

Rockwood Holdings, Inc.
Form 10-K
February 26, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

Or

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
(Address of principal executive offices)

08540
(Zip Code)

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

(609) 514-0300

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Accelerated filer
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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2009 was \$755,300,263.

As of February 22, 2010, there were 74,263,996 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Stockholders, to be held on May 6, 2010, is incorporated by reference in Part III to the extent described therein.

TABLE OF CONTENTS

FORM 10-K

	Page No.
<u>PART I</u>	
<u>Item 1</u>	3
<u>Item 1A</u>	20
<u>Item 1B</u>	29
<u>Item 2</u>	29
<u>Item 3</u>	32
<u>Item 4</u>	33
<u>PART II</u>	
<u>Item 5</u>	33
<u>Item 6</u>	34
<u>Item 7</u>	39
<u>Item 7A</u>	67
<u>Item 8</u>	69
<u>Item 9</u>	115
<u>Item 9A</u>	115
<u>Item 9B</u>	118
<u>PART III</u>	
<u>Item 10</u>	118
<u>Item 11</u>	118
<u>Item 12</u>	118
<u>Item 13</u>	118
<u>Item 14</u>	118
<u>PART IV</u>	
<u>Item 15</u>	119

PART I

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;
- fluctuations in interest rates, exchange rates and currency values;
- availability and pricing of raw materials;
- fluctuations in energy prices;
- changes in the end-use markets in which our products are sold;
- our ability to access capital markets;
- technological changes affecting production of our materials;
- governmental and environmental regulations and changes in those regulations;
- 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 in the Asia-Pacific region; and
- risks associated with international sales and operations.

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

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 1. Business.

Unless we indicate otherwise or the context otherwise requires, any references to we, our, us, the Company or Rockwood refer to Rockwood Holdings, Inc. and its consolidated subsidiaries.

Unless otherwise noted, all balance sheet related items as of December 31, 2009 which are denominated in euros are converted at the December 31, 2009 exchange rate of 1.00 = \$1.4321.

General

Rockwood is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes. Rockwood was incorporated in Delaware in September 2000 in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition) by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR). Effective November 2007, affiliates of KKR control less than a majority of the voting power of the Company's outstanding common stock. Rockwood is focused on surface treatment and lithium chemicals; advanced ceramics, titanium dioxide pigments, specialty compounds, iron-oxide pigments, timber-treatment chemicals and clay-based additives.

Our products consist primarily of inorganic chemicals and solutions and engineered materials. They are often customized to meet the complex needs of our customers and to enhance the value of their end products by improving performance, providing essential product attributes, lowering costs and/or making them more environmentally friendly. We generally compete in niche markets in a wide range of end-use markets, including metal treatment and general industry, chemicals and plastics, construction, life sciences (including pharmaceutical and medical markets), automotive, specialty coatings and electronics and telecommunications. No single end-use market accounted for more than 17% of our 2009 net sales.

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

We have a number of growth businesses, such as our Fine Chemicals and Advanced Ceramics businesses, which are complemented by a diverse portfolio of businesses that historically have generated stable revenues. Our high margins, diverse customer and end-use market base, capital discipline and ongoing productivity improvements provide us with a platform to capitalize on market growth opportunities.

We operate globally, manufacturing our products in 87 facilities in 24 countries and selling our products and providing our services to more than 60,000 customers, including some of the world's preeminent companies. We believe our products are generally critical to our customers' products performance, but account for a small percentage of the total cost of their products. No single customer accounted for more than 2% of our 2009 net sales. For a geographic description of the origin of our net sales and location of our long-lived assets, see Note 3, Segment Information, in the accompanying consolidated financial statements.

We operate our business through the following five business segments: (1) Specialty Chemicals; (2) Performance Additives; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics and (5) Specialty Compounds. The following table sets forth net sales of each segment, and the percentage of our net sales for the year ended December 31, 2009, as well as our principal products and our principal end-use markets. For financial information about each segment, see Note 3, Segment Information.

Segment	2009 Net Sales		% of Total	Principal Products	Principal End-Use Markets
	\$ in Millions				
Specialty Chemicals	\$ 996.6	34%	<ul style="list-style-type: none"> • Lithium compounds and chemicals • Metal surface treatment chemicals including corrosion protection/ prevention oils • Synthetic metal sulfides • Maintenance chemicals 	<ul style="list-style-type: none"> • Automotive pre-coating metal treatment and car body pre-treatment • Steel and metal working • Life sciences (pharmaceutical synthesis and polymers) • Polymerization initiators for elastomers • Steel and metal working • Batteries • Disc brakes • Aircraft industry 	
Performance Additives	\$ 671.5	23%	<ul style="list-style-type: none"> • Iron-oxide pigments • Wood protection products • Inorganic chemicals • Synthetic and organic thickeners 	<ul style="list-style-type: none"> • Residential and commercial construction, coatings and plastics • Coatings • Personal care, paper manufacturing, foundries 	

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

- Flocculants
- Water treatment

Titanium Dioxide Pigments	\$	666.3	22%	<ul style="list-style-type: none"> • Titanium dioxide pigments • Barium compounds • Zinc compounds 	<ul style="list-style-type: none"> • Synthetic fibers for clothing • Plastics • Paper • Paints and coatings • Pharmaceutical contrast media
Advanced Ceramics	\$	412.2	14%	<ul style="list-style-type: none"> • Ceramic ball head and liner components used in hip joint prostheses systems • Ceramic tapes • Cutting tools • Wear and corrosion • Armor components 	<ul style="list-style-type: none"> • Medical (hip replacement surgery) • Industrial • Electronics • Automotive • Defense (vehicle protection)

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

Specialty Compounds	\$	210.7	7%	• High specification compounds such as polyvinyl chloride (PVC) and thermoplastic elastomer (TPE)	• Voice and data transmission
					• Cables
					• Food and beverage
					• Packaging
					• Medical applications
					• Footwear
					• Automotive
Corporate and other (a)	\$	5.6	%	• Wafer recycling and repair	• Semiconductors manufacturing
	\$	2,962.9	100%		

(a) Represents our European wafer reclaim business that was not included as part of the sale of our Electronics business in December 2007. Our wafer reclaim business provides semiconductor wafer reclaim services, wafer thinning/grinding services and wafer supply services. This business works on silicon and sapphire substrates with semiconductor and solar cells manufacturers.

Diverse Customer and End-Use Market Base. We operate a diverse portfolio of distinct specialty chemicals and advanced materials businesses. We have more than 60,000 customers worldwide that cover a wide variety of industries and geographic areas. 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. No customer accounted for more than 2% of such net sales, and our top ten customers represented only approximately 8% of such net sales. Our largest end-use market represented approximately 17% of such net sales.

The following chart provides a breakdown of our 2009 net sales by end-use markets:

Within these end-use markets, there is further diversification by sector, product and region. For example, within the construction end-use market, our Performance Additives segment companies provide materials for new construction as well as companies that focus on remodeling and renovation. In addition, we serve construction materials clients in both the residential and commercial sectors located in North America, Europe and Asia. Within the life sciences end-use market, we serve a number of sectors, including the medical applications sector through our Specialty Compounds and Advanced Ceramics segments and the pharmaceutical sector through our Specialty Chemicals segment.

Operating Segments

The following describes each of our operating segments, as well as the principal products or principal divisions within each segment.

Specialty Chemicals (34% of 2009 net sales)

Our Specialty Chemicals segment operates under the *Chemetall* brand name and develops and manufactures metal surface treatment products and services, lithium chemicals and fine chemicals for a wide range of industries and end markets. This segment is comprised of two business lines: (1) Surface Treatment, which supplies surface treatment products and solutions for metal processing industries; and (2) Fine Chemicals, which supplies lithium products across the entire value chain from raw materials to specialty lithium compounds and advanced metal-based specialty chemicals to niche markets. Our Specialty Chemicals segment generated net sales of \$996.6 million, \$1,232.6 million and \$1,082.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. See Note 3, Segment Information, for additional financial information regarding our Specialty Chemicals segment.

Surface Treatment

We believe that our Surface Treatment business line is a leading global supplier of surface treatment products and solutions. Surface Treatment products are used for a variety of applications and serve the automotive, aerospace and general industrial markets, including steel and metal-working industries. This business line supplies more than 5,000 different products, many of which are based on proprietary formulations and extensive application know-how, to over 50,000 customers and operates in different locations for either production or research and development in over 20 countries. Surface Treatment operates in the following core end-markets: Automotive Technologies and Components, Cold Forming and Coil Coating, General Industry and Aerospace Technologies.

In Surface Treatment, we develop and supply products and solutions for the chemical pre-treatment of metals and other substrates, some of which are customized for individual customers and applications. Our products and solutions are critical to many areas of the metal processing industry because they protect metals from corrosion, facilitate forming and machining, allow parts to be processed in a clean and grease-free environment and ensure good coating adhesion. Other products are used in the cleaning and maintenance of aircraft. As an integrated part of the business, we also offer a full range of customer services, including process control and analysis of chemical baths at clients' facilities.

Surface Treatment competes in markets characterized by significant barriers to entry, proprietary manufacturing technologies and know-how, demanding product-handling requirements, rigorous product quality and performance standards and specifications and longstanding service-intensive customer relationships. In order to remain competitive, we are focused on developing new products, improving process technologies, expanding our customer base and broadening our technology capabilities in existing and new markets through internal research

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

and development and bolt-on acquisitions. New sites in Turkey, Brazil and Australia should help gain further market share in these regions. In 2009, we also undertook a number of research and development projects with industrial partners and scientific institutes that help us fulfill our needs for more cost efficient and environmentally compatible technologies. As a result, new products and improved technologies were launched in 2009 and more are expected in the future.

The core end-markets that Surface Treatment operates in are as follows:

Automotive Technologies and Components. We provide surface treatment products and solutions for automotive OEMs, including an entire range of products and services for use in the paint shop step of car-body manufacture and automotive component manufacturers. The products and services we provide typically represent a low percentage of total car body production costs, but have high value in terms of corrosion protection and surface quality. Major applications include car-body treatment (zinc-phosphating), paint coagulation and cleaning and pre-treatment of automotive components such as aluminum wheels. Our services typically include intensive process control and chemical management in the customer's production processes. We believe that products for the treatment of steel and aluminum wheels, including a new generation of products based on self-assembling molecules, represent an attractive growth area in this market.

Cold Forming and Coil Coating. We provide products and services used to facilitate the cold forming of tubes, wire drawing and cold extrusion of metal. We provide products and services used in forming, cleaning and pre-treating metal sheets used in the production of

steel and aluminum coil.

General Industry. General industry includes the largest number of customers among the Surface Treatment businesses. We offer a range of products and services to a broad range of industrial end-markets that have metal surface treatment applications, including cleaning, activation, conversion coating and final rinsing. Our products include cleaners, iron phosphates, coolants, paint strippers and flocculants. We have also expanded our product range in North America and China, with products in the field of metalworking fluids. Over the last two years, we have introduced a new generation of iron-phosphating products in the U.S. market, which we expect will provide growth in the next few years, and began offering silane or oxsilan-based systems. The markets for General Industry include household appliances manufacturing, can producers, heating, ventilation, aluminum finishing and other diverse end-markets. In addition, we produce specialty products, which are similar to metal surface treatment products, but are used on glass substrates for glass manufacturers, including specialty cleaners, polishing products, cutting oils and cooling lubricants.

Aerospace Technologies. We provide products and services for Aerospace OEMs, airlines and maintenance companies. Aerospace Technologies focuses on four major application areas: cleaning; corrosion protection; maintenance chemicals; and sealants. Cleaning products are used for the interior and exterior cleaning of airplanes and range from daily cleaning to complete aircraft overhaul. Corrosion protection products include waxes used to protect airframes. Maintenance chemicals for aircraft engines and turbines include high performance cleaners and products for non-destructive testing of engines, and aircraft sealants provide high technology sealing solutions for airplanes and are expected to contribute significantly to growth in the next few years. In the last few years, we introduced further variances of low-density sealants in the market place. A new production line for sealants was completed in 2009 to fulfill increasing demand.

Competition

We believe that the top five competitors in the global metal surface treatment market held an estimated market share of more than 50% in 2009. We believe that Henkel KGaA is the global market leader, followed by us. The remaining top competitors include Nihon Parkerizing Co., Ltd., PPG Industries, Inc. and Nippon Paint Co., Ltd. Competition in this market is based primarily on customer service, product quality and technological capabilities.

Customers

Surface Treatment serves a large customer base that is dependent on the industry served and its specific customer needs. Surface Treatment's largest customers include Daimler AG, ArcelorMittal, Volkswagen AG and European Aeronautic Defence and Space Company (EADS) N.V. The composition of the customer base varies widely among product groups and industries served. The Automotive Technologies and Components business division serves approximately 20 customers, primarily global OEMs, and approximately 500 small to large customers in the components markets. The Cold Forming and Coil Coating business division serves approximately 800 mid-size to large customers and the General Industry business division serves approximately 45,000 small to large customers in a broad range of industries worldwide. The Aerospace Technologies business division serves approximately 4,000 small to large customers worldwide.

Fine Chemicals

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

Our Fine Chemicals business line consists of our lithium, special metals and metal sulfides product lines. We believe that our Fine Chemicals business line is the leading global producer of lithium salts, specialty lithium compounds and chemicals and advanced metal-based specialty chemicals.

Fine Chemicals develops and manufactures a broad range of basic lithium compounds, including lithium carbonate, lithium hydroxide, lithium chloride, and value added lithium specialties and reagents, including butyllithium and lithium aluminum hydride. Lithium is a key component in products and processes used in a variety of applications and industries, which range from lithium batteries, high performance greases, thermoplastic elastomers for car tires, rubber soles and plastic bottles to intermediates in the pharmaceutical industry. In our Fine Chemicals business, we operate our lithium business along the following four business divisions reflecting its core end-markets: (1) Specialities; (2) Lithium Salts; (3) Butyllithium/Lithium Metal and (4) Battery Products.

In addition to developing and supplying lithium compounds, we provide technical service, including training of customers' employees, relating to the handling of reactive lithium products. We also offer our customers recycling services for lithium containing by-products resulting from synthesis with organolithium products, lithium metal and other reagents. We plan to continue to focus on the development of new products and applications. Currently, we are in the process of developing lithium compounds for several near- to medium-term, new and potentially high growth products for various applications, such as pharmaceuticals and batteries for electric vehicles.

In August 2009, the U.S. Department of Energy awarded \$28.4 million in Recovery and Reinvestment Act funds, subject to certain

conditions, to our Fine Chemicals business within our Specialty Chemicals segment. We expect to use the funds to expand and upgrade the production of lithium compounds used in lithium ion batteries for hybrid and electric vehicles at our Silver Peak, Nevada and Kings Mountain, North Carolina facilities. In addition to the funds from this grant, we are required to invest an additional \$28.4 million in the project over the next few years. In addition, in September 2009, the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety awarded 5.7 million to our Fine Chemicals business to set up a pilot plant for the recycling of lithium ion batteries, subject to customary terms and conditions. Including the funds from this grant, we expect to invest an additional 8.8 million in the project over the next three years.

Fine Chemicals also develops and manufactures advanced metal-based specialty chemicals along two business divisions based on its principal product groups: (1) Metal Sulfides, which develops and manufactures natural and synthetic metal sulfides used in brake pads, clutch facings and cutting and grinding wheels and (2) Special Metals, which develops and manufactures cesium products for the chemical and pharmaceutical industries and zirconium, barium and titanium products for various pyrotechnical applications, including airbag igniters. In order to further strengthen our competitive position in the metal-based specialty chemicals market, we are focused on the production of new variations of synthetic metal sulfides and new cesium products in the chemicals industry, the pharmaceuticals industry, the defense industry and for use in catalytic applications. We also continuously monitor our customers' industries for potential new applications for our products. In addition, we expect to expand our business by penetrating growth areas such as India and China.

Although results were lower in 2009 due to the economic slowdown, we expect that demand for synthetic metal sulfides to increase, particularly in Europe, as a result of the continuing substitution for asbestos-based friction linings, the transition from natural sulfides to synthetic sulfides spurred in part by environmental concerns and the transition from drum to disk brakes in Asia and the Americas.

Principal Business Divisions

Lithium

Specialities. We develop and manufacture lithium compounds and other products for life science applications, such as special reagents for the synthesis of drug intermediates as well as for the flavor and fragrances industry. The two principal products in this business division are butyllithium and lithium aluminum hydride, for which we believe we hold leading market positions. We also produce various other compounds which include lithium metal, grignard reagents and alkoxides. Our research and development team often works closely with research and development departments of pharmaceutical companies, especially in the European market, in order to develop products and solutions tailored for their needs. In addition, broad variations of our specialities are designed to produce liquid crystals for flat screens.

Lithium Salts. We develop and manufacture basic lithium compounds, which serve a wide range of industries and applications. Our products include (1) lithium carbonate, for which the leading application is the production of thin, light weight lithium-ion batteries. It is also used as a fluxing agent for enamels, glass and ceramic production to lower process temperature in aluminum electrolysis, and as a cement additive for construction applications; (2) lithium hydroxide, which is principally used in high performance greases for automotive and industrial applications and has become more important for the development of high-performance lithium-ion batteries; (3) lithium nitrate, which is principally used in the rubber industry and (4) lithium chloride, which is principally used in gas and air treatment.

Butyllithium/Lithium Metal. Our main product, butyllithium, is used as a polymerization initiator for synthetic rubber and thermoplastic elastomers and as a reagent for the synthesis of active pharmaceutical ingredients and Agrochemicals. Lithium metal is used in organic synthesis processes, primarily in the area of steroid chemistry and vitamins. Generally, these products require a high degree of handling, transport and application know-how and customer service due to their high reactivity. We benefit from being a major supplier with butyllithium

manufacturing facilities in the United States, Germany and Taiwan.

Battery Products. We develop and manufacture lithium products for electronic applications, mainly for the primary (disposable) and secondary (rechargeable) battery industries. Our major product is battery grade lithium metal, which is used as anode material for primary batteries. Lithium ion-based batteries are used extensively in consumer electronics, such as mobile phones, camcorders and laptops. We are currently developing a new generation of conductive lithium salts used for the battery market, which, we believe, has the potential to drive significant growth in the future.

Metal-based Specialty Chemicals

Metal Sulfides. This business division has two major product lines: friction stabilizers and abrasive additives. Friction stabilizers enhance the power and performance of brake pads and clutch facings and primarily serve the automotive supplier industry while abrasive additives are additive compounds. The demand for metal sulfides is driven primarily by the demand in the automotive supplier industry.

Special Metals. We develop and manufacture a unique range of products based on special metal compounds derived from cesium, zirconium, titanium, barium and rubidium. These products are used in highly specialized, technology-driven end-applications such as X-ray diagnostic systems and airbags, and serve various end-markets, such as chemical, pharmaceutical, metallurgical, automotive, electronics and pyrotechnical industries.

Competition

Lithium. We believe the global lithium market consists of three major producers and a number of other small producers mainly from China. We believe that we are the global market leader in the lithium market. While we offer a diverse range of products from raw materials to specialty lithium compounds, FMC Corporation offers mainly specialty lithium compounds, and Sociedad Quimica y Minera de Chile S.A. (*SQM*) offers a more limited product line focused on basic lithium compounds. Competition in this market is based on product quality, reliability of products and customer service.

Metal-based Specialty Chemicals. We believe that in the metal-based specialty chemicals business, Fine Chemicals holds a leading market position in its niche markets. We have a leading position in friction materials and are the only supplier offering a full product range of friction stabilizers and abrasive additives based on metal sulfides. Key competitors include: Dow Corning Corporation, Catalise Industria e Comercio de Metals Ltda and American Minerals, Inc. in the Metal Sulfides division and Cabot Corporation and Sigma Aldrich Corporation in the Special Metals division. Competition in the metal-based specialty chemicals markets in which Fine Chemicals competes is based on product quality and product diversity.

Customers

Fine Chemicals serves approximately 1,000 customers worldwide in its lithium business and 700 customers worldwide in its metal-based specialty chemicals products business. Fine Chemicals' customers of lithium products include Bayer CropScience (a division of Bayer AG), Kraton Performance Polymers Inc., Energizer Holdings, Inc. and Royal DSM N.V.

Performance Additives (23% of 2009 net sales)

Our Performance Additives segment consists of business lines which develop and manufacture a range of specialty chemicals used in industrial and consumer products and processes to enhance performance or create unique characteristics. This segment manufactures and markets products that are based on a focused research and development effort and a strong technology base. Our Performance Additives segment generated net sales of \$671.5 million, \$835.6 million and \$798.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. See Note 3, Segment Information, for additional financial information regarding our Performance Additives segment.

Color Pigments and Services

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

Our Color Pigments and Services business line is a global producer of synthetic iron-oxide and other inorganic pigments in a wide range of yellow, red, orange, ultramarine blue, black, manganese violet or blended shades, and serves the construction, paints and coatings, plastics, and specialty application markets with powder, granular and liquid grades. Color Pigments and Services focuses on developing and manufacturing high value-added inorganic pigments. The business also offers a number of unique pigment dispensing systems. Our Color Pigments and Services business line has been driven by product innovation, our brand names and our customer and technical service, including customer-specific color blending.

Principal Products

Construction Color Pigments and Services. We develop and manufacture principally iron-oxide pigments for manufacturers of construction products for use in the coloring of concrete products, including paving stones, bricks, concrete blocks, roofing tiles, stucco and mortar. Color Pigments and Services' major U.S. brand is *Davis Colors* and its key products include *Granufin/Granumat*, *Hydrotint*, *Mix-Ready* and *Chameleon*. *Granufin* is a unique, dry, microgranulated pigment that combines the flow characteristics of a liquid with the storage and handling advantages of a powder. The *Granumat* dispensing system offers a variety of configurations and features designed to accommodate the varying requirements and budgets of concrete product manufacturers. *Granufin* pigments and the *Granumat* system improve product handling and color consistency for our customers. Our *Chameleon* system, which works in combination with our liquid pigments, automatically weighs, blends and conveys colors into a ready-mix truck using a standard personal computer and custom-developed Windows-based software. Color Pigments and Services has an agreement pursuant to which an affiliate of W.R. Grace & Co. sells admixtures and fibers, distributes our liquid pigments and *Chameleon* dispensing systems to ready-mix and pre-cast producers in the concrete industry. Our combined efforts provide ready mix and pre-cast customers with added value in the form of colored, ready-mix concrete.

Paints, Coatings and Colorants. We also develop and manufacture color pigments for the paints, coatings, plastics, paper and rubber

end-use markets including the brands *Ferroxide*, *Trans-oxide*, *Solaplex* and *Colourplex*. We produce a wide variety of pigments for these markets that include synthetic iron-oxides, corrosion inhibitor pigments, complex inorganic color pigments and process natural pigments such as burnt umbers and siennas. The largest application for these products is colorant used in architectural, industrial and special purpose paints and coatings. Color, ease of dispersion and chemical stability are the primary characteristics of our products, which can be used in a wide variety of both solvent and water-borne systems. We believe that a number of Color Pigments and Services products are considered industry standards in the markets in which we compete, such as our Mapico yellow and Copperas red pigments for architectural and industrial applications and our heat stable tans, which can tolerate applications requiring high temperature processing, such as plastic compounding and roofing granules.

Specialties. Our iron-oxide pigments are also used in a wide variety of specialty applications such as toner for large printers and copiers, security inks used to print bank notes, catalysts for styrene production and cosmetics. Each of these markets requires specialized pigments with unique properties which are often as important as the coloring characteristics. For example, printer toners require specific magnetic properties whereas pigments used in cosmetics require color and purity.

