% over the prior year primarily due to the higher net sales noted above. This was partially offset by higher production and raw material costs and the negative impact of currency changes of \$4.3 million. In addition, Adjusted EBITDA in the nine months ended September 30, 2009 included the termination of a long-term incentive plan of \$2.6 million and the receipt of a vendor rebate related to prior years of \$1.7 million.

*Advanced Ceramics.* Adjusted EBITDA increased \$42.6 million, or 56.6% over the prior year primarily due to the higher net sales noted above. This increase was partially offset by higher maintenance and production costs, lower selling prices and the negative impact of currency changes

of \$4.0 million.

*Specialty Compounds.* Adjusted EBITDA increased \$3.1 million, or 12.2% over the prior year due to the higher net sales noted above. This was partially offset by higher raw material costs, primarily PVC resin, ethylene and plasticizer costs.

*Corporate and other.* Adjusted EBITDA loss increased \$25.4 million, or 91.0% over the prior year primarily due to higher variable compensation-related costs. Corporate compensation-related costs in the nine months ended September 30, 2009 included the reversal of certain long-term incentive compensation accruals of \$2.7 million related to performance targets that were no longer expected to be achieved.

***Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. to Adjusted EBITDA***

Because we view Adjusted EBITDA on both a consolidated basis and a segment basis as an operating performance measure, we use net income as the most comparable U.S. GAAP measure on a consolidated basis. The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of net income attributable to Rockwood Holdings, Inc. to Adjusted EBITDA on a consolidated basis:

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income attributable to Rockwood Holdings, Inc.	\$ 40.5	\$ 10.1	\$ 129.8	\$ 10.3
Net income (loss) attributable to noncontrolling interest	3.0	(0.6)	5.2	(6.2)
Net income	43.5	9.5	135.0	4.1
Income tax provision	20.7	13.0	53.4	6.9
Loss (income) from discontinued operations, net of tax		0.1		(3.3)
Income from continuing operations before taxes	64.2	22.6	188.4	7.7
Interest expense, net (a)	38.6	53.6	116.7	131.4
Depreciation and amortization	63.5	71.5	193.4	208.5
Restructuring and other severance costs	1.5	4.2	4.9	16.0
Systems/organization establishment expenses	0.1	2.4	1.5	5.5
Acquisition and disposal costs	0.4		1.0	
Loss on early extinguishment of debt	1.6	0.9	1.6	26.6
Loss (gain) on sale of assets and other	0.1	(0.4)	0.2	(0.3)
Foreign exchange gain, net	(0.9)	(4.5)	(0.8)	(15.4)
Other		0.8	(0.6)	5.6
Total Adjusted EBITDA	\$ 169.1	\$ 151.1	\$ 506.3	\$ 385.6

(a) Includes gains of \$1.2 million and losses of \$1.3 million for the three months ended September 30, 2010 and 2009, respectively, and gains of \$8.9 million and \$1.3 million for the nine months ended September 30, 2010 and 2009, respectively, representing the movement in the mark-to-market valuation of the Company's interest rate and cross-currency hedging instruments.

## Liquidity and Capital Resources

### Cash Flows

*Operating Activities.* Net cash provided by operating activities was \$350.6 million and \$274.5 million for the nine months September 30, 2010 and 2009, respectively. This increase was primarily due to higher net income and lower cash interest expense, partially offset by the higher use of operating cash from working capital changes.

*Investing Activities.* Net cash used in investing activities was \$115.1 million and \$131.5 million for the nine months September 30, 2010 and 2009, respectively, and was primarily comprised of capital expenditures, as well as a \$16.0 million contractual advance to the Titanium Dioxide Pigments noncontrolling shareholder for the nine months ended September 30, 2009.

*Financing Activities.* Net cash used in financing activities was \$251.8 million and \$313.8 million for the nine months ended September 30, 2010 and 2009, respectively, and included scheduled payments for long-term debt and revolver payments. In addition, the nine months ended September 30, 2010 included the voluntary prepayment of \$200.2 million of our senior secured loans and a cash inflow of \$19.2 million related to the exercise of employee stock options. In the nine months ended September 30, 2009, we used \$146.8 million of cash to prepay, at a discount, \$153.2 million in aggregate principal amount of our Euro-denominated senior subordinated notes due in 2014, \$102.3 million to prepay our senior secured term loans, and \$25.8 million related to the amendment of the senior secured credit facility in June 2009.

## Liquidity

Our primary source of liquidity has been and will continue to be cash generated from the operations of our subsidiaries. Our primary liquidity requirements are working capital, debt service, capital expenditures and acquisitions. Our debt service requirements in future years are significant. We believe that based on current conditions in our industry and markets, our cash reserves, cash flows from operations and borrowings available under our revolving credit facility will be adequate sources of liquidity. However, an economic downturn or recession may have a material adverse impact on our results of operations, cash flows from operations and our liquidity. See Item 1, Business, and Item 1A, Risk Factors in our 2009 Form 10-K.

In addition, our liquidity may be negatively impacted due to funding obligations related to certain pension plans. We have several pension plans located in Germany, Finland, the United Kingdom and the United States, which were negatively impacted by market conditions in late 2008 and early 2009. We believe we are currently adequately funded in our pension plans. The Company's overall unfunded position in its defined benefit plans as of September 30, 2010 is \$415.2 million and the funded status of our plans is 38%. However, 82% of the Company's unfunded position is concentrated in plans mostly in Germany, where funding is neither legally

required nor customary. When only the plans that have funding requirements are considered, the unfunded portion is \$74.2 million, and the funded status is 76%. The Company was in compliance with local funding requirements as of September 30, 2010. Almost all of the Company's pension obligations are long-term in nature. The Company's annual cash outflows to meet funding requirements and benefit obligations historically have not significantly exceeded its pension expense. Such cash outflows were less than pension expense in 2009 and during the nine months ended September 30, 2010. The measurement of our pension obligations and plan assets is dependent on a variety of assumptions used by our actuaries and is performed annually. Therefore, the funded status as of December 31, 2010 could differ significantly.

Although recent investment performance of assets in pension plans covering our employees in these countries has reduced the amount of any immediate funding obligations and we have entered into long-term funding arrangements for pension plans located in Germany and the U.K., we may have to make a one-time payment and/or enter into a long-term funding arrangement for the Finnish Plan. However, our funding obligations could change significantly based on the investment performance of the pension plan assets and changes in actuarial assumptions for local statutory funding valuations. Any deterioration of the capital markets or returns available in such markets may negatively impact our pension plan assets and increase our funding obligations for one or more of these plans and negatively impact our liquidity. We cannot predict the impact of this or any further market disruption on our pension funding obligations.

As of September 30, 2010, we had actual total indebtedness of \$2,195.6 million. In July 2010, the availability under the revolving credit facility was reduced to \$180.0 million providing for additional borrowings of up to \$146.4 million as of September 30, 2010. There were no outstanding borrowings under this revolving credit facility as of September 30, 2010, although we had outstanding letters of credit of \$33.6 million that reduced our availability under the senior secured credit facility. The \$30.0 million (\$40.9 million) revolving credit facility under the Titanium Dioxide Pigments venture facility provided for additional borrowings of up to \$12.9 million (\$17.6 million) as of September 30, 2010 after an outstanding bank guarantee of \$17.1 million (\$23.3 million) related to a defined benefit pension obligation.

As of September 30, 2010, we had cash and cash equivalents of \$283.1 million. We may use available cash to reduce our term debt or repurchase additional 2014 Notes at any time, subject to certain limitations contained in our senior secured credit facility. As discussed in Note 10, Long-Term Debt, we voluntarily prepaid \$200.2 million of our senior secured term loans on July 29, 2010. This prepayment was funded with available cash and cash equivalents.

*Senior secured credit facilities.* As of September 30, 2010 the senior secured credit facilities, as amended, consisted of:

- a tranche A-1 term loan in an aggregate principal amount of \$3.4 million (\$4.6 million) and a tranche A-2 term loan in an aggregate principal amount of \$29.2 million (\$39.8 million), each maturing on July 30, 2011 and bearing interest at a Euribor floor of 2.00% plus 3.00% (Euribor is the Euro inter-bank offered rate);
- a tranche E term loan in an aggregate principal amount of \$116.1 million, maturing on July 30, 2012 and bearing interest at a Libor floor of 2.00% plus 2.50% (Libor is the London inter-bank offered rate);
- a tranche G term loan in an aggregate principal amount of \$59.8 million (\$81.5 million) maturing on July 30, 2012 and bearing interest at a Euribor floor of 2.00% plus 2.75%;