Competition

We believe that there are a significant number of producers of iron-oxide pigments across the globe at both the pigment synthesis and finishing levels with whom we compete. We believe these producers include Lanxess AG, Cathay Pigments Group, Interstar Materials Inc. and Shanghai Yipin Pigments Co., Ltd. as well as other producers in Japan and China. Competition in this segment is based on customer service, product attributes, such as product form and quality and price. Product quality is critical in the higher end of the business on which Color Pigments and Services focuses, as inconsistent product quality can have an adverse impact on the color consistency of the end-product.

Customers

Color Pigments and Services key customers include Akzo Nobel, Oldcastle (CRH plc), The Sherwin-Williams Company, Evonik Degussa GmbH, and WR Grace & Co., each of which has been our customer for at least ten years. Color Pigments and Services customer base is highly fragmented.

Timber Treatment Chemicals

The Timber Treatment Chemicals business line is a manufacturer of wood protection products primarily in North America and Europe and we market these products through our joint venture formed in 2007. Wood protection products enhance the performance of wood by increasing its longevity through protection from decay and fungal or insect attack. Our specialty timber chemicals also add water repellency, fire retardancy, mold inhibition and other properties to wood products. Timber Treatment Chemicals products include wood protection products based on our alkaline copper quaternary, or ACQ technology, which was awarded the Environmental Protection Agency (EPA) Presidential Green Chemistry Challenge Award in 2002, *Ecolife*, our new non-metallic wood preservative technology and chromated copper arsenate, or CCA. In 2008, we introduced our newest *Ecolife* system which utilizes *Ecovance*, a high-performance non-metallic preservative with enhanced environmental benefits. Commercialization began in 2008, but did not have a significant impact in 2008 or 2009. We expect *Ecolife* to take advantage of market desire for non-metallic wood protection products and the growth potential in the development and commercialization of the next generation of wood protection products. However, we do not expect *Ecolife* to have a significant impact in 2010. Other products include Clearwood, our wood protection product for wood windows and doors, as well as a range of specialty additives with fire retardant, water repellent or moldicide properties. Applications for our products include wood protection products used for decking, fencing, playground equipment, garden furniture, house construction materials, utility poles, and other wood constructions.

In addition, Timber Treatment Chemicals provides a broad range of technical expertise and services to its customers. In particular, Timber Treatment Chemicals works closely with its customers to assist them in reducing the total cost of their manufacturing process by supplying timber treatment chemicals as well as treatment equipment along with technical support. We believe that Timber Treatment Chemicals is a leading provider in North America, Europe and Japan of new generation alternative timber treatment chemicals, such as ACQ and *Ecolife*, which provide enhanced environmental benefits as they do not contain chrome or arsenic. Many of our Timber Treatment products are registered pesticides and subject to extensive regulation.

Our Timber Treatment Chemicals business also manufactures inorganic chemicals such as nitrates and chlorides for various industrial applications including chemicals that are added to concrete as curing accelerants and corrosion inhibitors, chemicals that are used for odor control in water treatment, galvanizing fluxes, micronutrients, pesticides and catalysts used in the manufacture of textile resins.

Principal Products

We develop and manufacture a broad range of wood protection products, fire retardant and specialty chemicals for use in residential and industrial wood applications. In addition, we provide treatment equipment, which facilitates the handling and treatment of wood

and chemicals and we provide comprehensive technical support services to our customers. Timber Treatment Chemicals' key brands include *Ecolife*, *Preserve*, *Preserve Plus*, *Ultrawood*, *D-Blaze*, *Clearwood* and *SupaTimber*.

We also develop and manufacture inorganic metallic chemicals for certain specialty markets. These include zinc chloride-based products, other chlorides, and a range of nitrates and other chemicals. Some of these products are manufactured using by-products from other large chemical companies.

Competition

We believe that Timber Treatment Chemicals is one of the leading manufacturers of wood protection products in North America, along with Arch Chemicals, Inc. and Osmose, Inc. BASF Group, Kurt Obermeier GmbH & Co. KG and Rutgers AG are other competitors, particularly in Europe. Competition for wood protection products is mainly based on price, customer support services, innovative technology and product range. In the inorganic chemicals market, we operate in niche areas, and therefore have few competitors overall. Competition in the inorganic chemicals market is mainly based on quality, customer support services and price.

Customers

Timber Treatment Chemicals sells its products primarily to wood processors who pressure-treat wood. Major customers include Coos Head Forest Products, Inc., C.M. Tucker Lumber Companies, LLC., Envirofor Preservers Ltd., Georgia-Pacific Corporation, Jeld-Wen, Inc., Koshii Preserving Co. Ltd., Land and Sea Forest Products of Pennsylvania Corporation, Spartanburg Forest Products, Inc., Sunbelt Forest Products Corporation, and Sundre Forest Products, Ltd. Customers of our inorganic chemicals product line include Evonik Degussa GmbH, Rohm and Haas Company (a subsidiary of The Dow Chemical Company), Nalco Company and W.R. Grace & Co. Most of these companies have been our customers for at least ten years.

Clay-based Additives

Our Clay-based Additives business develops and manufactures a range of specialty rheology modifiers and additives. These products are used in a wide variety of applications to modify viscosity, thickness and flow characteristics, and keep solids in suspension. End products in which these additives are used include industrial and architectural coatings, oilfield drilling fluids, inks, household care products and composites.

Principal Products

Coatings and Inks. We offer a comprehensive line of additives which modify the viscosity, flow and suspension properties of coatings and inks, including *Claytone* for the manufacture of industrial and special purpose coatings, such as bridge, marine and maintenance paints, architectural coatings and associative thickeners; *Optigel* clays for water-based coatings and *Laponite* for the manufacture of automotive coatings. Our *Garamite* additives are used in the manufacture of high solids and low volatile organic content epoxy coatings for industrial applications.

Paper. We serve the paper industry with a product line that includes bentonite retention aids, which are used in the paper-making process to reduce fiber losses and aid in water drainage from the sheet and an additive, which provides fade-resistant color for carbonless copy paper. We also produce a grade of *Laponite* which is used in the production of clear, flexible and moisture-resistant films and coatings with conductive, anti-static and anti-sticking properties, that are used in the manufacture of specialty photographic and anti-static papers, ink jet papers and anti-static packaging. Our *Fulacolor* clay product range is used in the color developing system for carbonless copy paper.

Consumer and Household Care Products. We develop and manufacture a wide range of natural clay-based rheology modifiers, including *Gelwhite* and *Bentolite*, for the consumer and household care markets. In addition, *Laponite* also has functional properties that improve the performance of a wide range of consumer products, such as personal care products, creams, lotions, cosmetics and hard surface household cleaning products for the kitchen and bathroom.

Oilfield. We offer a line of *Claytone* organoclays, which are a type of specially treated clays, for use in diesel and synthetic oilfield drilling fluids, which help to control viscosity and flow properties. These additives also help to suspend the cuttings in the fluid, so that they can be expelled from the well efficiently. We recently introduced a *Garamite* additive for use in deep well drilling that requires higher performance.

Composites. We developed and introduced the *Cloisite* range of clays for the manufacture of nanocomposite plastics and composites. While the majority of our customers purchase *Cloisite* for developmental products and applications, a key commercial development in 2007 was the introduction of a new, high-strength, lightweight plastic by Yamaha for personal watercraft hulls and deck lids utilizing *Cloisite* nanoclay. Our *Nanofil* business extends our range of product offerings for nanocomposites, and brings valuable know-how

and intellectual property for flame retardant applications. Our *Garamite* range of clays is used in the manufacture of fiberglass composites.

Water Chemistry. We are a leading manufacturer of polyaluminium chloride, or PAC, and polyaluminium nitrate-based flocculants in Central Europe. Flocculants are added to water to improve its purity before, during and after its use in industrial, commercial and municipal applications. PAC flocculants are widely used in public, industrial and swimming pool water treatment and as a process agent in the paper industry. As discussed, we completed the formation of the Titanium Dioxide Pigments venture in September 2008. The water treatment business, formerly part of the Titanium Dioxide Pigments segment, is now being reported in Clay-based Additives.

Competition

Clay-based Additives operates in specialty markets, and competes based on its research and development capabilities, its ability to produce innovative high-value product solutions and its sales and technical support. Our direct competitors in these markets include Elementis plc, Laviosa Chimica Mineraria S.p.A., R.T. Vanderbilt Company, Inc., Cytec Industries, Inc. and Amcol, Feralco AB. We also compete with manufacturers who produce non-clay-based alternatives to our end-users.

Customers

We supply major coatings manufacturers such as International Paint Limited (Akzo Nobel N.V.), BASF Group, E.I. duPont de Nemours and Company, PPG Industries Inc., and The Sherwin-Williams Company; paper chemical and paper-making companies such as Mitsubishi Hi Tec Paper Bielefeld GmbH, Sappi Limited, Brenntag AG, LEIPA Georg Leinfelder GmbH and Stora Enso Oyj; ink-makers such as Sun Chemical Corporation and oil drilling and services companies such as M-I SWACO L.L.C.

Titanium Dioxide Pigments (22% of 2009 net sales)

Our Titanium Dioxide Pigments segment operates under the *Sachtleben* brand name and is a leading producer of high quality chemical products with a unique range of small inorganic particles that add significant value to customers' products and reduce the cost of customers' production processes. Titanium Dioxide Pigments comprises two business lines: (1) Titanium Dioxide; and (2) Functional Additives. Our Titanium Dioxide Pigments segment generated net sales of \$666.3 million, \$534.8 million and \$442.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. See Note 3, Segment Information, for additional financial information regarding our Titanium Dioxide Pigments segment.

In September 2008, we completed the formation of a venture with Kemira Oyj (Kemira) that focuses on producing and marketing specialty titanium dioxide pigments. This venture combines our existing titanium dioxide pigments and functional additives business and Kemira's titanium dioxide business.

Titanium Dioxide

Our Titanium Dioxide business line through the venture completed in September 2008 is a leading producer of specialty grade titanium dioxide (TiO₂), serving a wide variety of customers in the synthetic fibers, plastics, paints, packaging inks, coatings, cosmetics, pharmaceuticals and paper industries. TiO₂ is a fine white powder that derives its value from its unparalleled whitening strength and opacifying ability, which is commonly referred to as hiding power. Our Titanium Dioxide business line's principal products include TiO₂ in anatase grade, TiO₂ in rutile grade and titanium specialties. This business line also provides recycling services for sulfuric waste acid.

There are two ways of producing TiO₂: the sulfate process and the chloride process. The chloride process permits production of only rutile TiO₂ and is primarily suited for large volume production of standard TiO₂ grades. We believe most of the globally installed TiO₂ capacity uses the chloride process as opposed to the sulfate process. Unlike the chloride process, the sulfate process is capable of producing both the rutile and anatase grade of TiO₂. We employ the sulfate process for TiO₂ production and thus, the output from most of the globally installed TiO₂ production capacity does not compete with our anatase products.

We believe that we have a competitive advantage in fiber anatase production and special sophisticated anatase applications based on our strong technological capabilities, long-term customer relationships and extensive test runs with regular monitoring of product and process parameters. Although it represents a negligible part of the fiber material cost, TiO₂ application know-how and a longstanding application track record of homogeneous anatase crystals, both of which avoid production interruptions and excessive wear or breakdown of our customers' equipment, are critical to our customers. We intend to focus our rutile business on selected markets and applications and to further develop our titanium specialties business. We expect this segment to benefit from sales of newly introduced nano-particle titanium dioxide pigments that are used to provide ultraviolet light protection for cosmetics, plastics and coatings.

Principal Products

TiO₂ in Anatase Grade. We develop and manufacture high quality anatase TiO₂ pigments. These pigments are sold primarily to the global synthetic fiber industry, as well as paper, food and pharmaceutical industries. We believe our anatase pigment, sold under the brand name *Hombitan*, is a leading global selling TiO₂ product for applications in the synthetic fiber industry.

TiO₂ in Rutile Grade. We develop and manufacture rutile TiO₂ pigments, which are mainly used in special applications such as selected coatings, paints, packaging inks, plastics and laminated paper production processes. In this product area, we are geographically focused on the European market. Rutile-based TiO₂ pigments generally possess performance characteristics different from anatase-based pigments. Rutile-based pigments significantly improve the weatherability and durability of polymer products by providing protection against yellowing and preventing embrittlement of the material. Our rutile grades are state of the art products and are used in applications with high technical requirements.

Titanium Specialties. Our titanium specialties products primarily include nano-particles, which are exceptionally fine-particled, transparent and easy-to-use pigment formulations that are used across a large and diverse range of applications in small volumes. For example, the specialty grade TiO₂ products are used as UV-absorbers in sun protection cosmetics. In addition, the new nano-particles form the basis for innovative wood-protection products and innovative color variations by the paints and coatings industry. Other uses include catalysts, gas cleansing, photocatalysts and intermediates for special ceramics.

Competition

Titanium Dioxide Pigments key competitors include: (1) Fuji Titanium Industry Co., Ltd. and Kronos Worldwide, Inc. for anatase-based TiO₂; (2) DuPont Titanium Technologies, Cristal Global, Tronox Incorporated, and Huntsman LLC for rutile-based TiO₂; and (3) Tayca Corporation, Ishihara Corporation and Evonik Degussa for TiO₂ specialties. Competition in the markets in which Titanium Dioxide competes is generally based on technological capabilities, product quality, price in rutile grade and customer service.

Customers

Titanium Dioxide Pigments customers include leading manufacturers of paints, such as Akzo Nobel Coatings, Inc., PPG Industries, Inc., BASF Group and E.I. duPont de Nemours and Company; printing inks such as Sun Chemical Corporation, Flint Group and Siegwark Druckfarben AG; fibers, such as Nan Ya Plastics Corporation and Invista Inc.; plastics, such as Ampacet Corporation and Ineos Group Limited; and paper, such as Munksjo Inc. and Papierfabrik August Koehler AG.

Functional Additives

Our Functional Additives business line is a leading global manufacturer of barium-based and zinc-based inorganic fine white pigments and additives. The main function of these products is to improve brilliance of colors and shine of coatings, improve the mechanical strength of

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

plastic parts and prevent degradation due to exposure to light. Our Functional Additives business line serves diverse end-markets, including the plastics industry, the coatings industry and the pharmaceutical industry.

Principal Products

Barium-based Additives. We produce highly dispersed powders of barium sulfate and are the largest global producer of precipitated synthetic barium sulfates (Blanc Fixe). We provide a unique range of barium-based additives customized for applications in coatings, plastic, colorants, lubricants, PVC stabilizers and thermoplastics, fibers and paper to improve optical, chemical and mechanical properties. We also produce an X-ray-grade barium sulfate used as a contrast agent in medical applications, such as X-rays for the stomach and intestine area.

Zinc-based Additives. We believe we are also a leading producer of pure zinc sulfide pigments, mainly used in glass fiber reinforced plastic parts and coatings and a leading supplier of Lithopone, a white zinc sulfide pigment which is used in plastics and coatings.

Competition

Key competitors for barium-based additives include Solvay S.A., Gruppo Chimico Dalton S.p.A., Sakai Chemical Industry Co., Ltd. and Chinese barium-producers. Key competitors for zinc-based additives include Chinese Lithopone producers. Competition in the functional additives market is primarily based on application know-how, brand recognition, product quality and, to a certain extent, price.

Customers

Functional Additives customers include E.I. duPont de Nemours and Company, Ampacet Corporation, BASF Group, Akzo Nobel

Coatings, Inc. and A. Schulman, Inc.

Advanced Ceramics (14% of 2009 net sales)

Our Advanced Ceramics segment operates under the *CeramTec* brand name and is a leading global producer of high-performance advanced ceramics materials and products. Advanced Ceramics serves four principal end-markets: (1) medical; (2) electronics; (3) industrial; and (4) automotive, with strong market positions in various niche markets such as medical products, cutting tools and mechanical applications. Our Advanced Ceramics segment generated net sales of \$412.2 million, \$505.9 million and \$452.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. See Note 3, Segment Information, for additional financial information regarding our Advanced Ceramics segment.

The global ceramics market comprises products and components based on inorganic, non-metallic, microcrystalline materials that are manufactured at high temperatures. The global ceramics market can be divided into traditional ceramics, such as bricks, tiles and white ware, and high-performance ceramics, which are ceramic materials and products optimized for special purposes. High performance ceramics have superior physical, electrical, chemical or biological properties as compared to traditional ceramics and competing materials, like metals or plastics. High-performance ceramics materials include ceramic powders, ceramic additives, structural ceramics and functional ceramics. Accordingly, they have increasingly replaced plastics and metals as key engineering materials. We compete in the high-performance ceramics segment of the market, offering a wide range of high-performance ceramics products from sealing discs for sanitary fittings to ceramic components for hip joint prostheses. These products serve the market's needs for materials that are light, strong, corrosion-resistant and capable of performing in high-temperature environments.

We believe that we have achieved success in the Advanced Ceramics segment as a result of our focus on selected segments of the high-performance ceramics market and our close customer relationships. Almost all of Advanced Ceramics' products are made to order, taking into account specific customer requirements. In many cases, our engineers work in close cooperation with our customers during the design and development phase of new products to ensure highest quality and customer satisfaction. Through its extensive experience, Advanced Ceramics has gained detailed expertise and know-how in its applications areas.

Principal Products

Medical. We currently serve the medical applications market with two product groups - ceramic components for hip joint prostheses, such as ball heads and inserts and ceramic glove formers for high-quality latex gloves. The ceramic components for hip joint prostheses are mainly supplied to orthopedic implant manufacturers in the United States and Europe. Besides their high wear resistance and good friction behavior, high-performance ceramics are biologically inert, making them one of the few materials that are durable and stable enough to withstand the corrosive effects of bodily fluids. As a result, we expect high-performance ceramics will increasingly become more common for medical applications, such as for repair and replacement of hips, knees and other human body parts.

We believe that ceramic-on-ceramic hip implants benefit from additional substitution effects as young people and more active elderly people are better suited to use ceramic implants given their numerous attractive properties. Currently, the penetration rate for ceramic-on-ceramic hip implants in Europe is significantly higher than in North America because the first Food and Drug Administration (FDA) approval for ceramic-on-ceramic hip joint prostheses systems was granted in 2003. However, given the relative superior performance and positive early acceptance levels in the United States, we expect the market for ceramic-on-ceramic hip joint prostheses systems to grow significantly in future years. We believe we are well positioned to take advantage of the growing market as we are currently the only manufacturer of ceramic-on-ceramic hip implant components used in FDA-approved hip joint prostheses systems in the United States. Given the difficulties and

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

time involved in obtaining an FDA approval, we believe that we will be the sole supplier in the intermediate term. We also enjoy strong relationships with the largest U.S. and European orthopedics implant manufacturers and are also expanding our focus to possible new applications in knee joint replacements.

Electronics. We develop and manufacture substrates, electrical resistor cores and ceramic tapes as carriers for electronic circuits. Substrates are ceramic plates with electrical, thermal and mechanical properties that serve as carriers in electronic applications. These highly specialized products are used in a wide range of industries, such as the automotive, consumer electronics, aeronautics and telecommunications industries. The demand for these products is driven, in large part, by the activity levels of the semiconductor market as well as a positive substitution effect for ceramic applications. We believe that increasing demand for electronic components will continue to offer significant growth opportunities for high-performance ceramics, such as piezo ceramics. As a leading supplier of electronic ceramics materials, we believe we are well positioned to take advantage of these growth opportunities.

Cutting Tools. We develop and manufacture products used in cutting tools, other tools and tooling systems. Ceramic material properties such as high melting points, excellent hardness and good wear resistance make ceramics an excellent high-speed cutting tool material. In addition, the longer life and faster cutting speeds possible with ceramic tools allow customers to save costs by increasing their throughput and reducing the downtimes for replacing their cutting tools. We believe we are a leading supplier of

ceramic cutting tools, other tools and tooling systems for high speed processing in the automotive, metalworking and mechanical engineering industries with automotive OEMs and their suppliers being our main customers.

Mechanical Applications and Systems. We also develop and manufacture high performance ceramic components that are used in mechanical applications and systems. Key product groups in mechanical applications include cutting blades, drawing and forming tools, drawing cones and capstans, guide elements, precision parts, pre-forms, friction discs, ceramic discs and cartridges for faucets. We primarily supply the general industrial, machinery, metalworking, automotive and textile industries with a large number of products customized to the customer requirements. Mechanical systems include products used in the sanitary fittings and automotive supplier industries in areas where fluids are pumped, compressed or stirred, such as bushings, face seal rings, pump components and valve shims and discs.

Other products. We also produce products used for applications in certain niche markets, such as electrical/thermal and ceramic metal connections and pre-forms for the casting process of piston engines, mainly for diesel engines. In October 2008, we acquired a business that focuses on solutions for wear and corrosion protection in industrial plants and armor components used in vehicle protection.

Competition

Advanced Ceramics' key competitors are Kyocera Corporation, CoorsTek, Inc., Compagnie de Saint-Gobain, The Morgan Crucible Company plc, Ceradyne Inc. and NGK Insulators, Ltd. However, each of these competitors has either a different geographical focus or product strategy with respect to small niche applications. Competition in the high performance ceramics market is primarily based on product quality, product specifications and customer service.

Customers

Advanced Ceramics' key customers include Robert Bosch GmbH, Stryker Corporation, EPCOS AG, Siemens AG, DePuy Orthopaedics, Inc. Vishay Intertechnology, Inc., Ideal Standard International BVBA and Zimmer, Inc.

Specialty Compounds (7% of 2009 net sales)

Our Specialty Compounds segment develops and manufactures thermoplastic materials possessing specialized characteristics, such as fire and smoke retardance, reduced weight or barrier properties which are tailored to the specific needs of each customer. These products are grouped into several key end-product areas: wire and cable, consumer performance products, medical applications and regulated packaging. Our Specialty Compounds segment had net sales of \$210.7 million, \$261.5 million and \$276.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. See Note 3, Segment Information, for additional financial information regarding our Specialty Compounds segment.

Our Specialty Compounds segment focuses on sales of higher margin products and operates as a global specialty performance plastic compounding business. We developed and commercialized *SmokeGuard*, our specialty compound for use in high-end data and video communication wire and cable, which must meet stringent fire retardant and low smoke generation standards. We also developed a compound

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

for beverage closure seals and caps. This compound prevents ozone from attacking the seal and does not affect the taste of water and carbonated beverages, therefore significantly increasing the shelf life of these beverages. We also focus on thermoplastic elastomer, or TPE, compounds in our consumer performance and automotive products areas. In addition to our product offerings, we provide strong, comprehensive customer service and technical expertise by developing innovative products to satisfy our customers' unique needs.

We have invested in next generation plastic compounding technologies, including the development of fluoropolymer materials and the improvement of our production of zero halogen materials. Specialty Compounds has worked closely with our Clay-based Additives business to create a patented composite material that exhibits superior flame retardancy for wire and cable jacketing and sheathing.

Principal Products

Wire and Cable Compounds. We develop and manufacture low-smoke vinyl and fluoropolymer alloys, such as *SmokeGuard*, which are used in high-end data and video communication, fiber optic and fire alarm wire and cable; halogen-free plastics, such as *Megolon*, which are used in industrial, aerospace, shipboard or oil rig cables as well as in communication cables and a variety of TPE compounds, such as *Garaflex*, which are used in flexible cords, tray cables, booster cables, welding cables and automotive wiring. We believe that there is significant growth potential for the wire and cable product line in Europe as a result of the evolution of a common market standard with higher specifications for wire and cable compounds. European wire and cable standards dictating certain safety specifications such as fire and smoke resistance are expected to be implemented within the next several years, providing significant new market opportunities for the *SmokeGuard* and *Megolon* product lines. *Megolon* is the trade name for a variety of halogen-free

wire and cable products and is the leading brand name for such products in Europe.