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

- a tranche H term loan in an aggregate principal amount of \$781.1 million maturing on May 15, 2014 and bearing interest at a Libor floor of 2.00% plus 4.00%;
- a tranche I term loan in an aggregate principal amount of 178.7 million (\$243.6 million) maturing on May 15, 2014 and bearing interest at a Euribor floor of 2.00% plus 4.25%; and
- a revolving credit facility in an aggregate principal amount of \$180.0 million maturing on July 30, 2012 and bearing interest at the Company's option of either (i) Libor (subject to Libor floor of 2.00%) plus 4.50% or (ii) ABR plus 3.25%. There were no outstanding borrowings under this revolving credit facility as of September 30, 2010, although we had outstanding letters of credit of \$33.6 million that reduced our availability under the senior secured credit facility.

As of September 30, 2010, the weighted average interest rate for the Company is 6.8%, excluding deferred financing costs and the mark-to-market valuation of our interest-rate swaps.

ABR is the alternate base rate, which is the greater of (a) Credit Suisse's Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. Tranche A-1 and A-2 term loans are payable in January and July of each year at escalating percentages of the amended principal amount. As a result of the voluntary prepayment of \$200.2 million of our senior secured term loans in July 2010, Tranches E, G, H and I are payable at the final maturity date.

The borrowings of our indirect, wholly-owned subsidiaries, Rockwood Specialties Group, Inc. and Rockwood Specialties Limited under the senior secured credit facilities are guaranteed and secured by certain assets and pledges of capital stock.

The senior secured credit agreement, as amended, provides for a Libor (Euribor for Euro-denominated tranches) floor of 2.00% subject to pricing based on Libor or Euribor with the following applicable margins above Libor or Euribor: applicable margins for Tranches A-1 and A-2 of 3.00%; Tranche E of 2.75%; Tranche G of 3.00%; Tranche H of 4.25%; and Tranche I of 4.50%, in each case per annum, each with a 0.25% reduction for achieving a designated credit rating, with the exception of Tranches A-1 and A-2. As of September 30, 2010, the Company continued to qualify for the 0.25% interest rate reduction as the designated credit ratings were achieved.

The Company may elect interest periods of one, two, three or six months (or in the case of revolving credit loans, nine or twelve months, to the extent available from all lenders under the revolving credit facility) for Libor and Euribor borrowings. Interest is payable quarterly in the case of ABR loans and at the end of each interest period and, in any event, at least every three months, in the case of Libor and Euribor borrowings. The senior secured credit facilities require payment of customary commitment, letter of credit and other fees.

The senior secured credit agreement also contains the following financial covenants that are determined based on our Adjusted EBITDA (including certain adjustments for, among other items, acquisitions and related synergies), which reflects management's interpretations thereof:

- a leverage ratio: for the twelve-month period ended September 30, 2010, net senior secured debt (senior secured debt plus capital lease obligations, minus cash up to a maximum of \$100.0 million) to Adjusted EBITDA must be less than 4.25 to 1; for such period, our ratio equaled 2.32 to 1; and
- an interest coverage ratio: for the twelve-month period ended September 30, 2010, Adjusted EBITDA to cash interest expense (interest expense, net excluding deferred debt issuance cost amortization and the movements in the mark-to-market value of our interest rate and cross-currency interest rate derivatives) must be at least 2.00 to 1; for such period, our ratio equaled 3.94 to 1.

The senior secured credit agreement, as amended, replaced the total debt to consolidated Adjusted EBITDA ratio covenant with a senior secured debt to consolidated Adjusted EBITDA ratio covenant such that the Company may not permit its senior secured debt ratio to exceed 4.25 to 1.00 on the last day of any fiscal quarter through September 30, 2010, and 4.00 to 1.00 on the last day of any fiscal quarter thereafter. The senior secured credit agreement, as amended, also reset the asset sales basket and modified certain other baskets.

These covenants are material terms of the senior secured credit agreement. Non-compliance with these covenants or other covenants could result in a default under the senior secured credit agreement and the lenders could elect to declare all amounts borrowed immediately due and payable. Any such acceleration would also result in a default under the indenture governing the 2014 Notes, which could lead to the note holders electing to declare the principal, premium, if any, and accrued and unpaid interest on the then outstanding notes immediately due and payable. The senior secured credit agreement contains a cross default provision for indebtedness in excess of \$30.0 million; therefore, a default under the indenture governing the 2014 Notes, the Titanium Dioxide Pigments term loans or other indebtedness may cause the lenders to declare the principal and accrued and unpaid interest on the then outstanding senior secured credit facilities immediately due and payable.

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

In addition to the financial covenants described above, the Company's senior secured credit facilities contain various affirmative and restrictive covenants. The restrictive covenants limit our ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness or to amend documents related to certain indebtedness and to enter into sale-leaseback transactions. In connection with the senior secured credit agreement, as amended in June 2009, some of the baskets relating to the above restrictions were reset.

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Definitions of Adjusted EBITDA, for a discussion of the definition of Adjusted EBITDA used in calculating our financial covenants.

We were in compliance with the above covenants as of September 30, 2010.

*2014 Notes.* As of September 30, 2010, the 2014 Notes have an aggregate principal amount of \$250.1 million (\$341.0 million) in the case of the Euro notes and \$200.0 million in the case of the U.S. Dollar notes, and mature on November 15, 2014. Interest on the 2014 Notes is payable semi-annually on May 15 and November 15 and accrues at the rate of 7.625% in the case of the Euro notes and



7.500% in the case of the U.S. Dollar notes. Certain of our domestic subsidiaries guarantee the 2014 Notes on a senior subordinated unsecured basis. In the first half of 2009, we repurchased at a discount 113.9 million (\$153.2 million) in aggregate principal amount of our 2014 Notes. We may use available cash to repurchase additional 2014 Notes at any time, subject to certain limitations contained in our senior secured credit facility.

The 2014 Notes contain various affirmative and restrictive covenants. The restrictive covenants limit our ability, and the ability of our restricted subsidiaries, to, among other things, incur or guarantee additional indebtedness (as described below), pay dividends or make other equity distributions or repurchase capital stock, make investments or other restricted payments, create liens, transfer or sell assets, restrict dividends or other payments to us, engage in transactions with affiliates, and merge or consolidate with other companies or sell substantially all of our assets.

The indenture governing the 2014 Notes prohibits us from incurring additional debt, subject to certain permitted incurrences, unless the fixed charge coverage ratio, which is the ratio of Adjusted EBITDA (as defined therein excluding certain adjustments permitted under the senior secured credit agreement) to fixed charges (as defined therein), for the most recently ended four fiscal quarters is at least 2.00 to 1. In addition, the indenture prohibits us from making restricted payments (such as dividends or other equity distributions, repurchases of capital stock or restricted investments), subject to certain permitted payments, unless, among other things, the fixed charge coverage ratio for the most recently ended four fiscal quarters is at least 2.00 to 1. For the four-fiscal quarter period ended September 30, 2010, the fixed charge coverage ratio equaled 3.94 to 1. This covenant is a material term of the indenture governing the 2014 Notes.

Because the indenture governing the 2014 Notes defines an event of default to include, among other things, a default under any other debt obligation in excess of \$35.0 million that could cause the acceleration of such obligation, any acceleration under the senior secured credit agreement or other debt agreement would also result in a default under the indenture governing these notes, which could lead to the note holders electing to declare the principal, premium, if any, and accrued and unpaid interest on the then outstanding notes immediately due and payable.

*Titanium Dioxide Pigments venture term loans, revolving credit facility and assumed debt.* As of September 30, 2010, the Titanium Dioxide Pigments venture had 230.0 million (\$313.6 million) outstanding under the term loans of its facility agreement. The facility also provides for a revolving credit facility of 30.0 million (\$40.9 million). This facility provided for additional borrowings of up to 12.9 million (\$17.6 million) as of September 30, 2010 after an outstanding bank guarantee of 17.1 million (\$23.3 million) related to a defined benefit pension obligation. Both the term loan and revolving credit facility mature in June 2013.

As of September 30, 2010, the interest rate on the term loan and revolving credit facility is Euribor (or Libor if the currency is in USD) plus 2.25%, subject to a step down determined by reference to a leverage ratio test. The term loan is payable in installments over a five-year period from the date of the facility agreement, with payments that commenced twelve months from such date and the remainder due at the final maturity date. The term loan and revolving credit facility may be repaid in advance without penalty.

In addition, the Titanium Dioxide Pigments venture has other debt of 9.2 million (\$12.6 million), primarily due to a defined benefit plan, at interest rates ranging from 3.65% to 5.00%.