Consumer Performance Products. We develop and manufacture custom-made plastic compounds for use in products such as moldings, sealing gaskets, tool handles, writing instruments and ladder feet as well as other TPE-based products. Our product line includes *Garaflex*, *Garaflex V*, *Garaflex E*, *GE Series* and *GM Series*. We have also developed a soft-touch compound, *Evoprene*, that has been approved for a number of applications, including seals for consumer storage devices. We also develop and manufacture compounds for interior and exterior automotive applications such as airbag covers, steering wheel covers, gear shift knobs and boots, handle grips, body side molding and window gaskets. In addition, we develop and manufacture a broad range of compounds for unit soles, uppers, mid-soles, slippers and heels for the diverse requirements of the footwear market.

Medical Applications Compounds. We develop and manufacture a series of high-quality polyvinyl chloride, or PVC, compounds which are used to manufacture products such as tubing, disposable masks, and extraction resistant compounds used to make products to handle blood and bodily fluids.

Regulated Packaging. Under the *Alphaseal* trademark, we develop and manufacture specialty closure materials for soft drinks, beer, bottled water, juice, and other beverage applications which improve purity in taste and odor and provide reliable carbonation retention.

Competition

Specialty Compounds' key competitors are Colorite Plastics Company, ACTEGA DS, European Vinyl Corporation, Georgia Gulf Corporation, Norsk Hydro ASA, PolyOne Corporation, Teknor Apex Company and W.R. Grace & Co., most of which serve only a subset of Specialty Compounds' markets. We believe that only Teknor Apex is active in all of Specialty Compounds' markets. Competition in Specialty Compounds occurs primarily on the basis of quality, product innovation and the ability to meet demanding customer and regulatory specifications.

Customers

Specialty Compounds sells products to a wide range of customers, including closure systems International, Inc., Belden Inc., Nexans, Inc., Coleman Cable, Inc., CommScope, Inc., Corning Incorporated and Judd Wire Inc. Each of these companies has been our customer for at least ten years.

Raw Materials

We purchase raw materials and chemical intermediates from a large number of third parties. 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. Raw materials constituted approximately 47% of our 2009 cost of products sold. The table below lists the ten most significant raw materials in 2009 (in terms of dollars) and the principal products for which the materials were used.

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

Raw Material	Segment	Products
Titanium-bearing slag	Titanium Dioxide Pigments	Titanium Dioxide
Ilmenite	Titanium Dioxide Pigments	Titanium Dioxide
Quaternary amines (quat)	Performance Additives	Organoclays, wood protection products
Plasticizers	Specialty Compounds	Compounds
Copper	Performance Additives	Wood protection products
Tin	Specialty Chemicals	Metal sulfides
Iron-oxide	Performance Additives	Iron-oxide pigments
Zinc/Zinc oxide	Specialty Chemicals, Titanium Dioxide Pigments, Performance Additives	Conversion coating zinc, zinc-based pigments, zinc phosphate, tan iron-oxide
Phosphoric Acid	Specialty Chemicals	Metal surface treatment
PVC resin	Specialty Compounds	Compounds

Titanium-bearing slag and ilmenite, our two largest raw materials, are the most important raw materials used in the production of specialty grade titanium dioxide in our Titanium Dioxide business line of our Titanium Dioxide Pigments segment. We purchase Titanium-bearing slag primarily from two suppliers on a long-term basis and ilmenite from three suppliers on a long-term basis.

In our Clay-based Additives business line of our Performance Additives segment, quaternary amine is sourced under a long-term contract, which expires at the end of 2010 and is subject to monthly adjustment for the price of tallow, the base component of quat. In our Timber Treatment Chemicals business, we predominantly source quat under a contract that expires in late 2010, with automatic annual renewals subject to termination by either party.

In our Specialty Compounds segment, many of the plasticizers that are used are generic and considered a commodity product, while other materials are specific and considered specialty products. Our supply contracts for plasticizers do not specify a fixed price, and most of them contain market price and discount adjustments.

In our Timber Treatment Chemicals business, we source copper, a commodity, from several sources. Prices for our copper purchases are tied to market conditions. However, we expect the commercialization of next generation wood protection products to partially reduce our exposure to copper prices.

In our Specialty Chemicals segment, tin is used in the production of metal sulfides and is purchased from two suppliers under annual supply agreements.

Historically, we have received iron-oxide from multiple sources and have not experienced any significant supply shortages. Iron-oxide is used in our Color Pigments and Services business within our Performance Additives segment and is purchased from suppliers in China as a supplement to our iron-oxide production.

In our Performance Additives segment, zinc oxide is used in the production of tan iron-oxide and zinc phosphate and is purchased from multiple suppliers. In our Specialty Chemicals segment, zinc and zinc oxide are purchased from a few suppliers in Europe and the United States, and we have not experienced any supply shortages. Prices for these purchases are tied to market conditions. In our Titanium Dioxide Pigments segment, zinc is used to produce zinc-based pigments and is purchased from a number of suppliers under long-term contracts. There are no long-term zinc purchase contracts in our Specialty Chemicals or Performance Additives segments.

Phosphoric acid is used in our Specialty Chemicals segment and is purchased from various global sources. This raw material is used for metal surface treatment chemicals in our Surface Treatment business. Currently, there are no long-term purchase contracts for this raw material.

PVC resin is a commodity product used in our Specialty Compounds segment and its pricing is directly related to the price of ethylene and chlorine as well as PVC industry operating rates and energy prices. We purchase PVC resin from several suppliers under both short and long-term contracts.

In addition, lithium brine is a primary raw material source for all lithium chemicals and is found in only a small number of locations, including most significantly for us, the Atacama Desert in Chile. We have a long-term contract with the Chilean government to mine lithium brine in the Atacama Desert in Chile, which we believe provides a secure long-term access to lithium.

Major requirements for our key raw materials and energy are typically satisfied pursuant to contractual agreements and/or medium- or long-term relationships with suppliers. We are not generally dependent on any one supplier for a major part of our raw material requirements, but certain important raw materials are obtained from a few major suppliers. In general, where we have limited sources of raw materials, we have developed contingency plans to minimize the effect of any interruption or reduction in supply, such as sourcing from different facilities, multiple suppliers or utilizing alternative formulations.

Temporary shortages of raw materials may occasionally occur and cause temporary price increases. In recent years, these shortages have not resulted in unavailability of raw materials. However, the continuing availability and price of raw materials are affected by unscheduled plant interruptions occurring during periods of high demand, domestic and world market and political conditions, as well as the direct or indirect effect of governmental regulations. During periods of high demand, our raw materials are subject to significant price fluctuations, and, in the past, such fluctuations have had an adverse impact on the results of operations of our business. The impact of any future raw material shortages on our business as a whole or in specific geographic regions cannot be accurately predicted.

Intellectual Property

Our business is dependent to a large extent on our intellectual property rights, including patents and other intellectual property, trademarks and trade secrets. We believe that our intellectual property rights play an important role in maintaining our competitive position in a number of the markets we serve. We rely on technological know-how and formulation and application expertise in many of our manufacturing processes in order to develop and maintain our market positions. Where appropriate, we protect our new technology, applications and manufacturing processes by seeking patent protection. We have more than 3,000 patents and patent applications in key strategic markets worldwide, reflecting our commitment to invest in technology and covering many aspects of our products and processes for making those products. We also own and register in multiple jurisdictions numerous trade names and trade marks applicable to our business and products which we believe are important to our business. In addition, we have entered into agreements, pursuant to which we license intellectual property from third parties for use in our business and we license certain intellectual property to third parties. For example, we commercialized *Ecolife*, our next generation timber treatment preservative from

our Timber Treatment Chemicals business, through our joint venture. We also develop intellectual property with third parties as discussed below in Research and Development.

Research and Development

We are committed to further investing in our businesses, through research and development. Our research and development costs were approximately 2% of our net sales in 2009, which include certain expenses related to modifications and improvements in current products. We allocate our research and development resources selectively based on the needs and requirements of each business line to develop innovative products. Research and development costs are charged to expense, as incurred. Such costs were \$46.4 million, \$51.7 million and \$44.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The objective of our research and development effort is to develop innovative chemistries and technologies with applications relevant within targeted key markets. Research and development efforts are generally focused on both process development, which is the stage at which products move from development to manufacturing and new product development. Each business line, however, also has selected long-term strategic projects with the aim to develop new competencies and technologies. For example, our Fine Chemicals business is in the process of setting up a pilot plant for the recycling of lithium ion batteries.

Each of our business lines manages its own research and development effort and has separate research and development facilities dedicated to its specific area. However, where technologically applicable, advances and findings are shared between business lines to foster greater cross-fertilization of ideas and applications. In certain cases, we conduct research and development efforts with third parties, including universities, customers and other entities. We endeavor to obtain ownership of or license to, on terms favorable to us, the intellectual property developed with a third party.

Seasonality

There is a seasonal effect on a portion of our net sales due to the end-use of some of our products. Our Color Pigments and Services business line of our Performance Additives segment shows some seasonality related to the construction market which also depends upon weather conditions. As such, the first quarter has historically been the quarter where we experience the lowest net sales. During this quarter, we typically build inventory for our construction related businesses, in anticipation of increased sales during the spring and summer months. Thus, the first quarter is usually the quarter with the highest working capital requirements for us. Other than these seasonal trends in certain end-use markets, our overall results of operations tend to show few seasonal effects.

International Operations

The following table presents net sales based on geographic area (attributed based on seller's location):

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

(\$ in millions)	Year ended December 31,		
	2009	2008	2007
Net sales:			
Germany	\$ 1,176.0	\$ 1,371.0	\$ 1,298.6
Rest of Europe	751.5	799.3	655.1
United States	733.5	890.2	852.5
Rest of World	301.9	319.6	259.0
	\$ 2,962.9	\$ 3,380.1	\$ 3,065.2

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further details.

The following table presents our long-lived assets located in the regions indicated:

(\$ in millions)	December 31,		
	2009	2008	2007
Long-lived assets:			
Germany	\$ 782.2	\$ 791.5	\$ 798.7
Rest of Europe	427.7	456.9	261.5
United States	275.9	293.4	239.1
Rest of World	216.7	210.4	209.2
	\$ 1,702.5	\$ 1,752.2	\$ 1,508.5

Sales and Marketing

We sell our products and services globally primarily by using our direct sales forces, although we also sell through distributors in certain of our business lines, such as Color Pigments and Services and Clay-based Additives of our Performance Additives segment or by using third party sales representatives. Each of our direct sales forces is responsible for marketing only one of our business lines, and is administered pursuant to policies established by the management of that business line. Within each business line, these direct sales forces are organized based on geographic regions, end-use applications or sub-business divisions within the business line. As of February 1, 2010, our in-house sales forces consisted of approximately 1,600 personnel worldwide.

Our direct sales forces interact with our customers to provide both purchasing advice and technical assistance. In general, our sales forces arrange and coordinate contact between our customers and our research and development or technical personnel to provide quality control and new product solutions. In certain of our businesses, such as the Surface Treatment and Fine Chemicals business lines of our Specialty Chemicals segment, most sales managers have a chemical engineering background with advanced degrees and significant technical experience in applying our products, and they play a critical role in developing client relationships and acquiring new clients. Our close interaction with our customers and tailored solutions have allowed us to develop and maintain strong customer relationships as well as focus our sales efforts on those customers who we believe will provide us with higher profit margins in recognition of our superior products, service and technical support.

Sales in each of our business lines are generally made on a purchase order basis. However, longer-term arrangements have been established with certain key customers.

Our marketing strategy is generally aimed at working directly with customers to gauge the success of our products, evaluate the need for improvements in product and process technology, and identify opportunities to develop new product solutions for our customers and their end-use markets. We also use media activities, lectures and tradeshow as part of our sales and marketing effort.

FDA Regulation

Our Advanced Ceramics segment and to a lesser extent, our Specialty Chemicals segment, are subject to regulation by the FDA with respect to certain products we produce, including pharmaceutical intermediates and ceramic ball head and liner components used in hip joint prostheses systems. Foreign, state, local and other authorities also may regulate us and our products. Regulatory agencies have established requirements that apply to the design, manufacture and marketing of pharmaceutical and medical device products. We sell our pharmaceutical intermediates and ceramic-on-ceramic components to other companies that also may be regulated by such authorities.

Premarket Approval. While we are not required to seek FDA approvals for our pharmaceutical intermediates, the customers to whom we supply such products may be subject to FDA approval requirements prior to testing a new drug on humans as well as marketing a new drug for commercial use in the United States. Our customers with FDA approval for a finished drug may also be required to obtain FDA approval of design, manufacturing or labeling changes to the pharmaceutical intermediates used in their finished products.

Medical devices also are subject to extensive regulation by the FDA prior to commercial distribution in the United States, including premarket approval, or PMA, which is required for devices deemed to pose the greatest risk and certain other devices. Our Advanced Ceramics segment

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

currently supplies ceramic ball head and liner components to manufacturers for incorporation into their total hip prostheses systems, which are subject to the FDA's PMA requirements. In addition, our Advanced Ceramics business or our customers who have obtained PMA approval may be required to obtain FDA approval for changes to the design, manufacturing or labeling of our ceramic ball head and liner components. Also, any other medical devices which our Advanced Ceramics segment seeks to produce in the future, such as knee replacement products, would likely require FDA approval for sales in the United States.

Compliance Requirements. Once on the market, drug manufacturers and medical device manufacturers are subject to numerous post-market regulations. Finished device manufacturers such as our customers who manufacture hip prostheses systems are subject to the FDA's Quality System Regulation, or QSR, which requires quality assurance practices and procedures that address, among other things: management responsibility; audits and training; design controls; purchasing controls; identification and traceability of components; production and process controls; acceptance activities; handling of nonconforming products; the initiation of corrective and preventive actions; labeling and packaging controls; handling, storage and distribution of products and complaint handling and record keeping. The FDA does not directly require component suppliers of finished medical devices to comply with the QSR. However, because our ceramic-on-ceramic ball head and liner components are critical elements of hip joint prostheses systems, our customers may require us to comply with some or all of the QSR. Moreover, the FDA may in the future take the position that the types of components that we supply meet the definition of a finished device and are thus subject to the QSR. Our current contracts with our customers of ceramic-on-ceramic ball head and liner components require us to comply or assist our customers in complying with various FDA regulatory requirements.

The FDA's inspectional authority extends to component suppliers. Pursuant to this authority, the FDA has the ability to conduct and has conducted inspections at our facilities at which we manufacture our ceramic-on-ceramic ball head and liner components.

If we or our customers violate FDA or other governmental regulatory requirements during either the pre- or post-marketing stages, there may be various adverse consequences. For example, in the United States, the FDA has the authority to impose fines, injunctions, and civil penalties; recall or seize products; impose operating or import restrictions, partial suspension or total shutdown of production; delay its approval or refuse to grant approval of new products; or withdraw the submission of the approved product from the market.

Safety, Health and Environmental Matters

See Note 20, Commitments and Contingencies, for a discussion of our safety, health and environmental matters.

Employees

As of February 1, 2010, we had approximately 9,500 employees, with 68% located in Europe, 17% in the United States and the remaining 15% located in the rest of the world. Of our employees, approximately 3,000, or 31%, are subject to either collective bargaining agreements or other similar arrangements.

We observe local customs, legislation and practice in labor relations and, where applicable, in negotiating collective bargaining agreements. Management believes that its relations with employees and their representatives are good. We have not suffered any material work stoppages or strikes in our worldwide operations in the last five years.

Available Information

Rockwood Holdings, Inc. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any documents we file at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers file electronically with the SEC. The SEC's website is www.sec.gov.

The Company's website is www.rocksp.com. We have made available, free of charge through our website, our annual report on Form 10-K, and will make available our quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company's proxy statement will be available when filed with the SEC.

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

From time to time, Rockwood may use its Web site as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at

http://www.rockwoodspecialties.com/rock_english/news/compnews.asp. In addition, you may automatically receive email alerts and other information about Rockwood by enrolling your email by visiting the Rockwood Holdings, Inc. Alert Form section at http://www.rockwoodspecialties.com/rock_english/ir/alertform.asp. The foregoing information regarding our website and its content is for convenience only. The content of our website is not deemed to be incorporated by reference into this report nor should it be deemed to have been filed with the SEC.

Item 1A. Risk Factors.

You should carefully consider these risk factors in evaluating our business. In addition to the following risks, there may also be risks that we do not yet know of or that we currently think are immaterial that may also affect our business. If any of the following risks occur, our business, results of operations, cash flows or financial condition could be adversely affected.

Substantial Leverage Our available cash and access to additional capital may be limited by our substantial leverage.

We are highly leveraged and have significant debt service obligations. As of December 31, 2009, we had \$2,528.3 million of indebtedness outstanding and total equity of \$1,140.8 million. This level of indebtedness could have important negative consequences to us and you, including:

- we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes;

- we will need to use a substantial portion of our available cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities;
- some of our debt, including borrowings under the senior secured credit facilities, have variable rates of interest, which will expose us to the risk of increased interest rates;
- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;
- our substantial amount of debt and the amount we need to pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt; and
- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could cause our lenders to terminate commitments under our debt agreements, declare all amounts, including accrued interest, due and payable, and enforce their rights in respect of collateral.

Our cash interest expense for the year ended December 31, 2009 was \$174.1 million. At December 31, 2009, we had \$1,877.4 million of variable rate debt (\$1,506.9 million of which is subject to a Libor or Euribor floor of 2.00%). After including the notional amounts of variable to fixed interest rate swaps, the variable amount was \$1,186.9 million. A 1% increase in the average interest rate would increase future interest expense by approximately \$11.9 million per year. As of December 31, 2009, our debt service for 2010, which represents expected principal payments of our long-term debt and estimated scheduled cash interest payments, was expected to be \$263.6 million. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity—Contractual Obligations for years beyond 2010.

Additional Borrowings Available *Despite our substantial leverage, we and our subsidiaries may be able to incur more indebtedness. This could further exacerbate the risks described above, including our ability to service our indebtedness.*

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although our indirect, wholly-owned subsidiary, Rockwood Specialties Group, Inc.'s (Group or Groups) senior secured credit facilities and the indenture governing the senior subordinated notes due 2014 (the 2014 Notes) contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances indebtedness incurred in compliance with such restrictions could be substantial. For example, the term loans under the senior secured credit facilities may be increased by up to \$250.0 million in the aggregate, subject to certain exemptions and provided that Group procures lender commitments for such increase. As of December 31, 2009, the revolving credit facility under the senior secured credit facilities provided for additional borrowings of up to \$223.6 million, after giving effect to \$26.4 million of letters of credit issued on our behalf. As of December 31, 2009, the Titanium Dioxide Pigments venture facility provided for a revolving credit facility of \$30.0 million (\$43.0 million), of which \$10.0 million (\$14.3 million) was outstanding, as well as an outstanding bank guarantee of

10.0 million (\$14.3 million) related to a defined benefit pension obligation that further reduced availability under this facility. To the extent new debt is added to our debt levels, the substantial leverage risks described above would increase.

Restrictive Covenants in Our Debt Instruments *Our debt instruments contain a number of restrictive covenants which may limit our ability to finance future operations or capital needs or engage in other business activities that may be in our interest.*

Group's senior secured credit agreement and indenture governing the 2014 Notes and the Titanium Dioxide Pigment's venture facility agreement impose, and the terms of any future indebtedness may impose, operating and other restrictions on us. Such restrictions will affect, and in many respects limit or prohibit, among other things, our ability to take certain actions. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources section for further details. In addition, Group's senior secured credit facilities require us and the Titanium Dioxide Pigment's venture facility requires the venture to achieve certain financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control such as an economic downturn. The restrictions and financial covenants contained in Group's senior secured credit agreement and indenture governing the 2014 Notes and the Titanium Dioxide Pigment's venture facility could adversely affect our ability to finance our operations, acquisitions, investments or strategic plans or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under the facilities described above. If an event of default occurs under any of these facilities, which includes an event of default under the indenture governing the 2014 Notes, the lenders could elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or
- prevent us from making any principal, premium or interest payments;

any of which would result in an event of default. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further financing. If we were unable to repay or otherwise refinance these borrowings when due, our lenders could sell the collateral securing the senior secured credit facilities, which constitutes substantially all of our and our subsidiaries' assets.

Downturns in certain industries and general economic conditions could adversely affect our profitability and liquidity.

In the event another economic downturn or recession or disruption in the capital markets occurs, our results of operations, cash flows and financial position could be materially and adversely affected. Under such circumstances, the demand for our products could decrease, which would adversely affect our results of operations. In addition, our products are used in certain industries, such as the automotive, data and communications and construction industries. Prolonged downturns or bankruptcies in one or more of these industries could severely reduce demand for our products. For example, sales in our Performance Additives business have been adversely impacted by downward trends in commercial and residential construction, housing starts and trends in residential repair and remodeling. Further, a downturn in the automotive industry, particularly in Europe, may adversely affect the results of operations of our Surface Treatment business in our Specialty Chemicals segment. Moreover, if the value of one or more of our businesses deteriorates, we may be required to record additional impairment charges that could adversely affect our results of operations. If we are unable to successfully anticipate or respond to changing economic conditions, our results of operations and financial position may be materially and adversely affected.

Further, another economic downturn or recession or market disruption in the capital and credit markets may adversely impact our future cash flows from operations and our liquidity. For example, we have pension plans located in Germany, Finland, the United Kingdom and the United States that were adversely impacted by market conditions in late 2008 and early 2009. In the future, we may have to make a significant payment via a one-time payment and/or long-term funding arrangement to one or more of these plans. Our funding obligations could also change significantly based on the investment performance of the pension plan assets. Any deterioration of the capital markets or returns available in such markets may materially and adversely impact our pension plan assets and increase our funding obligations for one or more of these plans and adversely impact our liquidity. We cannot predict the impact of this or any market disruption on our pension funding obligations.

Risks Associated with Acquisitions We may not be able to successfully integrate completed acquisitions or consummate acquisitions we may seek to make in the future.

The process of combining or acquiring businesses with Rockwood involves risks. We may face difficulty completing the integration of the new operations, technologies, products and services of acquisitions or combinations, and may incur unanticipated expenses related to those integrations. The difficulties of combining operations may be magnified by integrating personnel with differing business backgrounds and corporate cultures. Failure to successfully manage and integrate acquisitions with our existing operations could lead to the potential loss of

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

customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could affect our financial condition and results of operations. Even if integration occurs successfully, failure of any future acquisition or combination to achieve levels of anticipated sales growth, profitability or productivity comparable with those achieved by our existing operations, or otherwise not perform as expected, may adversely impact our financial condition and results of operations. In addition, certain acquisitions may trigger regulations designed to monitor competition and would therefore require regulatory approval. We cannot predict whether such authorities will approve acquisitions we seek to accomplish in the future.

Currency Fluctuations *Because a significant portion of our operations is conducted in foreign currencies, fluctuations in currency exchange rates may adversely impact our financial condition and results of operations and may affect the comparability of our results between financial periods.*

Our operations are conducted by subsidiaries in many countries. The results of their operations and financial condition are reported in the local currency and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between some of these currencies and the dollar in recent years have fluctuated significantly and may continue to do so in the future. A significant portion of our net sales and cost of products sold is denominated in Euros. Approximately 56% of our 2009 net sales were derived from subsidiaries whose local currency is the euro. This increases the impact of the fluctuation of the euro against the U.S. dollar.

Furthermore, because a portion of our debt is denominated in Euros, which as of December 31, 2009 equaled an aggregate of 863.8 million (\$1,237.0 million), we are subject to fluctuation in the exchange rate between the U.S. dollar and the euro. For example, the dollar-euro noon buying rate announced by the Federal Reserve Bank of New York increased from 1.00 = \$0.939 on December 31, 2000 to 1.00 = \$1.4321 on December 31, 2009. Being subject to this currency fluctuation may have an adverse effect on the carrying value of our debt and may also affect the comparability of our results of operations between financial periods. As of December 31, 2009, a weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$8.6 million the U.S. dollar equivalent of our total euro-denominated debt of 863.8 million. In addition, because our consolidated financial statements are reported in U.S. dollars, the translation effect of such fluctuations has in the past significantly impacted, and may in the future, significantly impact the carrying value of our debt and results of operations and may affect the comparability of our results between financial periods. We also incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. We may not be able to effectively manage our currency translation and/or transaction risks, and as a result, volatility in currency exchange rates may have a material adverse effect on the carrying value of our debt and results of operations.

Regulation of Our Raw Materials, Products and Facilities *Our business could be adversely affected by regulation to which our raw materials, products and facilities are subject.*

Some of the raw materials we handle, and our products and facilities, are subject to government regulation. These regulations affect the manufacturing processes, handling, uses and applications of our products. In addition, some of our subsidiaries' products contain raw materials, such as arsenic pentoxide, carbon disulfide, lithium carbonate, tetrahydrofuran, copper, chromic acid, silica, zinc chromate and lead that are deemed hazardous materials in certain situations. The use and handling of these materials is regulated and some of these regulations require product registrations, which also are subject to renewal and potential revocation. For example, in February 2002, the EPA announced a voluntary decision by CCA manufacturers, including our subsidiaries, to amend their registrations for CCA to limit use of CCA-treated lumber in most residential settings, effective December 31, 2003. These regulations may affect our ability to market certain chemicals we produce.

There is also a risk that other key raw materials or one or more of our products may be found to have, or be recharacterized as having, a toxicological or health-related impact on the environment or on our customers or employees. If such a discovery or recharacterization occurs, the relevant materials, chemicals or products, including products of our customers incorporating our materials or chemicals, may be recalled or banned or we may incur increased costs in order to comply with new regulatory requirements. Change in regulations, or their interpretation, may also affect the marketability of certain of our products. We cannot predict how these and other findings from regulatory agencies may affect our cash flows or results of operations.

Manufacturing Hazards *Hazards associated with chemical manufacturing could adversely affect our results of operations.*

Due to the nature of our business, we are exposed to the hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes in our manufacturing facilities or our distribution centers, such as fires, explosions and accidents. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on our company as a whole. Other hazards include piping and storage tank leaks and ruptures, mechanical failure, employee exposure to hazardous substances, chemical spills and other discharges or releases of toxic or hazardous substances or gases, inclement weather and natural disasters. These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which could lead to government fines or work stoppage injunctions and lawsuits by injured persons. For example, our subsidiary is named as defendant in a wrongful death suit filed by the family of an employee who worked in our Clay-based Additives facility in Gonzales, Texas. While we are unable to predict the outcome of this case and other such cases, if determined adversely to us, we may not have adequate insurance to cover such claims and, if not, we may not have sufficient cash flow to pay for such claims. Such outcomes could adversely affect our customer goodwill, cash flow and results of operations.

Raw Materials Fluctuations in costs of our raw materials or, our access to supplies of our raw materials could adversely affect our results of operations.

Although no single raw material represented more than 3% of our cost of products sold in 2009, raw material costs generally account for a high percentage of our total costs of products sold. In 2009, raw materials constituted approximately 47% of our cost of products sold. We generally purchase raw materials based on supply agreements linked to market prices and therefore our results of operations are subject to short-term fluctuations in raw materials prices. These fluctuations limit our ability to accurately forecast future raw material costs and hence our profitability.

Many of the raw materials we use are commodities, and the price of each can fluctuate widely for a variety of reasons, including changes in availability, major capacity additions or reductions or significant facility operating problems. Historically, there have been

some price increases we have not been able to pass through to our customers. This trend may continue in the future. In addition, titanium-bearing slag used in our Titanium Dioxide Pigments segment, is our largest raw material (in terms of dollars) and is sourced primarily from two suppliers. If one of our suppliers is unable to meet its obligations under our present supply agreement or we are unable to enter into new supply arrangements on competitive terms when our existing short-term supply arrangements expire, we may be forced to pay higher prices to obtain these necessary raw materials. In addition, a significant portion of our lithium compounds are processed at a single location of a supplier. Any disruption at this facility could adversely affect our ability to meet market demand for these products, our relationships with our customers and our results of operations. Furthermore, certain of our raw materials, such as cesium and lithium salts, are sourced from countries where political, economic and social conditions may be subject to instability. In addition, one of our raw materials, lithium brine, requires a period of gestation before it can be used to produce lithium compounds. In the event there is an increase in market demand for lithium products, or of unfavorable weather conditions at the lithium ponds, as we experienced in early 2006, we may not be able to respond to such market demand on a timely basis. Any interruption of supply or any price increase of raw materials could result in our inability to meet demand for our products, loss of customer goodwill and higher costs of producing our products.

Energy Costs *Fluctuations in energy costs could have an adverse effect on our results of operations.*

Energy purchases in 2009 constituted approximately 8% of Rockwood's cost of products sold. Fluctuations in the price of energy limit our ability to accurately forecast future energy costs and consequently our profitability. For example, natural gas prices were volatile and increased in 2008 in Europe, due in part to global political conditions and weather conditions. Rising energy costs may increase our raw material costs and negatively impact our customers and the demand for our products. These risks will be heightened if our customers or production facilities are in locations experiencing severe energy shortages. For example, our lithium facility in Chile has experienced a shortage of natural gas in the past due to the Argentine government's decision to ration its supply of natural gas to Chile. If energy prices fluctuate significantly, or we experience severe energy shortages, our business, in particular, our Titanium Dioxide segment, or results of operations may be adversely affected.

Environmental, Health and Safety Regulation *Compliance with extensive environmental, health and safety laws could require material expenditures or changes in our operations.*

Our operations are subject to extensive environmental, health and safety laws and regulations at national, international and local levels in numerous jurisdictions. In addition, our production facilities and a number of our distribution centers require operating permits that are subject to renewal. The nature of the chemicals industry exposes us to risks of liability under these laws and regulations due to the production, storage, transportation, disposal and sale of chemicals and materials that can cause contamination or personal injury if released into the environment. In 2009, our capital expenditures for safety, health and environmental matters (SHE) were \$17.9 million. For 2010, we estimate capital expenditures for compliance with SHE laws to be at similar levels. We may be materially impacted in the future by the Registration, Evaluation and Authorization of Chemicals, or REACH, legislation which became effective in the European Union (EU) on June 1, 2007. We estimate our cost of compliance with REACH to be approximately \$5.0 million in 2010 and approximately \$3.0 million per year from 2011 through 2018, although we may incur additional costs.

Compliance with environmental laws generally increases the costs of manufacturing, the cost of registration/approval requirements, the costs of transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes, and could have a material adverse effect on our results of operations. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, for violations arising under these laws or permit requirements. Furthermore, environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws or their interpretation, or the enactment of new environmental laws, could result in materially increased capital expenditures and compliance costs. For example, proposed regulation related to greenhouse gases and carbon dioxide emissions, such as the cap and trade requirements, and potential revisions to the Toxic Control Substances Act, could materially and adversely impact our results of operations.

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

In addition, the discovery of contamination arising from historical industrial operations at some of our former and present properties has exposed us, and in the future may continue to expose us, to cleanup obligations and other damages. For example, soil and groundwater contamination is known to exist at several of our facilities. At December 31, 2009, we had approximately \$55.1 million in reserves for estimated environmental liabilities and estimated the potential range of exposure for such liabilities to be between \$55.1 million and \$91.2 million.

Environmental Indemnities *We may be subject to environmental indemnity claims relating to properties we have divested.*

The discovery of contamination arising from properties that we have divested may expose us to indemnity obligations under the sale agreements with the buyers of such properties or cleanup obligations and other damages under applicable environmental laws. For example, we have obligations to indemnify the buyers of the former explosives business and automotive ignition systems business of Dynamit Nobel for certain environmental matters. Under such sale agreements, these indemnities are not limited as to amount. In

addition, we agreed to indemnify the buyer of our former Electronics business for five and seven years, for on-site and off-site environmental liabilities, respectively, related to such business. We may not have adequate insurance coverage or cash flows to make such indemnity payments. Such payments may be costly and may adversely affect our financial condition and results of operations.

Product Liability *Due to the nature of our business and products, we may be liable for damages arising out of product liability claims.*

The sale of our products involves the risk of product liability claims. For example, some of the chemicals or substances that are used in our businesses, such as arsenic pentoxide, have been alleged to represent potentially significant health and safety concerns. Class action suits have been filed in Louisiana, Florida and Arkansas, for example, naming one of our subsidiaries and a number of competitors of our Timber Treatment Chemicals business line, as well as treaters and retailers, as defendants. In addition, our subsidiary has been named as a defendant in personal injury suits in several jurisdictions with retailers and treaters named as other defendants. Furthermore, there are other similar suits, including putative class actions, pending against retailers, treaters and other formulators to which we may be eventually named as a defendant. These suits allege, among other things, product liability claims in connection with the use of timber products treated with CCA, which utilizes arsenic pentoxide as a raw material.

Other legal actions in which we participate or which relate to our business include the following:

- a subsidiary in our Advanced Ceramics segment has been named as a defendant in several product liability lawsuits in Europe relating to broken artificial hip joints, which allege negligent manufacturing by our subsidiary of ceramic components used in the production of artificial hip joints.
- a subsidiary that formerly manufactured sealants for insulated glass has been named as a defendant in several lawsuits related to alleged negligent manufacturing of these products in Europe.

Also, because many of our products are integrated into our customers' products, we may be requested to participate in or share in the costs of a product recall conducted by a customer. For example, some of our businesses, including those within our Specialty Chemicals, Advanced Ceramics and Specialty Compounds segments, supply products to customers in the automotive industry. In the event one of these customers conducts a product recall that it believes is related to one of our products, we may be asked to participate in or fund in whole or in part such a recall.

We are unable to estimate our exposure, if any, to the above-mentioned lawsuits at this time. We may be subject to future claims with regard to these suits or others like them and we may not be able to avoid significant product liability exposure. A successful product liability claim or series of claims against us for which we are not otherwise indemnified or insured could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations. For example, for policies renewed on or after November 2002, our insurers excluded CCA from our insurance coverage under our general liability policies. We may not have sufficient cash flow from operations or assets to pay a judgment resulting from a product liability claim or product recall, if any, for which there is no or inadequate insurance coverage. Any such judgment or product recall could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations.

Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims.

We may be subject to indemnity claims for product liability lawsuits relating to products we have sold. For example, our Timber Treatment Chemicals business has entered into indemnity agreements with various customers who purchased CCA-based wood protection products. Pursuant to those agreements, one of our subsidiaries agreed to defend and hold harmless those customers for certain causes of action, based on domestic mammalian, and in some cases, human toxicity, caused by our CCA-based wood protection products, subject to certain conditions. Our Timber Treatment Chemicals business, and several of our customers were named as defendants in several suits, including putative class actions, relating to CCA-based wood protection products. Our Timber Treatment Chemicals business has received and may in the future receive claims for indemnity from customers in connection with litigation relating to CCA-based wood protection products and may be required to pay indemnity claims under such agreements to one or more of its customers. If our Timber Treatment Chemicals business is required to pay one or more indemnity claims, insurance or indemnity arrangements from Evonik Degussa GmbH (the successor to Laporte, from which the specialty chemicals business lines that formed Rockwood in the KKR Acquisition were acquired) may not cover such claims and, if not, our subsidiary may not have sufficient free cash flow to pay such claims. We are unable to estimate our exposure, if any, to these claims and lawsuits at this time.

In addition, our Specialty Chemicals segment's subsidiary that formerly manufactured sealants for insulating glass and resins for laminated glass 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, mainly re-glazing costs. Our insurance may not cover such claims and, in such a case, our subsidiary may not have sufficient cash flow to pay these claims. One or more of these claims could adversely affect our financial condition or results of operations.

FDA Regulation *Some of our manufacturing processes and facilities, pharmaceutical customers and medical device customers are subject to regulation by the FDA or similar foreign agencies. These requirements could adversely affect our results of operations.*

Regulatory requirements of the FDA are complex. Any failure to comply with them could subject us and/or our customers to fines, injunctions, civil penalties, lawsuits, recall or seizure of products, total or partial suspension of production, denial of government approvals, withdrawal of marketing approvals and criminal prosecution. Any of these actions could adversely impact our net sales, undermine goodwill established with our customers, damage commercial prospects for our products and materially adversely affect our results of operations.

The manufacture and supply of ceramic ball head and liner components for hip joint prostheses systems by our Advanced Ceramics segment may be subject to the FDA's Quality System Regulation, which imposes current Good Manufacturing Practice requirements on the manufacture of medical devices. Certain lithium compounds manufactured by our Fine Chemicals business line of our Specialty Chemicals segment are also subject to FDA regulation.

In addition, medical device customers of our Advanced Ceramics segment to whom we supply our ceramic ball head and liner components are subject to FDA regulation, including premarket approval of their products and post market compliance requirements. The FDA may take three years or longer to grant premarket approval, if at all. Once approved, our customers' total hip prostheses systems may be withdrawn from the market either voluntarily by our customers or as a result of the FDA's or a foreign equivalent's withdrawal of marketing approval or removal of such products for a number of reasons including safety, current Good Manufacturing Practice or Quality System Regulation problems with our products or our customers' final products. For example, a customer in our Advanced Ceramics segment initiated a voluntary recall in January 2008 of its hip implant system. Any such regulatory action could significantly limit our net sales generated by our Advanced Ceramics segment and may have a material adverse effect on our financial condition and results of operations.

Competition *Our industry is highly competitive. The end-use markets in which we compete are also highly competitive. This competition may adversely affect our results of operations.*

We face significant competition from major international producers as well as smaller regional competitors. Our most significant competitors include major chemicals and materials manufacturers and diversified companies, a number of which have revenues and capital resources exceeding ours. In addition, there is increasing competition from market participants in China.

Within the end-use markets in which we compete, competition between products is intense. Substitute products also exist for many of our products. Therefore, we face substantial risk that certain events, such as new product development by our competitors, changing customer needs, production advances for competing products, price changes in raw materials and products, our failure to secure patents or the expiration of patents, could result in declining demand for our products as our customers switch to substitute products or undertake manufacturing of such products on their own. If we are unable to develop, produce or market our products to effectively compete against our competitors, our results of operations may materially suffer.

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

We believe that our customers are increasingly looking for strong, long-term relationships with a few key suppliers that help them improve product performance, reduce costs, or support new product development. To satisfy these growing customer requirements, our competitors have been consolidating within product lines through mergers and acquisitions. We may also need to invest and spend more on research and development and marketing costs to strengthen existing customer relationships, as well as attract new customers. As a result, our substantial debt level could limit our flexibility to react to these industry trends and our ability to remain competitive.

Product Innovation *If we are not able to continue our technological innovation and successful commercial introduction of new products, our profitability could be adversely affected.*

Our industries and the end-use markets into which we sell our products experience periodic technological change and product improvement. Manufacturers periodically introduce new generations of products or require new technological capacity to develop customized products. Our future growth will depend on our ability to gauge the direction of the commercial and technological progress in all key end-use markets and upon our ability to fund and successfully develop, manufacture and market products in such changing end-use markets. We will have to continue to identify, develop, market and in certain cases, secure regulatory approval for innovative products on a timely basis to replace or enhance existing products in order to maintain our profit margins and our competitive position. We may not be successful in developing new products and/or technology, either alone or with third parties, or

licensing intellectual property rights from third parties on a commercially competitive basis. Our new products may not be accepted by our customers or may fail to receive regulatory approval. If we fail to keep pace with the evolving technological innovations in our end-use markets on a competitive basis, our business, financial condition and results of operations could be adversely affected.

Dependence on Intellectual Property *If our intellectual property were copied by competitors, or if they were to develop similar intellectual property independently, our results of operations could be negatively affected.*

Our success depends to a significant degree upon our ability to protect and preserve our intellectual property rights, which rights we own or use pursuant to licenses granted to us by third parties. The confidentiality and patent assignment agreements we enter into with most of our key employees and third parties to protect the confidentiality, ownership and use of intellectual property may be breached, may not be enforceable, or may provide for joint ownership or ownership by a third party. In addition, we may not have adequate remedies for a breach by the other party, which could adversely affect our intellectual property rights. The use of our intellectual property rights or intellectual property similar to ours by others or our failure to protect such rights could reduce or eliminate any competitive advantage we have developed, adversely affecting our net sales. If we must sue to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in significant costs and diversion of company resources and management attention, and we may not prevail in such action. We are periodically involved in actions related to misappropriation of our intellectual property by former employees. In addition, when our patents expire, competitors or new market entrants may manufacture products substantially similar to our products previously protected by a patent. For example, our patent in ACQ technology expired in May 2007 and as a result, there may be new entrants into this market.

We conduct research and development activities with third parties and license certain intellectual property rights from third parties and we plan to continue to do so in the future. For example, in our Timber Treatment Chemicals business, we commercialized Ecolife, our next generation timber treatment preservative from our Timber Treatment Chemicals business, through our joint venture with Rohm and Haas Company (a subsidiary of The Dow Chemical Company). We endeavor to license or otherwise obtain intellectual property rights on terms favorable to us. However, we may not be able to license or otherwise obtain intellectual property rights on such terms or at all. Our inability to license or otherwise obtain such intellectual property rights could have a material adverse effect on our ability to create a competitive advantage and create innovative solutions for our customers, which will adversely affect our net sales and our relationships with our customers.

The steps we take to protect our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. We have been subject to oppositions of our patents and trademarks by third parties before regulatory bodies in certain jurisdictions. Our failure to defend these patents or registered trademarks may limit our ability to protect the intellectual property rights that these applications were intended to cover. In addition, a failure to obtain and defend our trademark registrations may impede our marketing and branding efforts and competitive position. A failure to protect our intellectual property rights could have a material adverse effect on demand for our products and our net sales.

Risk of Intellectual Property Litigation *Our products or processes may infringe the intellectual property rights of others, which may cause us to pay unexpected litigation costs or damages or prevent us from selling our products.*

Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, our processes and products may infringe or otherwise violate the intellectual property rights of others. We may be subject to legal proceedings and claims, including claims of alleged infringement by us or our licensees of the patents, trademarks and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our businesses. If we were to discover or be notified that our processes or products potentially infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from these parties or substantially re-engineer our products and processes in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products

successfully. Moreover, if we are sued for infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

International Operations *As a global business, we are exposed to local business risks in different countries which could have a material adverse effect on our financial condition or results of operations and the value of our common stock.*

We have significant operations in many countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in countries such as Brazil, Chile, China, Czech Republic, India, Malaysia, Poland, Singapore, South Africa, South Korea, Taiwan and Turkey. Of our total net sales in 2009 of \$2,962.9 million, approximately 73% were generated by shipments to countries outside North America. Our operations are affected directly and indirectly by global regulatory, economic and political conditions, including:

- new and different legal and regulatory requirements in local jurisdictions;

- managing and obtaining support and distribution for local operations;
- increased costs of, and availability of, transportation or shipping;
- credit risk and financial conditions of local customers and distributors;
- potential difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- potential imposition of restrictions on investments;
- potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;
- capital controls; and
- local political, economic and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

In addition, our facilities may be targets of terrorist activities that could result in full or partial disruption of the activities of such facilities. We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business. Our failure to do so could limit our ability to sell products, compete or receive payments for products sold in such locations.

Furthermore, our subsidiaries are subject to rules and regulations of the United States, such as anti-bribery prohibitions and export controls and economic embargos, violations of which may carry substantial penalties. For example, export control and economic embargo regulations limit the ability of our subsidiaries to market, sell, distribute or otherwise transfer their products or technology to prohibited countries or persons. Failure to comply with these regulations could subject our subsidiaries to fines, enforcement actions and/or have an adverse affect on our reputation and the value of our common stock.

Retention of Key Personnel *If we lose certain key personnel or are unable to hire additional qualified personnel, we may not be able to execute our business strategy.*

Our success depends, in part, upon the continued services of our highly skilled personnel involved in management, research, production, sales and distribution, and, in particular, upon the efforts and abilities of our executive officers and key employees. Although we believe that we are adequately staffed in key positions and that we will be successful in retaining key personnel, we may not be able to retain such personnel on acceptable terms or at all. Furthermore, if we lose the service of any executive officers or key employees, we may not be able to execute our business strategy. We do not have key-person life insurance covering any of our employees.

Relations with Employees *We are subject to stringent labor and employment laws in certain jurisdictions in which we operate, and our relationship with our employees could deteriorate, which could adversely impact our operations.*

A majority of our full-time employees are employed outside the United States, particularly in Germany where many of our businesses are located. In certain jurisdictions where we operate, particularly in Germany, labor and employment laws are relatively stringent and, in many cases, grant significant job protection to certain employees, including rights on termination of employment. In addition, in certain countries where we operate, including Germany, our employees are members of unions or are represented by a works council as required by law. We are often required to consult and seek the consent or advice of these unions and/or respective works councils. These regulations and laws coupled with the requirement to consult with the relevant unions or works councils could significantly limit our flexibility in managing costs and responding to market changes.

Furthermore, with respect to our employees that are subject to collective bargaining arrangements or similar arrangements (approximately 31% of our full-time employees as of February 1, 2010), we may not be able to negotiate labor agreements on satisfactory terms and actions by our employees may disrupt our business. If these workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations and/or higher ongoing labor costs. In addition, if our other employees were to become unionized, we could experience a significant disruption of our operations and/or higher ongoing labor costs.

Tax Liabilities *If mg technologies ag (now known as GEA Group Aktiengesellschaft) or Degussa UK Holdings, Ltd. fail to satisfy their contractual obligations, we may be subject to increased tax exposure resulting from pre-acquisition periods.*

Under the terms of certain purchase agreements, third party sellers have agreed to substantially indemnify us for tax liabilities pertaining to the pre-acquisition periods. To the extent such companies fail to indemnify or satisfy their obligations, or if any amount is not covered by the terms of the indemnity, we would be required to record an adjustment to goodwill to satisfy any such liabilities and could be negatively impacted in future periods through increased tax expense.

Net Loss *We have experienced losses in the past and may experience losses in the future and cannot be certain that our net operating loss carryforwards will continue to be available to offset our tax liability.*

We have incurred net losses in the past and we may incur net losses in the future. We may not generate cash flow sufficient to meet debt service obligations and other capital requirements, such as working capital and maintenance capital expenditures. As of December 31, 2009, we had deferred tax assets of \$166.0 million related to worldwide net operating loss carryforwards. Additionally, at December 31, 2009, we had a total valuation allowance of \$132.9 million. If our operating performance deteriorates in the future in certain tax jurisdictions, we may be unable to realize these net operating loss carryforwards and we may be required to record an additional valuation allowance.