The facility agreement contains affirmative and restrictive covenants, subject to certain thresholds and exceptions. The restrictive covenants limit the venture's ability to undertake certain actions, including but not limited to acquiring or disposing of assets, creating liens on assets, entering into a merger or corporate restructuring, and incurring additional indebtedness. These covenants are calculated in accordance with International Financial Reporting Standards and are based solely on the results of the venture's European operations. In addition, the facility agreement requires the venture to meet certain financial covenants, including:

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

- A leverage coverage ratio: for the twelve-month period ended September 30, 2010, net debt to EBITDA (which is substantially similar to the definition of Adjusted EBITDA in our senior secured credit agreement), subject to certain adjustments must be less than 3.50 to 1; for such period, our ratio equaled 2.13 to 1;
- An interest coverage ratio: for the twelve-month period ended September 30, 2010, EBITDA, subject to certain adjustments, to cash interest expense (net of interest income), must be greater than 3.50 to 1; for such period, our ratio equaled 6.53 to 1; and
- Cash flow coverage ratio: for the twelve-month period ended September 30, 2010, cash generated for financing activities (EBITDA, subject to certain adjustments, less working capital changes, capital expenditures and interest) to debt service (interest expense and amortization of debt) must be greater than 1.10; for such period, our ratio equaled 1.80 to 1.

We were in compliance with the above covenants as of September 30, 2010.

The loans are secured by the assets of the venture. In the event that either Kemira's or Rockwood's ownership interest changes, any lender may cancel its commitment and demand repayment of its respective portion of the loans, including accrued and unpaid interest. The facility agreement contains customary events of default, subject to remedy periods, thresholds and exceptions. Upon the occurrence of an event of default under the facility agreement, the lenders can terminate the commitments and declare all amounts, including accrued and unpaid interest, to be due and payable.

Given our use of Adjusted EBITDA (see Special Note Regarding Non-GAAP Financial Measures for the definition of Adjusted EBITDA and management's uses of Adjusted EBITDA) as a liquidity measure, the following table presents a reconciliation of net cash provided by operating activities from continuing operations to Adjusted EBITDA:

(\$ in millions)	Nine months ended	
	2010	September 30, 2009
Net cash provided by operating activities from continuing operations	\$ 350.6	\$ 274.5
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions	3.5	(59.9)
Current portion of income tax provision	23.6	18.4
Interest expense, net, excluding amortization of deferred financing costs and unrealized losses/gains on derivatives	121.1	126.5
Restructuring and other severance costs	4.9	16.0
Systems/organization establishment expenses	1.5	5.5
Acquisition and disposal costs	1.0	
Bad debt provision	0.5	(0.7)
Loss (gain) on sale of assets and other	0.2	(0.3)
Other	(0.6)	5.6
Total Adjusted EBITDA	\$ 506.3	\$ 385.6

### *Contractual Obligations*

The Company is obligated to make future payments under various contracts such as debt agreements (including scheduled cash interest payments), operating lease agreements, and unconditional purchase obligations. A discussion of these contractual obligations is included in the Company's 2009 Form 10-K. As noted above, we voluntarily prepaid \$200.2 million of our senior secured term loans on July 29, 2010. Except for this debt prepayment, there have not been significant changes to these contractual obligations as of September 30, 2010.

### *Capital Expenditures*

Rockwood's capital expenditures for the nine months ended September 30, 2010 consisted primarily of replacements of worn, obsolete or damaged equipment as well as investments in new equipment. For the nine months ended September 30, 2010 and 2009, our capital expenditures, excluding capital leases, were \$116.2 million and \$116.5 million, respectively. Capital expenditures for each of our reporting segments are provided in the following table:

Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

(\$ in millions)	Specialty Chemicals	Performance Additives	Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
Nine months ended September 30, 2010	\$ 28.6	\$ 18.3	\$ 43.4	\$ 20.5	\$ 4.8	\$ 0.6	\$ 116.2
Nine months ended September 30, 2009	35.6	20.5	30.3	24.7	4.3	1.1	116.5

We will incur future costs for capital improvements and general compliance under SHE laws. For the year ended December 31, 2009, our capital expenditures for SHE matters totaled \$17.9 million, excluding costs to maintain and repair pollution control equipment. For 2010, we estimate capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in and new SHE laws, we cannot provide assurance that our recent expenditures will be indicative of future amounts required to comply with these laws, including the EU's REACH legislation. See Note 15, Commitments and Contingencies, Regulatory Developments for a discussion of REACH.