Anticipated Capital Expenditures *Our required capital expenditures may exceed our estimates.*

Our capital expenditures, excluding capital leases, for the year ended December 31, 2009 were \$154.1 million, which consisted of expenditures to maintain and improve existing equipment and substantial investments in new equipment. Capital expenditures for 2010 are expected to be above 2009 levels. However, future capital expenditures may be significantly higher, depending on the investment requirements of each of our business lines, and may also vary substantially if we are required to undertake actions to compete with new technologies in our industry. We may not have the capital necessary to undertake these capital investments. If we are unable to do so, we may not be able to effectively compete in some of our markets.

Control *A conflict may arise between our interests and those of KKR.*

Affiliates of KKR own approximately 29.8% of our common stock on an undiluted basis. Although affiliates of KKR no longer hold a majority of our outstanding common stock, they continue to have a significant impact on the vote in any election of directors. In addition, representatives of KKR occupy two of the seven seats on our board of directors. As a result, even though representatives of KKR do not occupy a majority of the seats on our board of directors, affiliates of KKR have substantial influence over our decisions to enter into any corporate transaction and whether any transaction that requires the approval of the stockholders is approved. For example, affiliates of KKR could seek to cause us to sell revenue-generating assets, which could impair our long-term ability to declare dividends or grow our business. Additionally, KKR is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We have global operations, serving customers worldwide. To service our customers efficiently, we maintain 87 manufacturing facilities in 24 countries around the world with a strategy of global, regional and local manufacturing to optimize our service offering and minimize production cost to our customers. We believe these facilities are suitable and adequate for their intended use. The table below presents summary information with respect to these facilities:

Segment	Country	Locations	Leased/Owned	Major Applications/Industry
Specialty Chemicals				
Surface Treatment	Australia	Bayswater North	Owned	General Industry, Aerospace, and other pre-treatment technologies
	Brazil	Jundiai/São Paulo	Owned	Automotive and other pre-treatment technologies
	China	Changchun (JV)	Leased	Automotive and other pre-treatment technologies

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

		Chongqing (JV)	Leased	Automotive and other pre-treatment technologies
		Shanghai (JV)	Leased	Automotive and other pre-treatment technologies
		Nanjing (JV)	Leased	Automotive, cold forming and other pre-treatment technologies
France		Sens	Owned	Automotive and other pre-treatment technologies
		Soissons	Owned	Aerospace
Germany		Mönchengladbach	Owned	General industry
		Langelshiem (1)	Owned	Automotive technologies, other pre-treatment technologies and aerospace (sealants)
India		Chennai (JV)	Leased	Automotive and other pre-treatment technologies
		Pune (JV)	Owned	Automotive and other pre-treatment technologies
Italy		Giussano	Owned	Automotive and other pre-treatment technologies
		Roveredo in Piano	Leased	General industry
Mexico		El Marqués, Querétaro	Leased	Automotive technologies, other pre-treatment technologies and aerospace
Singapore		Singapore	Leased	Advanced technologies and non-automotive pre-treatment technologies
South Africa		Boksburg	Owned	Automotive and other pre-treatment technologies
Spain		Canovelles	Owned	Automotive and other pre-treatment technologies
Sweden		Bålsta	Owned	Automotive and other pre-treatment technologies
Turkey		Cayırova-Kocaeli	Owned	Automotive and other pre-treatment technologies
United States		Jackson, MI	Owned	General industry
		La Mirada, CA	Leased	Pre-treatment technologies and aerospace
		Romulus, MI	Owned	Automotive technologies, other pre-treatment technologies and aerospace
Fine Chemicals	Austria	Arnoldstein	Leased	Metal sulfides
	Chile	La Negra	Owned	Lithium-carbonate and lithium chloride
		Salar de Atacama	Owned	Lithium brine and Potash
	Germany	Langelshiem (1)	Owned	Butyllithium, lithium-chloride, specialty products, lithium metal, lithium-hydrides, cesium, and special metals
	Taiwan	Taichung	Owned	Butyllithium
	United States	Kings Mountain, NC	Owned	Metal and battery
		New Johnsonville, TN	Owned	Butyllithium and specialty products
		Pasadena, TX	Owned	Butyllithium
		Phoenix, AZ	Leased	Zirconium products
		Silver Peak, NV	Owned	Lithium-carbonate and lithium hydroxide

Performance Additives				
Color Pigments and Services	China	Shenzhen	Owned	Coatings and construction
		Taicang	Owned	Coatings and specialties
		Xinzhuang, Changshu	Leased	Construction
	France	Comines	Owned	Coatings
	Germany	Hainhausen	Owned	Construction and coatings
		Walluf	Owned	Construction and coatings
	Italy	Turin	Owned	Coatings, specialties and construction
	United Kingdom	Birtley	Owned	Driers
		Kidsgrove	Owned	Coatings and specialties
		Sudbury	Owned	Coatings and specialties
	United States	Beltsville, MD	Owned	Coatings, specialties and construction
		Cartersville, GA	Owned	Construction
		East St. Louis, IL	Owned	Specialties
		Easton, PA	Owned	Coatings, specialties and construction
		Harleyville, SC	Owned	Construction
		King of Prussia, PA	Owned	Construction
		Los Angeles, CA	Owned	Coatings, specialties and construction
		Ocala, FL	Owned	Coatings, specialties and construction
		St. Louis, MO	Owned	Coatings, specialties and construction
Timber Treatment Chemicals	United Kingdom	Barrow-in-Furness	Leased	Wood protection products and treatment
	United States	Freeport, TX	Owned	Construction and other industrial markets
		Harrisburg, NC	Owned	Wood protection products and treatment
		Valdosta, GA	Owned	Wood protection products and treatment
Clay-based Additives	Germany	Duisburg (2)	Owned	Flocculants
		Ibbenbueren	Leased	Flocculants
		Moosburg	Leased	Paints and inks
		Schwarzheide	Leased	Flocculants
	United Kingdom	Widnes, Cheshire	Owned	Paper-making, consumer and household care and coatings and paper
	United States	Gonzales, TX	Owned	Paints, inks and oilfields and paper-making
		Louisville, KY	Owned	Paints and inks
Titanium Dioxide Pigments				
Titanium Dioxide	Finland	Pori	Owned	Plastics, paints, packaging inks, coatings and paper
	Germany	Duisburg (2) (3)	Owned	Fibers, plastics, paints, coatings and paper
Functional Additives	Germany	Duisburg (2) (3)	Owned	Coatings, plastics, fibers, paper, pharmaceuticals, PVC stabilizers and glass fiber reinforced plastics
Advanced Ceramics				
	Brazil	Nova Odessa	Leased	Automotive
	China	Suzhou	Leased	General industry
	Czech Republic	Sumperk	Owned	General industry
		Dolni Rychnov	Owned	Electronics

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

	Germany	Ebersbach	Owned	Automotive and general industry
		Lauf	Owned	Automotive, electronics and general industry
		Lohmar	Owned, partly leased	Ballistic protection, wear/corrosion protection
		Marktredwitz	Owned	Electronic, automotive, medical and general industry
		Plochingen	Owned	Medical, automotive and general industry
		Wilhermsdorf	Leased	Automotive
		Wittlich	Leased	General industry
	Malaysia	Seremban	Owned	Medical and general industry
	Mexico	Puebla	Owned	Automotive
	Poland	Gorzyce	Leased	Automotive
	South Korea	Suwon	Leased	Electronics
	United Kingdom	Colyton	Owned	Electronics
	United States	Birmingham, AL	Owned	Wear/corrosion protection
		Laurens, SC	Owned	Automotive, electronics and general industry
Specialty Compounds				
	Canada	Stoney Creek, Ontario	Owned	Footwear, automotive and consumer products
	Italy	Azeglio	Owned	Rubber compounds
	United Kingdom	Melton Mowbray	Owned	TPE/Consumer products, packaging, medical, automotive and wire and cable sheathing products
	United States	Leominster, MA	Owned	Wire and cable sheathing, consumer goods, footwear, automotive and industrial products
		Pineville, NC	Owned	Wire and cable sheathing, packaging, medical, consumer goods, footwear, automotive and industrial products
Corporate and other				
Wafer Reclaim	France	Greasque	Owned	Wafer reclaim

- (1) This facility is shared by both business divisions of the Specialty Chemicals segment.
- (2) This facility is shared by both the Performance Additives segment and the Titanium Dioxide Pigments segment.
- (3) This facility is shared by the two business divisions of the Titanium Dioxide Pigments segment.

Item 3. 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

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

be liable for damages arising out of certain indemnity claims. However, we do not believe that there is any other individual, governmental, legal proceeding or arbitration that is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition. We cannot predict the outcome of any litigation or the potential for future litigation. See also Note 20, Commitments and Contingencies.

Hospira Matter

In April 2005, Hospira Incorporated filed suit in Mecklenburg County, North Carolina Superior Court against one of our wholly-owned subsidiaries in our Specialty Compounds segment alleging claims for negligence, negligent misrepresentation, estoppel, fraud, third party beneficiary breach of contract and unfair trade practices as a result of our subsidiary providing PVC compound to its customer. Hospira sought damages of approximately \$16.0 million for costs allegedly related to its recall and destruction of intravenous administration kits that incorporated components made with this compound, and further sought treble damages of approximately \$48.0 million, plus attorneys' fees and interest, under the North Carolina unfair trade practice statute. The Court dismissed Hospira's negligence and estoppel claims, but initially denied our subsidiary's motion to dismiss the other claims. Following discovery, our subsidiary filed a motion for summary judgment to dismiss the remaining claims and, on November 9, 2007, the trial court granted our motion for summary judgment and dismissed all of the plaintiff's claims. The plaintiff appealed this decision and, in early 2009, the appellate court affirmed on all counts with the exception of the negligence claim, which it reversed and remanded to the trial court. The plaintiff and our subsidiary each filed a petition with the North Carolina Supreme Court for review of the appellate court's ruling. In August 2009, the North Carolina Supreme Court denied both parties petitions for review of the appellate court's ruling. In November 2009, the parties entered into a settlement agreement. This settlement did not have a material impact on our results of operations.

Advertising Matter

On March 3, 2009, Osmose, Inc. ("OI") filed an action against Viance LLC ("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 related to 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, 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 at a recent hearing. 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 we subsequently appealed. We will continue to vigorously defend this matter. While we believe the defendants have meritorious defenses against OI's claims and do not believe that resolution of this matter will have a material adverse effect on our business or financial condition, we cannot predict the ultimate outcome of this litigation, and the resolution of this matter may have a material adverse effect on our results of operations or cash flows in any quarterly or annual reporting period.

Lanxess Matter

On January 18, 2010, Lanxess Deutschland GmbH filed suit in the District Court of Pori, Finland against Sachtleben Pigments Oy ("Sachtleben"), a subsidiary of our 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. We believe 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, we cannot predict the ultimate outcome of this litigation, and the resolution of this matter may have a material adverse effect on our results of operations or cash flows in any quarterly or annual reporting period.

Item 4. Submission of Matters to a Vote of Security Holders.

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

During the fourth quarter of the year ended December 31, 2009, no matters were submitted to a vote of security holders.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the New York Stock Exchange under the ticker symbol ROC. As of February 22, 2010, there were approximately 95 holders of record of the Company's common stock.

The following table summarizes the Company's quarterly common stock information:

2009	High	Low
First	\$ 12.85	\$ 3.36
Second	17.46	7.60
Third	23.50	11.96
Fourth	24.58	16.25

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

2008		High		Low
First	\$	34.76	\$	26.82
Second		43.71		32.61
Third		39.97		24.04
Fourth		25.66		5.37

Rockwood's operations are conducted through its subsidiaries and its ability to make payments on any obligations it may have is dependent on the earnings and the distribution of funds from its subsidiaries. As a result, we are dependent upon cash dividends and distributions and other transfers from our subsidiaries to make dividend payments on our common stock. The amounts available to us to pay cash dividends are restricted by our subsidiaries' debt agreements. Under Group's senior secured credit facilities and indenture governing the 2014 Notes, Group is generally restricted from making dividends or other distributions to us. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. See further discussion in liquidity section of Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations. For the years ended December 31, 2009 and 2008, the Company did not pay any cash dividends.

There were no repurchases of any of the Company's common stock by or on behalf of the Company during the fourth quarter of 2009 and no sales of unregistered equity securities by the Company during the fiscal year ended December 31, 2009.

Stock Performance Graph

The following graph compares the performance through December 31, 2009 of a hypothetical \$100 investment made on August 17, 2005 in (a) our common stock, (b) the S&P 500 Index[®] and (c) the S&P Supercomposite Specialty Chemicals Index (S15SPCH).

Item 6. Selected Financial Data.

The following selected consolidated financial data of the Company's five most recent years ended December 31, 2009 should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data. The Statement of Operations data set forth below with respect to the three years in the period ended December 31, 2009 and the Balance Sheet data as of December 31, 2009 and 2008, are derived from the Company's audited financial statements included elsewhere in this document. The Statement of Operations data for the years ended December 31, 2006 and 2005 and the Balance Sheet data as of December 31, 2007, 2006 and 2005 are derived from consolidated financial statements not included herein. All periods presented have been reclassified to account for the sale of the Groupe Novasep segment, the Electronics business sold, excluding the European wafer reclaim business, in 2007 and the sale of the pool and spa chemicals

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

business in 2008 as discontinued operations.

(\$ in millions, except per share data; shares in thousands)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Statement of operations data:					
Net sales:					
Specialty Chemicals	\$ 996.6	\$ 1,232.6	\$ 1,082.9	\$ 918.3	\$ 842.0
Performance Additives	671.5	835.6	798.5	724.8	648.9
Titanium Dioxide Pigments	666.3	534.8	442.9	409.1	399.2
Advanced Ceramics	412.2	505.9	452.5	389.6	369.6
Specialty Compounds	210.7	261.5	276.6	251.0	237.5
Corporate and other	5.6	9.7	11.8	21.9	24.4
Total net sales	2,962.9	3,380.1	3,065.2	2,714.7	2,521.6
Cost of products sold	2,107.7	2,365.8	2,089.1	1,859.0	1,723.4
Gross profit	855.2	1,014.3	976.1	855.7	798.2
Selling, general and administrative expenses	614.1	661.3	597.6	540.4	481.6
Impairment charges (1)		809.5		2.2	0.4
Restructuring and other severance costs (2)	20.8	35.3	12.0	4.9	15.2
Management services agreement termination fee (3)					10.0
Loss (gain) on sale of assets and other (4)	0.5	(2.4)	(4.7)	(0.3)	(4.4)
Operating income (loss)	219.8	(489.4)	371.2	308.5	295.4
Other expenses, net:					
Interest expense (5)	(180.2)	(231.1)	(219.3)	(199.9)	(221.5)
Interest income	2.1	6.0	11.5	2.4	9.9
(Loss) gain on early extinguishment of debt (6)	(26.6)	4.0	(18.6)		(26.2)
Refinancing expenses (7)			(0.9)		(1.0)
Foreign exchange gain (loss) (8)	16.0	(32.3)	7.8	8.6	112.2
Other, net (9)	0.6	0.7		1.8	2.6
Other expenses, net	(188.1)	(252.7)	(219.5)	(187.1)	(124.0)
Income (loss) from continuing operations before taxes	31.7	(742.1)	151.7	121.4	171.4
Income tax provision (benefit)	17.2	(23.9)	62.3	61.3	55.6
Income (loss) from continuing operations	14.5	(718.2)	89.4	60.1	115.8
Income (loss) from discontinued operations, net of tax (10)	2.8	3.3	25.3	48.1	(23.0)
Gain on sale of discontinued operations, net of tax (11)		42.9	210.4		
Net income (loss)	17.3	(672.0)	325.1	108.2	92.8
Net loss (income) attributable to noncontrolling interest (12)	3.8	83.6	(8.0)	(5.2)	3.0
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 95.8
Amounts attributable to Rockwood Holdings, Inc.:					
Income (loss) from continuing operations	\$ 18.3	\$ (634.6)	\$ 81.5	\$ 60.1	\$ 115.8
Income (loss) from discontinued operations	2.8	46.2	235.6	42.9	(20.0)
Net income (loss)	\$ 21.1	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 95.8
Income (loss) from continuing operations attributable to Rockwood Holdings, Inc. applicable to common shareholders - basic and diluted (13)					
	\$ 18.3	\$ (634.6)	\$ 81.5	\$ 60.1	\$ 111.5
Net income (loss) attributable to Rockwood Holdings, Inc. applicable to common shareholders - basic and diluted (13)					
	\$ 21.1	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 91.5

Earnings (loss) per share attributable to Rockwood Holdings, Inc. (14):										
Basic earnings (loss) per share attributable to Rockwood Holdings, Inc.:										
Earnings (loss) from continuing operations	\$	0.25	\$	(8.58)	\$	1.10	\$	0.81	\$	1.89
Earnings (loss) from discontinued operations, net of tax		0.03		0.63		3.20		0.59		(0.34)
Basic earnings (loss) per share	\$	0.28	\$	(7.95)	\$	4.30	\$	1.40	\$	1.55
Weighted average number of shares outstanding		74,096		73,983		73,817		73,782		59,133
Diluted earnings (loss) per share attributable to Rockwood Holdings, Inc.:										
Earnings (loss) from continuing operations	\$	0.24	\$	(8.58)	\$	1.07	\$	0.80	\$	1.86
Earnings (loss) from discontinued operations, net of tax		0.04		0.63		3.09		0.57		(0.34)
Diluted earnings (loss) per share	\$	0.28	\$	(7.95)	\$	4.16	\$	1.37	\$	1.52
Weighted average number of shares outstanding		74,851		73,983		76,279		75,044		60,002

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

(\$ in millions)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Cash flow data:					
Net cash provided by operating activities	\$ 369.6	\$ 296.6	\$ 368.5	\$ 302.6	\$ 257.6
Net cash (used in) provided by investing activities	(204.3)	(295.5)	377.6	(248.8)	(276.6)
Net cash (used in) provided by financing activities	(320.9)	104.7	(411.8)	(102.7)	8.9
Effect of exchange rate changes on cash	(12.6)	12.8	(10.3)	(13.8)	1.0
Net (decrease) increase in cash and cash equivalents	\$ (168.2)	\$ 118.6	\$ 324.0	\$ (62.7)	\$ (9.1)

(\$ in millions)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Other data:					
Depreciation and amortization	\$ 283.0	\$ 258.9	\$ 211.7	\$ 174.4	\$ 156.7
Capital expenditures, excluding capital leases	154.1	224.0	193.2	165.1	159.4
EBITDA (15)	492.8	(258.1)	571.2	493.3	539.7
Non-cash charges and (gains) included in EBITDA (16)	4.9	841.8	(3.7)	(6.4)	(98.8)
Other special charges included in EBITDA (17)	42.8	55.2	34.9	19.0	38.3

(\$ in millions)	As of December 31,				
	2009	2008	2007	2006	2005
Balance sheet data:					
Cash and cash equivalents	\$ 300.5	\$ 468.7	\$ 350.1	\$ 27.7	\$ 100.5
Working capital (18)	766.7	987.5	818.3	857.1	779.1
Property, plant and equipment, net	1,702.5	1,752.2	1,508.5	1,296.3	1,156.8
Total assets	4,781.7	5,177.3	5,514.9	5,219.9	4,816.5
Total long-term debt, including current portion	2,528.3	2,811.2	2,581.4	2,838.7	2,761.2
Total equity	1,140.8	1,138.9	1,746.9	1,154.1	859.9

(1) As part of our annual goodwill impairment review, we recorded a goodwill impairment charge of \$809.5 million in the fourth quarter of 2008 (See Note 9, Goodwill, for further details). We recorded impairment charges of \$2.2 million related to the write-down of property, plant and equipment in 2006 within our Specialty Chemicals segment and \$0.4 million related to the write-down of property, plant and equipment in 2005 within our Performance Additives segment.

(2) Restructuring and other severance costs include certain expenses primarily related to severance and facility closure costs incurred in connection with consolidations and cessations of certain of our operations. See Note 18, Restructuring And Other Severance Costs, for further details.

(3) In connection with the initial public offering, we recorded an expense of \$10.0 million in the third quarter of 2005 to terminate the management services agreement with affiliates of KKR and DLJ Merchant Banking Partners III, L.P. (DLJMB).

(4) We recorded net losses (gains) of \$0.5 million, \$(2.4) million, \$(4.7) million, \$(0.3) million and \$(4.4) million for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively, related to asset sales. The gain recorded for the year ended December 31, 2008 primarily relates to the sale of land that was acquired as part of the acquisition of Dynamit Nobel in 2004, partially offset by the liquidation of a

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

joint venture in the Titanium Dioxide Pigments segment. The gain recorded for the year ended December 31, 2007 primarily relates to the sale of the U.S. wafer reclaim business that was part of the former Electronics segment.

(5) For the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively, interest expense included gains (losses) of \$3.9 million, \$(51.5) million, \$(32.2) million, \$7.2 million, and \$22.4 million, respectively, representing the movement in the mark-to-market valuation of our interest rate and cross-currency swaps for the periods. In addition, for the years ended December 31, 2009, 2008, 2007, 2006, and 2005, interest expense, net includes \$7.9 million, \$9.6 million, \$9.2 million, \$9.5 million, and \$10.6 million, respectively, of amortization expense related to deferred financing costs.

(6) For the year ended December 31, 2009, we recorded a loss on early extinguishment of debt, net 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. For the year ended December 31, 2008, we redeemed 11.0 million of our 2014 Notes at a discount and recorded a gain of \$4.0 million. For the year ended December 31, 2007, we paid a redemption premium of \$14.5 million and wrote off \$4.1 million of deferred financing costs associated with the redemption of the 2011 Notes on May 15, 2007. For the year ended December 31, 2005, we paid a redemption premium of \$13.2 million to redeem long-term debt and wrote off \$13.0 million of deferred financing costs associated with the debt repaid in connection with the IPO.

(7) In March 2007, we expensed \$0.9 million related to the fourth amendment of the senior secured credit agreement to refinance all

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

outstanding borrowings under the tranche F term loans with new tranche G term loans. In December 2005, we expensed \$1.0 million in connection with the third amendment under the senior secured credit facilities.

(8) Foreign exchange gain (loss) primarily represents the translation impact on non-operating euro denominated transactions and intercompany financing arrangements.

(9) The Company recorded \$1.8 million of income in 2006 primarily related to the correction of an error related to a previously unrecorded asset in the Titanium Dioxide Pigments segment. The effect of this adjustment to our consolidated financial statements for the year ended December 31, 2005 was not material. In 2005, we recorded \$2.6 million of income primarily related to the reversal of a bad debt reserve of \$2.9 million related to a note receivable from the buyer in connection with the sale of a business by Dynamit Nobel prior to the acquisition of Dynamit Nobel for which the cash was collected from the buyer in 2005.

(10) As noted above, we sold our Groupe Novasep subsidiary in January 2007, our Electronics business, excluding our European wafer reclaim business, in December 2007 and our pool and spa chemicals business in October 2008. The results of these businesses have been accounted for as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented (see Note 2, Discontinued Operations, for further details).

Income from discontinued operations, net of tax was \$2.8 million for the year ended December 31, 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 no longer deemed necessary in connection with the sale of the Electronics business in December 2007. Income from discontinued operations, net of tax was \$3.3 million for the year ended December 31, 2008 from operating the pool and spa chemicals business that was sold in October 2008. Income from discontinued operations, net of tax was \$25.3 million for the year ended December 31, 2007 and was primarily comprised of income from operating the pool and spa chemicals business and the Electronics business.

An impairment charge of \$44.7 million was recorded in 2005 primarily related to the write-down of property, plant and equipment in conjunction with the downsizing of the Rohner facility within our former Groupe Novasep segment. In addition, in March 2006, we sold Rohner AG and recorded a pre-tax loss of \$11.5 million.

(11) Primarily related to a gain of \$40.5 million (net of tax) in 2008 on the sale of the pool and spa chemicals business and gains in 2007 of \$115.6 million (net of tax) on the sale of Groupe Novasep and \$94.8 million (net of tax) on the sale of the Electronics business.

(12) Noncontrolling interest represents the total of the noncontrolling party's interest in certain investments. For 2009, 2008 and 2007, noncontrolling interest primarily relates to the Viance LLC joint venture and the Titanium Dioxide Pigments venture. In 2008, noncontrolling interest was primarily related to the goodwill impairment charge recorded in the Titanium Dioxide Pigments venture. Noncontrolling interest in 2006 and 2005 relates to the Groupe Novasep subsidiary that was sold in January 2007.

(13) Represents the net income (loss) attributable to Rockwood Holdings, Inc. applicable to common shareholders. In 2005, net income was reduced by the amount of accumulated and unpaid redeemable convertible preferred stock dividends. See Note 16, Earnings Per Share.

(14) Net earnings (loss) per share attributable to Rockwood Holdings, Inc. is calculated by dividing net income (loss) applicable to common shareholders by the weighted average shares outstanding.

(15) EBITDA is defined as net income (loss) attributable to Rockwood Holdings, Inc. plus interest expense, net, income tax provision (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income (loss) as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

The amounts shown for EBITDA differ from the amounts calculated under the definition of consolidated EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indenture governing the 2014 Notes and the facility agreement governing the Titanium Dioxide Pigments venture exclude certain adjustments permitted under the senior secured credit agreement. Consolidated EBITDA as adjusted (Adjusted EBITDA) is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses Adjusted EBITDA to assess our operating performance and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied to Adjusted EBITDA targets. For a discussion of the adjustments, uses and the limitations on the use of Adjusted EBITDA,

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

see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Note Regarding Non-GAAP Financial Measures.

The following table sets forth a reconciliation of net income (loss) to EBITDA for the periods indicated:

(\$ in millions)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 95.8
Net (loss) income attributable to noncontrolling interest (a)	(3.8)	(83.6)	8.0	5.2	(3.0)
Net income (loss)	17.3	(672.0)	325.1	108.2	92.8
(Income) loss from discontinued operations, net of tax	(2.8)	(3.3)	(25.3)	(48.1)	23.0
Gain on sale of discontinued operations, net of tax		(42.9)	(210.4)		
Income (loss) from continuing operations	14.5	(718.2)	89.4	60.1	115.8
Income tax provision (benefit)	17.2	(23.9)	62.3	61.3	55.6
Interest expense	180.2	231.1	219.3	199.9	221.5
Interest income	(2.1)	(6.0)	(11.5)	(2.4)	(9.9)
Depreciation and amortization	283.0	258.9	211.7	174.4	156.7
EBITDA	\$ 492.8	\$ (258.1)	\$ 571.2	\$ 493.3	\$ 539.7

(a) Net (loss) income attributable to noncontrolling interest represents the total of the noncontrolling party's interest in certain investments (principally the Viance, LLC joint venture and the Titanium Dioxide Pigments venture).

(16) EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges and Credits and special Note Regarding Non-GAAP Financial measures :

(\$ in millions)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Impairment charges	\$	\$ 809.5	\$	\$ 2.2	\$ 0.4
Write-off of deferred debt issuance costs (a)	20.9		4.1		13.0
Foreign exchange (gain) loss	(16.0)	32.3	(7.8)	(8.6)	(112.2)
	\$ 4.9	\$ 841.8	\$ (3.7)	\$ (6.4)	\$ (98.8)

(a) Represents pre-tax charges of \$20.9 million related to the write-off of deferred financing costs in 2009 in connection with the amendment of our senior secured credit facility and the redemption of a portion of the 2014 Notes, \$4.1 million related to the write-off of deferred debt issuance costs associated with the redemption of the 2011 Notes in May 2007 and \$13.0 million related to the write-off of deferred debt issuance costs associated with debt repaid with IPO proceeds in 2005. These amounts are reported in (Loss) gain on early extinguishment of debt in the Consolidated Statements of Operations.

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

(17) In addition to non-cash charges and gains, our EBITDA contains the following other special charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations: Factors Which Affect Our Results of Operations, Special Charges and Credits and Special Note Regarding Non-GAAP Financial Measures :

(\$ in millions)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Restructuring and other severance costs (a)	\$ 20.8	\$ 35.3	\$ 12.0	\$ 5.3	\$ 15.7
Systems/organization establishment expenses	6.3	12.9	4.2	10.7	3.9
Acquisition and disposal costs	3.0	1.7	2.3	1.9	1.1
Inventory write-up charges		6.9	5.7	1.1	
Long-term debt redemption premium (discount)	5.7	(4.0)	14.5		13.2
Refinancing expenses			0.9		1.0
Management services agreement termination fee					10.0
Loss (gain) on sale of assets and other	0.5	(2.4)	(4.7)	(0.3)	(4.4)
Acquired in-process research and development		2.9			
Other (b)	6.5	1.9		0.3	(2.2)
	\$ 42.8	\$ 55.2	\$ 34.9	\$ 19.0	\$ 38.3

(a) Includes inventory write-downs of \$0.7 million, \$0.4 million and \$0.5 million recorded in cost of products sold for the years ended December 31, 2009, 2006 and 2005, respectively.

(b) In 2009, the Company recorded expenses of \$6.5 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. In 2008, the company recorded expenses of \$1.9 million which includes fees incurred in connection with the secondary offering of the Company's common stock in June 2008. In 2005, the Company recorded income of \$2.2 million primarily related to the reversal of a bad debt reserve related to a note receivable from the buyer in connection with the sale of a business by Dynamit Nobel prior to the acquisition of Dynamit Nobel, which was collected from the buyer in 2005.

(18) Working capital is defined as current assets less current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In 2008, we completed the sale of our pool and spa chemicals business and in 2007, we completed the sale of our Groupe Novasep and Electronics segments, excluding our European wafer reclaim business. As a result, our consolidated financial statements have been reclassified to reflect these segments as discontinued operations for all periods presented. See Note 2, Discontinued Operations, for further details.

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 under Item 1, Business Forward-Looking Statements and Item 1A, Risk Factors. You should read the following discussion and analysis together with Item 6, Selected Financial Data, our consolidated financial statements and the notes to those statements that appear elsewhere in this Annual Report. Amounts may not recalculate due to rounding differences.

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

Unless otherwise noted, all balance sheet items as of December 31, 2009 which are denominated in Euros are converted at the December 31, 2009 exchange rate of 1.00 = \$1.4321.

General

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

- 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. See discussion below in Liquidity and Capital Resources for further details.
- In the fourth quarter of 2008, we reduced overhead and eliminated duplicative positions throughout the Company as part of our global cost control initiatives. To cope with the downturn in the economy, we have continued this activity in 2009, and we remain focused on reducing costs, improving productivity, and conserving cash by controlling working capital and capital spending;
- We acquired Holliday Pigments in August 2008, which is included in our Color Pigments and Service business, and in September 2008, we acquired Nalco's Finishing Technologies business which is included in our Specialty Chemicals segment;
- We completed the Titanium Dioxide Pigments venture with Kemira in September 2008; and
- In October 2008, we completed the sale of our pool and spa chemicals business;

Factors Which Affect Our Results of Operations

Our Markets

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. Sales growth in the Surface Treatment business occurred in 2008 in most markets and regions served, primarily aerospace, general industrial and European automotive industries. This growth was driven by price increases and the impact of bolt-on acquisitions that offset raw material cost increases and lower volumes from a slowdown in the automotive markets. In 2009, results declined on lower volumes in most businesses, partially offset by increased selling prices. Sales growth is expected in 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 in industrial applications, the aluminum business, glass ceramics, cement 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. Growth in the Fine Chemicals business occurred in 2008 in most market segments, driven by price increases and higher volumes of lithium applications. In 2009, lower volumes in most applications, particularly in lithium and metal sulfide applications, had a negative impact on results. Results in 2010 are expected to be negatively impacted by the highly competitive business environment, partially offset by higher volumes in lithium applications.

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 and European volumes were lower in 2008 and continued to decline in 2009. A continued slowdown in the construction industry could have a negative impact on our results in 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 2008 and 2009 by a general slowdown in the construction market, some customer shifts to substitute products and the use of wood substitutes. A continued slowdown in the construction industry could have a negative impact on our results in 2010.

- In the Clay-based Additives business, net sales increased in 2008 as increased selling prices and volumes for oilfield applications and increased selling prices of coatings and inks were partially offset by lower volumes of coatings and carbonless applications. In 2009, net sales decreased as lower volumes in most applications were partially offset by increased selling prices. We expect modest sales growth in 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 current industry overcapacity, have continued to negatively impact this segment. Volumes and selling prices in fiber anatase applications decreased in 2008. In 2009, net sales decreased as lower volumes of fiber anatase applications were partially offset by increased selling prices. Sales of titanium dioxide products in rutile grade were down in 2008 due to lower selling prices, partially offset by slightly higher volumes. In 2009, sales of rutile applications were up due to higher volumes as a result of the venture with Kemira that was completed on September 1, 2008, and higher selling prices. We expect sales of rutile and anatase applications to be higher in 2010. Our functional additives sales were down in 2008 on lower volumes, partially offset by increased selling prices. In 2009, functional additives sales were down as lower volumes were partially offset by higher selling prices. We expect sales of functional additives to be higher in 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 2008 on higher volumes and continued to increase in 2009. We expect this growth to continue in 2010.

- Despite the negative impact of pricing pressure from Asian competitors, sales of ceramic products for use in cutting tool products were up slightly in 2008 on higher volumes. Sales of these applications were lower in 2009, but are expected to be slightly higher in 2010. Sales of mechanical systems and applications, electronic applications and multi-functional applications were down in 2009 from lower volumes, particularly related to the economic downturn in the automotive industry. However, sales of these applications are expected to be slightly higher in 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

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

cable, for which our Specialty Compounds segment is a significant provider of sheathing materials. Newly developed 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 2008 and 2009. In 2010, we expect sales of wire and cable products to be up slightly.

- 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 were flat in 2008, but were lower in 2009. Net sales of regulated packaging were lower in 2008 and 2009. In 2010, we expect sales of these applications to be up slightly.
- 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 are expected to be slightly higher in 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.

We have 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 year ended December 31, 2009, the average exchange rate of the euro against the U.S. dollar was lower compared to 2008. 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 in a number of our businesses had a favorable impact on our results of operations. However, 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. For example, higher prices for iron-oxide used in the Color Pigments business of our Performance Additives segment had a negative impact on results in 2007 and 2008. 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.

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. However, energy costs in 2009 were lower in a number of our businesses, particularly in North America. Natural gas prices in North America were relatively stable in 2007, increased during 2008, but declined in 2009. Natural gas prices in Europe, where our Titanium Dioxide Pigments segment is located, were higher in 2007 and 2008, but declined in 2009.

Income Taxes

As of December 31, 2009, the Company has U.S. federal and foreign corporate tax loss carryforwards (excluding state and local amounts) of approximately \$496.0 million, of which \$202.1 million expire in 2029, \$67.2 million expire between 2010 and 2026 and \$226.7 million which have no current expiration date. The Company also has state and local tax loss carryforwards of approximately \$300.7 million expiring in years

2010 through 2029.

The worldwide valuation allowance increased by \$48.2 million to \$132.9 million at December 31, 2009. Of this amount, \$34.4 million was a charge to income tax expense relating primarily to net operating losses and \$13.8 million primarily represents an increase to other comprehensive income.

Acquisitions

We did not complete any acquisitions in 2009. However, during 2008 and 2007, we made certain selective acquisitions and strategic transactions pursuant to our business strategy of achieving profitable growth. See Note 4, Acquisitions, for further details.

Special Charges and Credits

During the periods presented, we incurred certain special charges that included goodwill impairment charges, systems/organization establishment expenses, restructuring and other severance costs, foreign exchange gains and losses and inventory write-up charges. See Items excluded from Adjusted EBITDA section in Note 3, Segment Information, for a discussion of special charges and credits recorded in the years ended December 31, 2009, 2008 and 2007.

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;
- any deduction for noncontrolling interest expense; 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 an ongoing recurring cost to the Company. These costs are recorded in selling, general and administrative expenses in the 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 the senior secured credit agreement. Given that borrowings under the 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 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

other financial information, in each case included elsewhere in this Annual Report. 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 to net (loss) income is set forth in Reconciliation of Net (Loss) Income Attributable to Rockwood Holdings, Inc. to Adjusted EBITDA for the years ended December 31, 2009, 2008 and 2007), including as a percentage of net sales, for the periods presented. See Note 3, 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-K

(\$ in millions)	Year ended December 31,		
	2009	2008	2007
Statement of operations data:			
Net sales:			
Specialty Chemicals	\$ 996.6	\$ 1,232.6	\$ 1,082.9
Performance Additives	671.5	835.6	798.5
Titanium Dioxide Pigments	666.3	534.8	442.9
Advanced Ceramics	412.2	505.9	452.5
Specialty Compounds	210.7	261.5	276.6
Corporate and other	5.6	9.7	11.8
Total net sales	2,962.9	3,380.1	3,065.2
Gross profit	855.2	1,014.3	976.1
	28.9%	30.0%	31.8%
Selling, general and administrative expenses	614.1	661.3	597.6
	20.7%	19.6%	19.5%
Impairment charges		809.5	
Restructuring and other severance costs	20.8	35.3	12.0
Loss (gain) on sale of assets and other	0.5	(2.4)	(4.7)
Operating income (loss):			
Specialty Chemicals	161.8	223.7	206.9
	16.2%	18.1%	19.1%
Performance Additives	19.3	(438.5)	81.5
	2.9%	(52.5)%	10.2%
Titanium Dioxide Pigments	16.4	(229.0)	38.4
	2.5%	(42.8)%	8.7%
Advanced Ceramics	48.0	96.6	83.8
	11.6%	19.1%	18.5%
Specialty Compounds	23.1	(83.9)	22.0
	11.0%	(32.1)%	8.0%
Corporate and other	(48.8)	(58.3)	(61.4)
Total operating income (loss)	219.8	(489.4)	371.2
Other expenses, net:			
Interest expense	(180.2)	(231.1)	(219.3)
Interest income	2.1	6.0	11.5
(Loss) gain on early extinguishment of debt	(26.6)	4.0	(18.6)
Refinancing expenses			(0.9)
Foreign exchange gain (loss), net	16.0	(32.3)	7.8
Other, net	0.6	0.7	
Other expenses, net	(188.1)	(252.7)	(219.5)
Income (loss) from continuing operations before taxes	31.7	(742.1)	151.7
Income tax provision (benefit)	17.2	(23.9)	62.3
Income (loss) from continuing operations	14.5	(718.2)	89.4
Income from discontinued operations, net of tax	2.8	3.3	25.3
Gain on sale of discontinued operations, net of tax		42.9	210.4
Net income (loss)	17.3	(672.0)	325.1
Net loss (income) attributable to noncontrolling interest	3.8	83.6	(8.0)
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1
Adjusted EBITDA:			
Specialty Chemicals	\$ 245.7	\$ 313.0	\$ 262.2
	24.7%	25.4%	24.2%
Performance Additives	95.1	107.1	150.7
	14.2%	12.8%	18.9%
Titanium Dioxide Pigments	97.3	83.1	82.7
	14.6%	15.5%	18.7%
Advanced Ceramics	107.7	150.2	128.1
	26.1%	29.7%	28.3%
Specialty Compounds	34.0	34.0	34.3
	16.1%	13.0%	12.4%

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

Corporate and other		(39.3)		(48.5)		(55.6)
Total Adjusted EBITDA	\$	540.5	\$	638.9	\$	602.4

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

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

(\$ in millions)	Change: 2009 versus 2008				Change: 2008 versus 2007			
	Total	% Change	Constant Currency Effect (a)	Constant Currency Basis	Total	% Change	Constant Currency Effect (a)	Constant Currency Basis
Statement of operations data:								
Net sales:								
Specialty Chemicals	\$ (236.0)	(19.1)%	\$ (44.9)	\$ (191.1)	\$ 149.7	13.8%	\$ 53.0	\$ 96.7
Performance Additives	(164.1)	(19.6)	(31.2)	(132.9)	37.1	4.6	3.8	33.3
Titanium Dioxide Pigments	131.5	24.6	(9.0)	140.5	91.9	20.7	32.9	59.0
Advanced Ceramics	(93.7)	(18.5)	(17.3)	(76.4)	53.4	11.8	35.7	17.7
Specialty Compounds	(50.8)	(19.4)	(12.2)	(38.6)	(15.1)	(5.5)	(3.1)	(12.0)
Corporate and other	(4.1)	(42.3)	(0.3)	(3.8)	(2.1)	(17.8)	0.7	(2.8)
Total net sales	(417.2)	(12.3)	(114.9)	(302.3)	314.9	10.3	123.0	191.9
Gross profit	(159.1)	(15.7)	(31.4)	(127.7)	38.2	3.9	45.9	(7.7)
Selling, general and administrative expenses	(47.2)	(7.1)	(26.0)	(21.2)	63.7	10.7	25.5	38.2
Impairment charges	(809.5)			(809.5)	809.5			809.5
Restructuring and other severance costs	(14.5)			(14.5)	23.3			23.3
Loss (gain) on sale of assets and other	2.9			2.9	2.3			2.3
Total operating expenses	(868.3)	(57.7)	(26.0)	(842.3)	898.8	148.6	25.5	873.3
Operating income (loss):								
Specialty Chemicals	(61.9)	(27.7)	(3.0)	(58.9)	16.8	8.1	9.1	7.7
Performance Additives	457.8	104.4	(1.7)	459.5	(520.0)	(638.0)	1.1	(521.1)
Titanium Dioxide Pigments	245.4	107.2	0.7	244.7	(267.4)	(696.4)	1.8	(269.2)
Advanced Ceramics	(48.6)	(50.3)	(2.0)	(46.6)	12.8	15.3	8.8	4.0
Specialty Compounds	107.0	127.5	(0.3)	107.3	(105.9)	(481.4)	0.3	(106.2)
Corporate and other	9.5	16.3	0.9	8.6	3.1	5.0	(0.7)	3.8
Total	709.2	144.9	(5.4)	714.6	(860.6)	(231.8)	20.4	(881.0)
Other expenses, net:								
Interest expense	50.9	(22.0)	6.7	44.2	(11.8)	(5.4)	0.9	(12.7)
Interest income	(3.9)	(65.0)	(0.2)	(3.7)	(5.5)	(47.8)	(0.3)	(5.2)
Gain (loss) on early extinguishment of debt	(30.6)				22.6			
Refinancing expenses					0.9			
Foreign exchange gain (loss), net	48.3				(40.1)			
Other, net	(0.1)				0.7			
Other expenses, net	64.6				(33.2)			
Income (loss) from continuing operations before taxes								
Specialty Chemicals	(80.0)				1.1			
Performance Additives	455.6				(533.1)			
Titanium Dioxide Pigments	258.0				(272.3)			
Advanced Ceramics	(56.0)				10.4			
Specialty Compounds	105.0				(104.6)			
Corporate and other	91.2				4.7			
Total	773.8				(893.8)			
Income tax provision (benefit)	41.1				(86.2)			
Income (loss) from continuing operations	732.7				(807.6)			
Income from discontinued operations, net of tax	(0.5)				(22.0)			
Gain on sale of discontinued operations, net of tax	(42.9)				(167.5)			
Net income (loss)	689.3				(997.1)			

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

Net loss (income) attributable to noncontrolling interest	(79.8)				91.6				
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 609.5				\$ (905.5)				
Adjusted EBITDA:									
Specialty Chemicals	\$ (67.3)	(21.5)%	\$ (6.2)	\$ (61.1)	\$ 50.8	19.4%	\$ 11.7	\$ 39.1	
Performance Additives	(12.0)	(11.2)	(4.1)	(7.9)	(43.6)	(28.9)	2.0	(45.6)	
Titanium Dioxide Pigments	14.2	17.1	(1.0)	15.2	0.4	0.5	5.2	(4.8)	
Advanced Ceramics	(42.5)	(28.3)	(4.5)	(38.0)	22.1	17.3	12.0	10.1	
Specialty Compounds			(1.3)	1.3	(0.3)	(0.9)		(0.3)	
Corporate and other	9.2	19.0	0.7	8.5	7.1	12.8	(0.8)	7.9	
Total Adjusted EBITDA	\$ (98.4)	(15.4)%	\$ (16.4)	\$ (82.0)	\$ 36.5	6.1%	\$ 30.1	\$ 6.4	

(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.

Year ended December 31, 2009 compared to year ended December 31, 2008

Overview

Net sales decreased \$417.2 million for the year ended December 31, 2009 compared with the same period in the prior year primarily due to lower volumes and the negative impact of currency changes of \$114.9 million, partially offset by increased selling prices of \$59.2 million and bolt-on acquisitions, particularly the Titanium Dioxide Pigments venture with Kemira. See further discussion by segment below.

Operating income increased \$709.2 million for the year ended December 31, 2009 compared with the same period in the prior year primarily due to the goodwill impairment charge of \$809.5 million recorded in the prior year, as well as higher selling prices, lower raw material costs and other cost control measures throughout the Company. This was partially offset by lower sales volumes and the negative impact of currency changes of \$5.4 million.

Adjusted EBITDA decreased \$98.4 million for the year ended December 31, 2009 compared with the same period in the prior year primarily due to lower sales volumes and the negative impact of currency changes of \$16.4 million. This was partially offset by higher selling prices, lower raw material costs, as well as other cost control measures throughout the Company.

Net income from continuing operations increased \$732.7 million for the year ended December 31, 2009 compared with the same period in the prior year primarily from the goodwill impairment charge recorded in the prior year, lower interest expense recorded in the current year due to decreased mark-to-market losses on our interest rate hedging instruments and increased foreign exchange gains on financing activities recorded in the current year. This was partially offset by lower sales volumes and increased expenses due to the early extinguishment of debt, net primarily related to the amendment of our senior secured credit facility in June 2009.

Income from discontinued operations, net of tax was \$2.8 million for the year ended December 31, 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 no longer deemed necessary in connection with the sale of the Electronics business in December 2007. Income from discontinued operations, net of tax was \$3.3 million in the year ended December 31, 2008 from operating the pool and spa chemicals business that was sold in October 2008.

The gain on sale of discontinued operations, net of tax for the year ended December 31, 2008 of \$42.9 million is primarily related to the sale of the pool and spa chemicals business in October 2008.

Net loss attributable to noncontrolling interest decreased \$79.8 million for the year ended December 31, 2009 compared with the same period in the prior year primarily due to the goodwill impairment charge recorded in the Titanium Dioxide Pigment's venture in the fourth quarter of 2008.

Net income attributable to Rockwood Holdings, Inc. increased \$609.5 million for the year ended December 31, 2009 compared with the same period in the prior year due to the reasons noted above.

Net sales

Specialty Chemicals. Net sales decreased \$236.0 million over the prior year primarily due to lower volumes and the negative impact of currency changes of \$44.9 million. In the Fine Chemicals business, lower volumes in most products, particularly in lithium and metal sulfide applications, were partially offset by higher selling prices. Net sales in the Surface Treatment business were lower on decreased volumes, particularly in general industrial and automotive applications, partially offset by higher selling prices and the impact of a bolt-on acquisition in September 2008.