***Foreign currency related transactions***

As of September 30, 2010, \$1,087.1 million of the debt outstanding is denominated in Euros.

**Recent Accounting Standards**

See Note 1, Description of Business and Summary of Significant Accounting Policies, for a discussion of recent accounting standards.

**Off-Balance Sheet Arrangements**

In the normal course of business, the Company incurs obligations which include guarantees related to contract completion, regulatory compliance and product performance. Under certain circumstances, these obligations are supported through the issuance of letters of credit and other bank guarantees. As of September 30, 2010, the Company had approximately \$37.7 million of letters of credit and other bank guarantees, of which \$37.3 million will expire in 2010 through 2014. The remaining guarantees have no specified expiration date. This amount includes outstanding letters of credit of \$33.6 million that reduced our availability under our senior secured credit facility. In the opinion of management, such obligations will not significantly affect the Company's financial position, results of operations or cash flows as the Company anticipates fulfilling its performance obligations.

**Commitments and Contingencies**

See Note 15, Commitments and Contingencies, for a discussion of the Company's Commitments and Contingencies.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. These estimates include assessing, among other things:

- the use and recoverability of inventory;

## Edgar Filing: Rockwood Holdings, Inc. - Form 10-Q

- the valuation of deferred tax assets;
- the amount of unrecognized tax benefits;
- impairment of goodwill, property, plant and equipment and other intangible assets;
- the useful lives of tangible and intangible assets: and
- the fair values of assets acquired and liabilities assumed in business combinations.

We evaluate our estimates on an ongoing basis, based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The significant accounting policies of the Company are described in Note 1, Description of Business and Summary of Significant Accounting Policies, to our unaudited condensed consolidated financial statements and the critical accounting policies and estimates are described in the Management's Discussion and Analysis of Financial Condition and Results of Operations section in the Company's 2009 Form 10-K. There have been no significant changes to these critical accounting policies and estimates as of September 30, 2010.

One of our critical accounting policies relates to the impairment of goodwill, property, plant and equipment and other intangible assets. The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, property, plant and equipment and other intangible assets is reviewed when events or changes in circumstances occur indicating that the carrying value of the assets may not be recoverable. For instance, we are monitoring the recoverability of certain intangible assets in our Viance timber treatment chemicals joint venture within our Performance Additives segment and will review such assets if events or circumstances indicate the carrying value of such assets may not be recoverable.

## Forward-Looking Statements

This document contains forward-looking statements. Forward-looking statements within the context of the Private Securities Litigation Reform Act of 1995 are not statements of historical fact and may involve a number of risks and uncertainties.

Forward-looking statements give our current expectations or forecasts of future events and estimates of amounts not yet determinable. We have used the words anticipate, estimate, expect, project, intend, plan, believe, predict, could, may and other words and terms of similar meaning, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those expressed in or implied by these forward-looking statements. In particular, these factors include, among other things:

- our business strategy;
- changes in the general economic conditions in North America and Europe and in other locations in which we currently do business;
- competitive pricing or product development activities affecting demand for our products;
- technological changes affecting production of our materials;
- fluctuations in interest rates, exchange rates and currency values;
- availability and pricing of raw materials;
- governmental and environmental regulations and changes in those regulations;
- fluctuations in energy prices;
- changes in the end-use markets in which our products are sold;
- our ability to access capital markets;
- hazards associated with chemicals manufacturing;
- our high level of indebtedness;
- risks associated with negotiating, consummating and integrating acquisitions;
- risks associated with competition and the introduction of new competing products, especially from the Asia-Pacific region; and
- risks associated with international sales and operations.

You should keep in mind that any forward-looking statements made by us in this document or elsewhere speak only as of the date on which we make them. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity prices. We manage our exposure to these market risks through regular operating and financing activities and through the use of derivatives. When used, derivatives are employed as risk management tools and not for trading purposes. A discussion and analysis of the Company's market risk is included in the Company's 2009 Form 10-K. There have been no significant changes to these market risks as of September 30, 2010.

**Item 4. Controls and Procedures**

Our disclosure controls and procedures are designed to ensure that (a) information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010 and concluded that, as of September 30, 2010, our disclosure controls and procedures are effective to accomplish their objectives at the reasonable assurance level.