Performance Additives. Net sales decreased \$164.1 million over the prior year primarily due to lower volumes of construction-related products in our Color Pigments and Services and Timber Treatment Chemicals businesses, lower volumes in our Clay-based Additives business and the negative impact of currency changes of \$31.2 million. This decrease was partially offset by increased selling prices and the impact of a bolt-on acquisition in August 2008.

Titanium Dioxide Pigments. Net sales increased \$131.5 million over the prior year due to the completion of the venture with Kemira on September 1, 2008, as well as increased selling prices. This was partially offset by lower volumes of titanium dioxide products and functional additives, and the negative impact of currency changes of \$9.0 million.

Advanced Ceramics. Net sales decreased \$93.7 million over the prior year primarily due to lower volumes in most applications and the negative impact of currency changes of \$17.3 million, partially offset by the impact of a bolt-on acquisition in October 2008 and higher volumes of medical applications.

Specialty Compounds. Net sales decreased \$50.8 million over the prior year primarily due to lower volumes and selling prices in most applications, particularly in wire and cable, and the negative impact of currency changes of \$12.2 million.

Corporate and other. Net sales decreased \$4.1 million over the prior year primarily due to lower volumes in the wafer reclaim business.

Gross profit

Gross profit decreased \$159.1 million over the prior year primarily due to the sales volume decreases noted above and the negative impact of currency changes of \$31.4 million. In addition, depreciation and amortization costs were higher in most businesses primarily from the impact of acquisitions. The decrease in gross profit was partially offset by lower raw material costs and cost control measures undertaken throughout the Company. Gross profit as a percentage of net sales decreased to 28.9% for the year ended December 31, 2009 from 30.0% for the year ended December 31, 2008.

Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, decreased \$47.2 million over the prior year primarily from lower compensation-related costs and professional fees, other cost control measures undertaken throughout the Company, as well as the impact of currency changes of \$26.0 million. SG&A expenses as a percentage of net sales were 20.7% and 19.6% for the year ended December 31, 2009 and 2008, respectively.

Impairment charges

We recorded a goodwill impairment charge of \$809.5 million in the fourth quarter of 2008 due to the significant drop in global stock valuations, the substantial reduction in the market valuation of Rockwood and comparable companies, and the negative global economic and market outlook. In particular, the downturn in the construction industry had a negative impact on a number of our businesses. As a result, we recorded a non-cash goodwill impairment charge in the following businesses: Color Pigments and Services (\$293.2 million), Timber Treatment Chemicals (\$88.3 million) and Clay-based Additives (\$75.1 million) within our Performance Additives segment; Titanium Dioxide Pigments segment (\$247.7 million); and Specialty Compounds segment (\$105.2 million). See further discussion in Critical Accounting Policies and Estimates, in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 9, Goodwill.

Restructuring and other severance costs

We recorded \$20.8 million and \$35.3 million of restructuring and other severance costs for the year ended December 31, 2009 and 2008, respectively, throughout the Company. See Note 18, Restructuring And Other Severance Costs, for further details.

Loss/Gain on sale of assets

We recorded a loss of \$0.5 million for the year ended December 31, 2009 primarily related to the sale of property, plant and equipment within the Specialty Chemicals and Advanced Ceramics segments. We recorded a gain of \$2.4 million for the year ended December 31, 2008 primarily related to the sale of land.

Operating income

Specialty Chemicals. Operating income decreased \$61.9 million over the prior year primarily due to the lower volumes discussed above, increased depreciation and amortization costs of \$4.4 million, and the negative impact of currency changes of \$3.0 million. This decrease was partially offset by lower restructuring and other severance costs of \$11.4 million, higher selling prices, cost control measures and the impact of a bolt-on acquisition.

Performance Additives. Operating income increased \$457.8 million over the prior year due to the goodwill impairment charge of \$456.6 million recorded in the prior year. Higher selling prices, lower raw material costs of \$8.1 million, lower restructuring and other severance costs of \$4.0 million, cost control measures and the impact of a bolt-on acquisition also had a favorable impact on results. This increase was partially offset by the lower sales volumes discussed above.

Titanium Dioxide Pigments. Operating income increased \$245.4 million over the prior year primarily due to the goodwill impairment charge of \$247.7 million recorded in the prior year, lower raw material costs of \$12.1 million, higher selling prices, as well as cost control measures. This was partially offset by the lower sales volumes noted above and increased depreciation and amortization costs of \$21.4 million primarily related to the Kemira venture completed in September 2008.

Advanced Ceramics. Operating income decreased \$48.6 million over the prior year primarily due to the lower volumes noted above, increased depreciation and amortization costs of \$5.0 million, increased restructuring and other severance costs of \$2.6 million and the negative impact of currency changes of \$2.0 million. This decrease was partially offset by cost control measures, the impact of a bolt-on acquisition in October 2008 and higher volumes of medical applications.

Specialty Compounds. Operating income increased \$107.0 million over the prior year due to the goodwill impairment charge of \$105.2 million, lower raw material costs of \$12.6 million, particularly PVC resin and plasticizer costs, and lower operating costs. This was partially offset by the lower sales volumes and selling prices discussed above.

Corporate and other. Operating loss decreased \$9.5 million primarily due to lower compensation-related costs and professional fees, as well as other cost control measures undertaken throughout the Company.

Other income (expenses)

Interest expense. Interest expense decreased \$50.9 million over the prior year. The years ended December 31, 2009 and 2008 included gains of \$3.9 million and losses of \$51.5 million, respectively, representing the movement in the mark-to-market valuation of our interest rate hedging instruments. Excluding the impact of these gains and losses, interest expense increased \$4.5 million due to higher interest rates related to the amendment of our senior secured credit facility in June 2009 and debt incurred during the third quarter of 2008 related to the Titanium Dioxide Pigments venture with Kemira, partially offset by debt repayments.

Interest income. Interest income decreased \$3.9 million for the year ended December 31, 2009 compared to the same period in the prior year due to lower short-term average interest rates.

Gain/Loss on early extinguishment of debt. For the year ended December 31, 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. For the year ended December 31, 2008, we redeemed 11.0 million of our senior subordinated notes due in 2014 at a discount and recorded a gain of \$4.0 million.

Foreign exchange, net. For the year ended December 31, 2009, foreign exchange gains of \$16.0 million were reported primarily due to the impact of the stronger pound sterling, as well as a stronger euro, as of December 31, 2009 versus December 31, 2008, in connection with non-operating Euro and Pound Sterling denominated transactions. For the year ended December 31, 2008, we had foreign exchange losses of \$32.3 million primarily due to the impact of the weaker Pound Sterling as of December 31, 2008 versus December 31, 2007 related to non-operating euro-denominated transactions.

Provision for income taxes

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

The effective income tax rate for the year ended December 31, 2009 was 54.3% and an income tax provision of \$17.2 million was recorded for the year ended December 31, 2009. The effective income tax rate compared to the federal statutory rate was negatively impacted by domestic losses which are not tax effected as a result of a full valuation allowance and was positively impacted by a non-recurring tax benefit related to foreign currency changes and geographic earnings mix. The effective income tax rate for the year ended December 31, 2008 was 3.2% and an income tax benefit of \$23.9 million was recorded for the year ended December 31, 2008. The effective income tax rate compared to the federal statutory rate was negatively impacted primarily by non-deductible book goodwill impairments. It was also impacted negatively by domestic losses which are not tax effected as a result of a full valuation allowance and positively impacted by an allocation of tax benefits to continuing operations.

Income (loss) from continuing operations

Income from continuing operations for the year ended December 31, 2009 was \$14.5 million as compared to a loss from continuing operations of \$718.2 million for the year ended December 31, 2008 for the reasons described above.

Income from discontinued operations, net of tax

Income from discontinued operations, net of tax was \$2.8 million for the year ended December 31, 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. Income from discontinued operations, net of tax was \$3.3 million for the year ended December 31, 2008 from operating the pool and spa chemicals business that was sold in October 2008.

Gain on sale of discontinued operations, net of tax

The gain on sale of discontinued operations, net of tax, of \$42.9 million recorded for the year ended December 31, 2008 is primarily related to the sale of the pool and spa chemicals business in October 2008.

Net loss attributable to noncontrolling interest

Net loss attributable to noncontrolling interest of \$3.8 million and \$83.6 million for the year ended December 31, 2009 and 2008, respectively, was recorded. Noncontrolling interest primarily represents the noncontrolling interest portion of the Viance, LLC joint venture that was completed in January 2007 and the noncontrolling interest portion of the Titanium Dioxide Pigments venture completed in September 2008. The change from the prior year primarily relates to the goodwill impairment charge recorded in the Titanium Dioxide Pigments venture in the fourth quarter of 2008.

Net income (loss) attributable to Rockwood Holdings, Inc.

Net income attributable to Rockwood Holdings, Inc. for the year ended December 31, 2009 was \$21.1 million (income of \$18.3 million from continuing operations and income from discontinued operations of \$2.8 million) as compared to a net loss attributable to Rockwood Holdings, Inc. of \$588.4 million (loss of \$634.6 million from continuing operations and income from discontinued operations of \$46.2 million) for the same period in the prior year for the reasons described above.

Adjusted EBITDA

Specialty Chemicals. Adjusted EBITDA decreased \$67.3 million over the prior year primarily due to the lower volumes discussed above and the negative impact of currency changes of \$6.2 million. This decrease was partially offset by higher selling prices, cost control measures and the impact of a bolt-on acquisition.

Performance Additives. Adjusted EBITDA decreased \$12.0 million over the prior year due to the lower volumes and the negative impact of currency changes of \$4.1 million. This decrease was partially offset by higher selling prices, lower raw material costs of \$8.1 million, cost control measures and the impact of a bolt-on acquisition.

Titanium Dioxide Pigments. Adjusted EBITDA increased \$14.2 million over the prior year due to increased sales related to the completion of the venture with Kemira, lower raw material costs of \$12.1 million, higher selling prices, as well as cost control measures.

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

Advanced Ceramics. Adjusted EBITDA decreased \$42.5 million over the prior year primarily due to the lower volumes noted above and the negative impact of currency changes of \$4.5 million. This decrease was partially offset by cost control measures, the impact of a bolt-on acquisition in October 2008 and higher volumes of medical applications.

Specialty Compounds. Adjusted EBITDA was flat versus the prior year as lower raw material costs of \$12.6 million were offset by lower sales volumes and selling prices, as well as the negative impact of currency changes of \$1.3 million.

Corporate and other. Adjusted EBITDA increased \$9.2 million primarily due to lower compensation-related costs and professional fees, as well as other cost control measures undertaken throughout the Company.

Year ended December 31, 2008 compared to year ended December 31, 2007

Overview

Net sales increased \$314.9 million for the year ended December 31, 2008 compared with the prior year primarily due to the impact of bolt-on acquisitions, the positive impact of currency changes of \$123.0 million and increased selling prices of \$115.6 million. See further discussion by segment below.

Operating income decreased \$860.6 million for the year ended December 31, 2008 compared with the prior year due to a goodwill impairment charge of \$809.5 million, lower sales volumes, higher raw material and energy costs in all businesses and restructuring and other severance costs recorded in 2008 primarily related to cost control measures. The positive impact of currency changes of \$20.4 million, increased selling prices and lower corporate costs due to decreased incentive compensation-related costs and professional fees had a favorable impact on operating income.

Adjusted EBITDA increased \$36.5 million for the year ended December 31, 2008 primarily due to the positive impact of currency changes of \$30.1 million, the selling price increases noted above and decreased corporate costs.

Net income from continuing operations decreased \$807.6 million compared with the prior year primarily from the goodwill impairment charge, higher interest expense recorded in the year ended December 31, 2008 due to an increase in mark-to-market losses on our interest rate hedging instruments and increased foreign exchange losses on financing activities recorded in 2008. This was partially offset by the increases noted above and costs of \$18.6 million incurred in 2007 to redeem our 2011 Notes.

Income from discontinued operations, net of tax was \$3.3 million for the year ended December 31, 2008 and was comprised of income from operating the pool and spa chemicals business that was sold in October 2008. In the year ended December 31, 2007, income from discontinued operations, net of tax was \$25.3 million and was primarily comprised of income from operating the pool and spa chemicals business and the Electronics business which was sold in December 2007.

The gain on sale of discontinued operations, net of tax for the year ended December 31, 2008 of \$42.9 million is primarily related to the sale of the pool and spa chemicals business in October 2008. For the year ended December 31, 2007, the gain on sale of discontinued operations of \$210.4 million is related to gain of \$115.6 million (net of taxes) on the sale of Groupe Novasep and the gain of \$94.8 million (net of taxes) on the sale of the Electronics business.

Net loss attributable to noncontrolling interest increased \$91.6 million compared with the prior year primarily related to the goodwill impairment charge recorded in the Titanium Dioxide Pigments venture in the fourth quarter of 2008.

Net income attributable to Rockwood Holdings, Inc. decreased \$905.5 million compared with the same period in the prior year due to the reasons noted above.

Net sales

Specialty Chemicals. Net sales increased \$149.7 million over the prior year, including the positive impact of currency changes of \$53.0 million. In the Fine Chemicals business, higher selling prices of lithium products, as well as increased volumes, had a favorable impact on net sales. Net sales in the Surface Treatment business were favorably impacted by higher selling prices and the impact of bolt-on acquisitions in December 2007 and September 2008.

Performance Additives. Net sales increased \$37.1 million over the prior year due to acquisitions in August 2007 and 2008. Also, increased selling prices in our Color Pigments and Services and Clay-based Additives businesses and the positive impact of currency changes of \$3.8 million had a favorable impact on net sales. This was partially offset by lower volumes of construction-related products in our Color Pigments and Services and Timber Treatment Chemicals businesses.

Titanium Dioxide Pigments. Net sales increased \$91.9 million over the prior year due to the completion of the venture with Kemira on September 1, 2008 and the positive impact of currency changes of \$32.9 million. This was partially offset by significantly lower net sales on lower volumes, as well as lower selling prices of titanium dioxide products, primarily commodity grade, and lower volumes of functional additives.

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

Advanced Ceramics. Net sales increased \$53.4 million over the prior year primarily due to the positive impact of currency changes of \$35.7 million, increased volumes of medical applications and the impact of bolt-on acquisitions made in April 2007 and October 2008. This was partially offset by lower selling prices and volumes in most applications, particularly in mechanical systems and applications and multifunctional ceramics.

Specialty Compounds. Net sales decreased \$15.1 million over the prior year due to lower volumes in most businesses, particularly in wire and cable and regulated packaging applications, and the negative impact of currency changes of \$3.1 million. This was partially offset by increased selling prices.

Corporate and other. Net sales decreased \$2.1 million over the prior year due to lower volumes and selling prices in the European wafer reclaim business.

Gross profit

Gross profit increased \$38.2 million over the prior year due to the positive impact of currency changes of \$45.9 million and the sales increases noted above, in particular selling price increases. This was partially offset by raw material cost increases, particularly from the impact of higher phosphoric acid and tin costs in our Specialty Chemicals segment, higher iron-oxide costs in our Color Pigments and Services business, higher quat costs in our Clay-based additives business and higher ethylene vinyl acetate, plasticizer and PVC resin costs in our Specialty Compounds segment. We also experienced lower volumes in our Color Pigments and Services, Timber Treatment Chemicals and Titanium Dioxide Pigments businesses and higher depreciation and amortization costs in most businesses including the impact of acquisitions. Gross profit as a percentage of net sales decreased to 30.0% for the year ended December 31,

2008 from 31.8% for the year ended December 31, 2007.

Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, increased \$63.7 million over the prior year due in part to the impact of currency changes of \$25.5 million. Higher SG&A costs were also recorded in a few segments, particularly in Specialty Chemicals and Advanced Ceramics, related to increased sales volumes. SG&A expenses as a percentage of net sales was 19.6% in the year ended December 31, 2008 compared to 19.5% for the year ended December 31, 2007.

Impairment charges

We recorded a goodwill impairment charge of \$809.5 million in the fourth quarter of 2008 due to the significant drop in global stock valuations, the substantial reduction in the market valuation of Rockwood and comparable companies, and the continuing negative global economic and market outlook. In particular, the downturn in the construction industry has had a negative impact on a number of our businesses. As a result, we recorded a non-cash goodwill impairment charge in the following businesses: Color Pigments and Services (\$293.2 million), Timber Treatment Chemicals (\$88.3 million) and Clay-based Additives (\$75.1 million) within our Performance Additives segment; Titanium Dioxide Pigments segment (\$247.7 million); and Specialty Compounds segment (\$105.2 million). See further discussion in Critical Accounting Policies and Estimates, in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 9, Goodwill.

Restructuring and other severance costs

We recorded \$35.3 million of restructuring and other severance costs for the year ended December 31, 2008 throughout the Company. These charges primarily related to headcount reductions as part of our global cost control initiatives. We recorded \$12.0 million of restructuring charges for the year ended December 31, 2007 for miscellaneous restructuring actions in the Specialty Chemicals, Performance Additives, Advanced Ceramics and Corporate and other segments for headcount reductions and facility closures. See Note 18, Restructuring And Other Severance Costs, for further details.

Gain on sale of assets

We recorded a gain of \$2.4 million for the year ended December 31, 2008 primarily related to the sale of land that was acquired as part of the acquisition of Dynamit Nobel in 2004. For the year ended December, 2007, we recorded a gain of \$4.7 million primarily related to the sale of our U.S. wafer reclaim business.

Operating income

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

Specialty Chemicals. Operating income increased \$16.8 million over the prior year primarily due to the positive impact of currency changes of \$9.1 million and higher sales discussed above. This increase was partially offset by higher raw material costs of \$25.5 million, primarily for phosphoric acid and tin, increased depreciation and amortization costs of \$15.3 million, including the impact of bolt-on acquisitions made in December 2007 and September 2008, and increased restructuring and other severance costs of \$14.6 million.

Performance Additives. Operating income decreased \$520.0 million over the prior year due to the goodwill impairment charge of \$456.6 million, lower sales volumes discussed above, and higher raw material costs of \$46.7 million, particularly higher iron-oxide costs in the Color Pigments and Services business and higher quat costs in our Clay-based Additives business. Higher depreciation and amortization costs of \$9.6 million primarily due to the acquisitions made in August 2007 and 2008 and increased restructuring and other severance costs of \$8.1 million also had an unfavorable impact on operating income.

Titanium Dioxide Pigments. Operating income decreased \$267.4 million over the prior year primarily due to the goodwill impairment charge of \$247.7 million, lower sales volumes and selling prices discussed above, increased depreciation and amortization costs of \$13.9 million and higher energy costs of \$8.7 million. This was partially offset by increased sales related to the completion of the venture with Kemira on September 1, 2008.

Advanced Ceramics. Operating income increased \$12.8 million over the prior year primarily due to the positive impact of currency changes of \$8.8 million, the increased sales volumes noted above and productivity improvements. The impact of bolt-on acquisitions made in April 2007 and October 2008 also had a favorable impact on operating income. This increase was partially offset by lower selling prices and increased depreciation and amortization costs of \$6.5 million primarily related to the acquisitions discussed above.

Specialty Compounds. Operating income decreased \$105.9 million over the prior year due to the goodwill impairment charge of \$105.2 million, lower sales volumes discussed above and higher raw material costs of \$12.6 million, particularly ethylene vinyl

acetate, plasticizer and PVC resin costs. This was partially offset by lower operating costs and higher selling prices.

Corporate and other. Operating loss decreased \$3.1 million primarily due to lower incentive compensation related costs and lower professional fees, partially offset by lower gains on asset sales and higher depreciation and amortization costs.

Other income (expenses)

Interest expense. Interest expense increased \$11.8 million over the prior year. The years ended December 31, 2008 and 2007 included losses of \$51.5 million and \$32.2 million, respectively, representing the movement in the mark-to-market valuation of our interest rate hedging instruments. The remaining interest expense decrease of \$7.5 million is primarily due to the redemption of the 2011 Notes in May 2007 in the aggregate amount of \$273.4 million, partially offset by increased debt levels related to the completion of the Titanium Dioxide Pigments venture.

Interest income. Interest income decreased \$5.5 million for the year ended December 31, 2008 compared to the same period in the prior year due to lower average cash balances in 2008 compared to the prior year and lower short-term average rates.

Gain/Loss on early extinguishment of debt. In the fourth quarter of 2008, we redeemed 11.0 million of our senior subordinated notes due in 2014 at a discount and recorded a gain of \$4.0 million. In the second quarter of 2007, we paid a redemption premium of \$14.5 million and wrote off \$4.1 million of deferred financing costs associated with the redemption of the 2011 Notes in May 2007.

Refinancing expenses. In March 2007, we expensed \$0.9 million related to the fourth amendment of the senior secured credit agreement resulting in a 50 basis point reduction on our tranche G term loans.

Foreign exchange, net. For the year ended December 31, 2008, we had foreign exchange losses of \$32.3 million primarily due to the impact of the weaker Pound Sterling as of December 31, 2008 versus December 31, 2007 related to non-operating euro-denominated transactions. For the year ended December 31, 2007, we had foreign exchange gains of \$7.8 million primarily related to euro-denominated debt, cash and inter-company loans.

Provision for income taxes

The effective income tax rate for the year ended December 31, 2008 was 3.2% and an income tax benefit of \$23.9 million was recorded for the year ended December 31, 2008. The effective income tax rate compared to the federal statutory rate was negatively impacted primarily by non-deductible book goodwill impairments. It was also impacted negatively by domestic losses which are not tax effected as a result of a full valuation allowance and positively impacted by an allocation of tax benefits to continuing operations. The effective income tax rate was 41.1% for the year ended December 31, 2007 and was favorably impacted by certain non-recurring items, primarily related to the impact of a statutory rate change in certain European jurisdictions and the allocation of tax benefits to continuing operations.

(Loss) income from continuing operations

Loss from continuing operations for the year ended December 31, 2008 was \$718.2 million as compared to income from continuing operations of \$89.4 million for the year ended December 31, 2007 for the reasons described above.

Income from discontinued operations, net of tax

Income from discontinued operations, net of tax was \$3.3 million for the year ended December 31, 2008 from operating the pool and spa chemicals business that was sold in October 2008, compared to \$25.3 million for the year ended December 31, 2007, due to income from operating the Electronics business, that was sold in December 2007 and the pool and spa chemicals business.

Gain on sale of discontinued operations, net of tax

The gain on sale of discontinued operations, net of tax, of \$42.9 million recorded for the year ended December 31, 2008 is primarily related to the sale of the pool and spa chemicals business in October 2008. For the year ended December 31, 2007, we recorded a gain on sale, net of tax, of \$115.6 million as a result of the sale of the Groupe Novasep segment in January 2007 and a gain, net of tax, of \$94.8 million as a result of the sale of the Electronics business in December 2007.

Net loss (income) attributable to noncontrolling interest

Net loss (income) attributable to noncontrolling interest of \$83.6 million and \$(8.0) million for the year ended December 31, 2008 and 2007, respectively, was recorded. Noncontrolling interest primarily represents the noncontrolling interest portion of the Viance, LLC

joint venture that was completed in January 2007 and the noncontrolling interest portion of the Titanium Dioxide Pigments venture completed in September 2008. The change from the prior year primarily relates to the goodwill impairment charge recorded in the Titanium Dioxide Pigments venture in the fourth quarter of 2008.

Net (loss) income attributable to Rockwood Holdings, Inc.