There were no changes in our internal control over financial reporting during the third quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are involved in legal proceedings from time to time in the ordinary course of our business, including with respect to product liability, intellectual property and environmental matters. In addition, we may be required to make indemnity payments in connection with certain product liability and environmental claims. See Item 1, Business, and Item 1A, Risk Factors, Environmental Indemnities We may be subject to environmental indemnity claims relating to properties we have divested ; Product Liability Due to the nature of our business and products, we may be liable for damages arising out of product liability claims ; and Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims in our 2009 Form 10-K.

#### **Advertising Matter**

In September 2009, the district court issued a preliminary injunction prohibiting Viance from making certain claims related to MCQ in its advertisements and denied Viance's request for a preliminary injunction related to certain claims in Osmose's advertisements, which Viance subsequently appealed. The U.S. Court of Appeals, Eleventh Circuit heard oral arguments on May 20, 2010 and rendered its decision on July 30, 2010 remanding in part, affirming in part, and vacating in part the preliminary injunction. The trial court entered an order revising the preliminary injunction and an order lifting the stay and commencing discovery.

#### **Lanxess Matter**

On January 18, 2010, Lanxess Deutschland GmbH filed suit in the District Court of Satakunta, Finland against Sachtleben Pigments Oy ( Sachtleben ), a subsidiary of our Titanium Dioxide Pigment's venture, claiming breach of contract in connection with Sachtleben's termination of a supply agreement with plaintiff. The Court held a hearing on October 28, 2010 related to the proper jurisdiction for this matter and the Company is awaiting the Court's ruling.

We do not believe that any individual legal proceeding, government action or arbitration is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition. However, we cannot predict the outcome of any legal proceeding or the potential for future proceedings. See Note 15, Commitments and Contingencies, in this Form 10-Q and Item 3, Legal Proceedings in our 2009 Form 10-K.

### **Item 1A. Risk Factors.**

A discussion of the Company's risk factors is included in the Company's Form 10-K for the year ended December 31, 2009. There have been no material changes to these risk factors.

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

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

See the Exhibit Index immediately following the signature page to this report. Such Exhibit Index is hereby incorporated by reference.

**SIGNATURES**

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.

ROCKWOOD HOLDINGS, INC.

By: /s/ SEIFI GHASEMI  
Seifi Ghasemi  
Chairman and Chief Executive Officer  
Date: November 5, 2010

ROCKWOOD HOLDINGS, INC.

By: /s/ ROBERT J. ZATTA  
Robert J. Zatta  
Senior Vice President and Chief Financial Officer  
Date: November 5, 2010

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.1*	Amended and Restated Credit Agreement, dated as of June 15, 2009, among Rockwood Specialties Group, Inc., Rockwood Specialties Limited, Rockwood Specialties International, Inc., the lenders party thereto, Credit Suisse, as Administrative agent and Collateral agent, and UBS Securities LLC and Goldman Sachs Credit Partners L.P., as Co-Syndication Agents.
10.2*	Facility Agreement, made between Deukalion Einhundertvierundzwanzigste Vermögensverwaltungs GmbH, Sachtleben Chemie GmbH, White Pigments Holding Oy, and Kemira Pigments Oy, Merchant Banking, Skandinaviska Enskilda Banken AB as Agent, Security Agent and Issuing Bank; and Nordea Bank Finland Plc as Arranger and Original Lender; and the lenders party thereto.
10.3*	Facility Agreement, as amended and restated, made between Deukalion Einhundertvierundzwanzigste Vermögensverwaltungs GmbH, Sachtleben Chemie GmbH, White Pigments Holding Oy, and Kemira Pigments Oy, Merchant Banking, Skandinaviska Enskilda Banken AB as Agent, Security Agent and Issuing Bank; and Nordea Bank Finland Plc as Arranger and Original Lender; and the lenders party thereto.
10.4*	Merger and Transfer Agreement, dated September 28, 2010, of The Rockwood Specialties, Inc. Money Purchase Pension Plan and the Profit-Sharing/401(K) Plan for Employees of Rockwood Specialties Inc., effective as of December 31, 2010
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.
32.2	Section 1350 Certification of Chief Financial Officer. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase
101.DEF.XBRL**	XBRL Taxonomy Extension Definition Linkbase

---

\* Filed herewith.

\*\* Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