Net loss attributable to Rockwood Holdings, Inc. for the year ended December 31, 2008 was \$588.4 million (loss of \$634.6 million from continuing operations and income from discontinued operations of \$46.2 million) as compared to net income attributable to Rockwood Holdings, Inc. of \$317.1 million (income of \$81.5 million from continuing operations and income from discontinued operations of \$235.6 million) for the same period in the prior year for the reasons described above.

Adjusted EBITDA

Specialty Chemicals. Adjusted EBITDA increased \$50.8 million over the prior year primarily due to the impact of higher sales discussed above and the positive impact of currency changes of \$11.7 million. This increase was partially offset by higher raw material costs of \$25.5 million as discussed above.

Performance Additives. Adjusted EBITDA decreased \$43.6 million over the prior year due to lower sales volumes and higher raw material costs of \$46.7 million as discussed above.

Titanium Dioxide Pigments. Adjusted EBITDA increased \$0.4 million over the prior year primarily due to the impact of currency changes of \$5.2 million, as well as by increased sales related to the completion of the venture with Kemira on September 1, 2008. This was partially offset by the lower sales volumes and selling prices discussed above and higher energy costs of \$8.7 million.

Advanced Ceramics. Adjusted EBITDA increased \$22.1 million over the prior year primarily due to the impact of the increased sales volumes noted above, productivity improvements and the positive impact of currency changes of \$12.0 million. The impact of bolt-on acquisitions made in April 2007 and October 2008 also had a favorable impact on Adjusted EBITDA. This increase was partially offset by lower selling prices.

Specialty Compounds. Adjusted EBITDA decreased \$0.3 million primarily due to the lower sales volumes discussed above and higher raw material costs of \$12.6 million, particularly ethylene vinyl acetate, plasticizer and PVC resin costs. This was partially offset by lower operating costs and higher selling prices.

Corporate and other. Adjusted EBITDA increased \$7.1 million primarily due to lower incentive compensation related costs and lower professional fees.

Reconciliation of Net Income (Loss) Attributable to Rockwood Holdings, Inc. to Adjusted EBITDA

Because we view Adjusted EBITDA on both a consolidated basis and segment basis as an operating performance measure, we use net income (loss) 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 (loss) attributable to Rockwood Holdings, Inc. to Adjusted EBITDA on a consolidated basis:

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

(\$ in millions)	Year ended December 31,		
	2009	2008	2007
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1
Net (loss) income attributable to noncontrolling interest	(3.8)	(83.6)	8.0
Net income (loss)	17.3	(672.0)	325.1
Income tax provision (benefit)	17.2	(23.9)	62.3
Income from discontinued operations, net of tax	(2.8)	(3.3)	(25.3)
Gain on sale of discontinued operations, net of tax		(42.9)	(210.4)
Income (loss) from continuing operations before taxes	31.7	(742.1)	151.7
Interest expense (a)	180.2	231.1	219.3
Interest income	(2.1)	(6.0)	(11.5)
Depreciation and amortization	283.0	258.9	211.7
Impairment charges		809.5	
Restructuring and other severance costs	20.8	35.3	12.0
Systems/organization establishment expenses	6.3	12.9	4.2
Acquisition and disposal costs	3.0	1.7	2.3
Inventory write-up charges		6.9	5.7
Loss (gain) loss on early extinguishment of debt	26.6	(4.0)	18.6
Refinancing expenses			0.9
Acquired in-process research and development		2.9	
Loss (gain) on sale of assets and other	0.5	(2.4)	(4.7)
Foreign exchange (gain) loss, net	(16.0)	32.3	(7.8)
Other	6.5	1.9	
Total Adjusted EBITDA (b)	\$ 540.5	\$ 638.9	\$ 602.4

(a) Includes gains (losses) of \$3.9 million, \$(51.5) million and \$(32.2) million for the years ended December 31, 2009, 2008 and 2007, 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 \$369.6 million, \$296.6 million and \$368.5 million in 2009, 2008 and 2007, respectively. Net cash from operating activities increased in 2009 primarily from an outflow of operating cash from working capital changes in 2008, partially offset by \$31.1 million related to the termination of interest rate swaps in November 2009, higher cash interest expense and operating cash inflows in 2008 related to operating the pool and spa business that was sold in October 2008. Net cash from operating activities decreased in 2008 primarily from the higher use of operating cash from working capital changes and the reduction in operating cash flows due to the divestiture of the Electronics business, partially offset by lower cash interest expense. Net cash from operating activities increased in 2007 primarily from higher operating income and lower cash interest expense, partially offset by higher use of operating cash from working capital changes and lower operating cash flows due to the Groupe Novasep divestiture.

Investing Activities. Net cash (used in) provided by investing activities was \$(204.3) million, \$(295.5) million and \$377.6 million in 2009, 2008 and 2007, respectively. Net cash used in investing activities for the year ended December 31, 2009 was primarily comprised of capital expenditures and \$32.9 million related to the settlement of a cross-currency swap in November 2009. Net cash used in investing activities for the year ended December 31, 2008 included the acquisitions of Holliday Pigments, Nalco's Finishing Technologies business and other

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

acquisitions in 2008 and capital expenditures. This was partially offset by the sale proceeds from the sale of the pool and spa chemicals business in the fourth quarter of 2008 and funds received related to the claim settlement between the Company and GEA Group in the first quarter of 2008. Net cash provided by investing activities for the year ended December 31, 2007 included proceeds received from the sale of the Electronics business, the sale of the Groupe Novasep segment and the formation of the Viance, LLC joint venture. This was partially offset by acquisitions made in 2007, including the acquisition of the global color pigments business of Elementis plc in August 2007, and capital expenditures.

Financing Activities. Net cash (used in) provided by financing activities was \$(320.9) million, \$104.7 million and \$(411.8) million in 2009, 2008 and 2007, respectively. Net cash used in financing activities increased due to certain debt prepayments. 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 in the first half of 2009, and \$25.8 million related to the amendment of the senior secured credit facility in June 2009. For the year ended December 31, 2008, net cash provided by financing

activities included \$362.5 million related to the financing of the Titanium Dioxide Pigments venture, partially offset by the payment of assumed debt to the noncontrolling shareholder of the Titanium Dioxide Pigments venture of \$141.4 million. For the year ended December 31, 2007, net cash used in financing activities included the redemption of our 10 5/8% Senior Subordinated Notes that were due in 2011 in the aggregate principal amount of \$273.4 million and related redemption premiums of \$14.5 million.

Liquidity

Our primary source of liquidity has been and will continue to be cash generated from the operations of our subsidiaries. Events that occurred in 2009 that had or may have an impact on our liquidity include:

- In the first half of 2009, we used \$146.8 million of cash to repurchase, at a discount, \$153.2 million in aggregate principal amount of our Euro-denominated 2014 Notes and \$102.3 million to prepay our senior secured term loans.
- On June 15, 2009, we amended our senior secured credit agreement, which amends and restates in its entirety our senior secured credit agreement. See further details in Note 11, Long-Term Debt.

Our primary liquidity requirements are working capital, debt service, capital expenditures and acquisitions. Our debt service requirements in future years are significant and are substantially higher than historical amounts. 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, a prolonged 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 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 adversely impacted by market conditions in late 2008 and early 2009. 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 significant payment via a one-time payment and/or 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. Any deterioration of the capital markets or returns available in such markets may materially and adversely impact our pension plan assets and increase our funding obligations for one or more of these plans and adversely impact our liquidity. We cannot predict the impact of this or any further market disruption on our pension funding obligations.

In August 2009, the U.S. Department of Energy awarded \$28.4 million in Recovery and Reinvestment Act funds, subject to certain conditions, to our Fine Chemicals business within our Specialty Chemicals segment. We expect to use the funds to expand and upgrade the production of lithium compounds used in lithium ion batteries for hybrid and electric vehicles at our Silver Peak, Nevada and Kings Mountain, North Carolina facilities. In addition to the funds from this grant, we are required to invest an additional \$28.4 million in the project over the next few years. In addition, in September 2009, the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety awarded \$5.7 million to our Fine Chemicals business to set up a pilot plant for the recycling of lithium ion batteries, subject to customary terms and conditions. Including the funds from this grant, we expect to invest an additional \$8.8 million in the project over the next three years.

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

As of December 31, 2009, we had actual total indebtedness of \$2,528.3 million. Our \$250.0 million revolving credit facility under our senior secured credit facility provided for additional borrowings of up to \$223.6 million as of December 31, 2009. There were no outstanding borrowings under this revolving credit facility as of December 31, 2009, although we had outstanding letters of credit of \$26.4 million that reduced our availability under the senior secured credit facility. In July 2010, the availability under the revolving credit facility will be reduced to \$180.0 million. The 30.0 million (\$43.0 million) revolving credit facility under the Titanium Dioxide Pigments venture facility provided for additional borrowings of up to 10.0 million (\$14.3 million) as of December 31, 2009. There was 10.0 million (\$14.3 million) of borrowings outstanding under this facility as of December 31, 2009, as well as an outstanding bank guarantee of 10.0 million (\$14.3 million) that further reduced availability under this facility. We repaid 10.0 million of borrowings in January 2010 that were outstanding under this facility as of December 31, 2009.

As of December 31, 2009, we had cash and cash equivalents of \$300.5 million primarily from cash from operations. 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.

Our long-term debt at December 31, 2009 and 2008 is primarily comprised of our senior secured credit facility, which we amended in June 2009, our 2014 Notes and our Titanium Dioxide Pigments venture term loans. See Note 11, Long-Term Debt, for a detailed discussion of these borrowings.

Senior secured credit facilities. The borrowings of our indirect, wholly-owned subsidiaries, RSGI and Rockwood Specialties Limited under the senior secured credit facilities are guaranteed and secured by assets and pledges of capital stock. The senior secured credit agreement also contains the following financial covenants that are determined based on our Adjusted EBITDA (including certain adjustments for acquisitions and related synergies), which reflects management's interpretations thereof:

- a leverage ratio: for the twelve-month period ended December 31, 2009, 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 4.40 to 1; for such period, our ratio equaled 3.41 to 1; and
- an interest coverage ratio: for the twelve-month period ended December 31, 2009, 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 3.10 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 4.40 to 1.00 on the last day of any fiscal quarter through and including March 31, 2010, 4.25 to 1.00 on the last day of any fiscal quarter thereafter through and including September 30, 2010, and 4.00 to 1.00 on the last day of any fiscal quarter thereafter. The senior secured credit agreement also reset the asset sales basket, increased the available amount basket that applies to certain investment, debt and capital expenditure negative covenants and 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 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 interest on the then outstanding senior secured credit facilities immediately due and payable.

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 December 31, 2009.

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

2014 Notes. The 2014 Notes also 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 December 31, 2009, the fixed charge coverage ratio equaled 3.10 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 interest on the then outstanding notes immediately

due and payable.

Titanium Dioxide Pigments venture term loans, revolving credit facility and other debt. 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.

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:

- A leverage coverage ratio: for the twelve-month period ended December 31, 2009, net debt to EBITDA, subject to certain adjustments (which is substantially similar to the definition of Adjusted EBITDA in our senior secured credit agreement) must be less than 4.00 to 1: for such period, our ratio equaled 3.32 to 1;
- An interest coverage ratio: for the twelve-month period ended December 31, 2009, EBITDA, subject to certain adjustments, (which is substantially similar to the definition of Adjusted EBITDA in our senior secured credit agreement) to cash interest expense (net of interest income), must be greater than 3.00 to 1: for such period, our ratio equaled 4.53 to 1; and
- Cash flow coverage ratio: for the twelve-month period ended December 31, 2009, 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 1.00: for such period, our ratio equaled 2.35 to 1.

We were in compliance with the above covenants as of December 31, 2009.

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)	Year ended December 31,		
	2009	2008	2007
Net cash provided by operating activities from continuing operations	\$ 369.6	\$ 284.6	\$ 330.2
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions	(71.5)	96.8	50.8

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

Current portion of income tax provision	31.7	40.6	33.3
Interest expense, net, excluding amortization of deferred financing costs and unrealized losses/gains on derivatives	174.1	164.0	166.4
Restructuring and other severance costs	20.8	35.3	12.0
Systems/organization establishment expenses	6.3	12.9	4.2
Acquisition and disposal costs	3.0	1.7	2.3
Inventory write-up charges		6.9	5.7
Refinancing expenses			0.9
Bad debt provision	(0.5)	(3.4)	1.3
Loss (gain) on sale of assets and other	0.5	(2.4)	(4.7)
Other	6.5	1.9	
Total Adjusted EBITDA	\$ 540.5	\$ 638.9	\$ 602.4

Contractual Obligations

The following table details Rockwood's fixed contractual cash obligations as of December 31, 2009:

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

(\$ in millions)	Total	Less than 1 year	2-3 Years	4-5 Years	After 5 years
Debt, including current portion					
(a)	\$ 3,199.2	\$ 263.6	\$ 680.2	\$ 2,221.3	\$ 34.1
Operating leases	58.7	16.8	21.1	11.1	9.7
Purchase obligations (b)	543.0	228.3	211.4	34.5	68.8
Total (c) (d)	\$ 3,800.9	\$ 508.7	\$ 912.7	\$ 2,266.9	\$ 112.6

(a) Amounts represent the expected principal payments of our long-term debt, including capital leases, and do not include any fair value adjustments or bond premiums or discounts. This amount also includes estimated scheduled cash interest payments totaling \$670.9 million. A portion of the debt balance outstanding as of December 31, 2009 contained a variable interest rate component. Therefore, interest was calculated on this portion based upon the average of the rates in effect as of December 31, 2009. See Note 11, Long-Term Debt.

(b) Purchase obligations consist of agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(c) Statutory minimum funding requirements for 2009 for defined benefit pension plans are not included as such amounts have not been determined. For 2010, the Company expects to make contributions of approximately \$6.6 million to pension trusts and \$18.8 million directly to plan participants as benefit payments. Future contributions, including additional payments that may be required as a result of investment performance of pension assets, are not included, as they are not fixed either as to timing or amount. See Note 15, Employee Benefit Plans, for further details.

(d) Obligations relating to eventual settlement of derivative contracts are not included as the timing and amounts are not fixed. These contracts are marked to market with the related liabilities or assets depending on the mark to market position. At December 31, 2009, the mark to market position of obligations relating to derivative contracts was a liability and were recorded in accrued expenses and other current liabilities and Other Liabilities in the Consolidated Balance Sheet.

Liabilities for unrecognized tax benefits in the amount of \$19.8 million (excluding interest and penalties) as of December 31, 2009 are excluded from the Contractual Obligations table as we are unable to make a reasonably reliable estimate of the period of cash settlement with the respective taxing authorities. Liabilities for these unrecognized tax benefits are classified as non-current income tax liabilities (other liabilities) unless expected to be paid in one year.

Capital Expenditures

Rockwood's capital expenditures in 2009 consisted primarily of replacements of worn, obsolete or damaged equipment as well as investments in new equipment. For the year ended December 31, 2009, capital expenditures, excluding capital leases, were \$154.1 million. Capital expenditures for 2010 are expected to be above 2009 levels. For the years ended December 31, 2008 and 2007, our capital expenditures, excluding capital leases, amounted to \$224.0 million and \$193.2 million, respectively.

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

We may incur future costs for capital improvements and general compliance under Safety, Health and Environmental (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 Registration, Evaluation and Authorization of Chemicals (REACH) legislation. See Note 20, Commitments and Contingencies, Regulatory Developments for a discussion of REACH. We are applying our capital discipline and stringent controls to reduce our future capital expenditures.

Foreign currency related transactions

As of December 31, 2009, \$1,237.0 million of the debt outstanding is denominated in Euros. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

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 December 31, 2009, the Company had approximately \$30.1 million of letters of credit and other bank guarantees, of which \$27.4 million will expire in 2009 through 2014. The remaining guarantees have no specified expiration date. This amount includes outstanding letters of credit of \$26.4 million that reduced our availability under the 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 20, 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 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 fair values of assets acquired and liabilities assumed in business combinations;
- the use and recoverability of inventory;
- the valuation of deferred tax assets;
- the amount of unrecognized tax benefits;
- impairment of goodwill, property, plant and equipment and other intangible assets; and
- the useful lives of tangible and intangible assets.

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

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.

See Note 1, Description of Business and Summary of Significant Accounting Policies, for a summary of our significant accounting policies. We believe the following to be the most critical accounting policies and estimates affecting preparation of our consolidated financial statements:

Revenue Recognition. We recognize revenue when the earnings process is complete. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred and collectibility is reasonably assured. We believe that we have adequate credit granting procedures in place and operating effectively so that collectibility is reasonably assured. We have a low incidence of uncollectible accounts. Additionally, credit insurance is purchased at times by certain of our businesses, particularly in Europe, to protect against collection risk. Accruals are made for sales returns based on our experience and for other allowances based on the terms of allowance programs put in place. Although we believe that sufficient experience and history exists to make reasonable estimates as to such accruals and allowances, actual results can differ depending on market conditions.

Impairment Accounting. The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, long-lived tangible, 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. We have determined that our reporting units for our goodwill impairment review are our operating segments or components of an operating segment that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. Based on this analysis, we have identified nine reporting units within our reportable segments.

In accordance with the accounting guidance on determining a goodwill impairment, there is a two-step method. In the first step, we determine the fair value of each reporting unit (as discussed in the following sentence) and compare that fair value to the carrying value of such reporting unit. This begins with our estimating the fair value of each reporting unit, which we derive from peer multiples. Specifically, we base our estimate of the fair value of such reporting unit on an industry metric that is the ratio of enterprise value (EV which is commonly defined as market capitalization, plus long-term debt, less cash) to Adjusted EBITDA of the relevant benchmark peer companies and groups; we refer to this as the peer multiple approach. The peer companies are typically based upon

the competitors disclosed in Item 1, *Business* for each of our reporting units. We use EV multiples to the last twelve months Adjusted EBITDA and to the next fiscal year Adjusted EBITDA. We then multiply this ratio by the Adjusted EBITDA for the recently completed year and the budgeted Adjusted EBITDA for the upcoming year of such reporting unit and compare it to the carrying value of such reporting unit. If the product of such peer multiple and reporting unit's Adjusted EBITDA is less than such carrying value, it may be an indication of an impairment. If our initial review indicates there may be an impairment, we perform a review based on expected future cash flows; we refer to this as the discounted cash flow approach. For the discounted cash flow approach, the Company makes certain assumptions about, among other things, estimates of future cash flows, including growth rates, price increases, capital expenditures, the benefits of recent acquisitions and expected synergies, and an appropriate discount rate. If the results of the peer multiple approach and the discounted cash flow approach differ materially, we would review the relevant facts and circumstances and make a qualitative assessment to determine the proper weighting. If the results of the first step indicate the carrying amount of a reporting unit is higher than its fair value, the second step must be performed. Specifically, the Company determines the implied fair value of goodwill in the same manner as if the Company had acquired those reporting units. In the second step, the potential impairment is computed by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess. If necessary, we may consult with valuation specialists to assist with our goodwill impairment review.

For the years ended December 31, 2009 and 2007, we did not recognize a goodwill impairment loss as a result of the impairment analysis that was performed. In the fourth quarter of 2008, we tested the recoverability of goodwill as part of our annual review. In connection with the determination of fair value of the reporting units, we made significant estimates and assumptions with respect to those reporting units and engaged independent valuation specialists to assist with this review. The first step of our review indicated that the fair values of our Color Pigments and Services, Timber Treatment Chemicals, Clay-based Additives, Titanium Dioxide Pigments, Specialty Compounds and Rubber Chemicals reporting units were less than their carrying values. Accordingly, we were required to complete the second step of the impairment review. To compute the amount of the impairment, the Company determines the implied fair value of goodwill in the same manner as if the Company had acquired those reporting units. Specifically, the Company allocated the fair value of the reporting units to all of the assets, including any unrecognized intangible assets, and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. The impairment loss is measured as the difference between the book value of the goodwill and the implied fair value of the goodwill computed in step two. Based on the results of the second step of the impairment review, we determined and recorded goodwill impairment charges in our Color Pigments and Services business (\$293.2 million), Timber Treatment Chemicals business (\$88.3 million) and Clay-based Additives business (\$75.1 million) within our Performance Additives segment; Titanium Dioxide Pigments segment (\$247.7 million); and Specialty Compounds segment, including our Rubber Chemicals business (\$105.2 million). The goodwill impairment charges were attributed to the significant drop in global stock valuations, the substantial reduction in the market valuation of Rockwood and comparable companies, and the continuing negative global economic and market outlook. In particular, the downturn in the construction industry has had a negative impact on a number of our businesses.

These calculations are based on inherent assumptions and estimates about future cash flows and appropriate benchmark peer companies or groups. Subsequent changes in these assumptions could result in future impairment. Although we consistently use the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results. For example, if the Company had applied a 10% reduction in the peer multiples of its reporting units in 2009, no potential goodwill impairment would exist at any of our reporting units. In 2008, if the Company had applied a 10% reduction in the peer multiples of the reporting units that were not impaired, there may have been an additional potential goodwill impairment in two of our reporting units. In 2007, if the Company had applied a 10% reduction in all peer multiples for all reporting units, no potential goodwill impairment would exist at any of our reporting units, except for one reporting unit for which there may have been a potential impairment. As noted above, if we had discovered such a potential impairment, we might have expanded the review to prepare more detailed estimates of future cash flows in subsequent years, which might have resulted in a different impairment assessment.

Prior to completing the assessment of goodwill for impairment during the fourth quarter of 2008, we performed a recoverability test of certain long-lived assets. As a result, we concluded that there was no impairment of those assets in the fourth quarter of 2008.

Business Combinations. We account for business combinations using the purchase method of accounting. Under the purchase method of accounting, we are required to allocate the purchase price to the estimated fair value of assets acquired and liabilities assumed. Examples of

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

material estimates from our previous acquisitions are:

- The fair values of work-in-process and finished goods inventories are estimated based on selling price less selling profit. The calculation of selling profit requires a judgment on the relative margins derived from manufacturing vs. marketing efforts.
- The fair value of property, plant and equipment can be estimated by a variety of methods taking into account market values, replacement cost, and remaining useful life. Although market value and replacement cost is sometimes readily obtainable,

often this requires judgment, as does determining the estimated remaining useful life. When we believe that property, plant and equipment acquired will be material to our overall balance sheet, or that fair value might represent a significant difference from the historical cost (net of accumulated depreciation) of such assets, we have engaged an independent appraiser to assist us on such estimates, as we have done in our recent acquisitions. However, it is not uncommon for appraisers to differ on the valuation of items (such as manufacturing equipment) where a ready secondary market does not exist.

- The fair value of identifiable intangible assets such as patents and other intellectual property, customer lists, and trademarks, can be estimated by discounted cash flow and return on royalties. The process utilized to identify intangible assets is consistent with the requirements of the accounting guidance on business combinations. When considered material, we have engaged an independent appraiser to assist us in the identification of intangible assets acquired, valuation of such assets and determination of the estimated useful life. An independent appraiser, with management's oversight and input, is required to make judgments and estimates that could cause such appraisals to differ from those of other appraisal experts.

- In order to determine the fair value of intangible assets and other long term assets, a discount rate and royalty rate are determined in conjunction with our independent appraiser. The royalty rate is based on professional judgment taking into consideration the type of product, market and perceived strength. The discount rate and royalty rate have a material impact on the determination of the fair value.

- Purchase accounting often involves the same critical estimates that are required in our ordinary course of business including estimates of deferred tax assets or liabilities, pension liabilities, restructuring liabilities and legal and environmental reserves.

Goodwill is an intangible asset that represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed. While goodwill itself does not represent an estimate, we must assign goodwill to one or more reporting units. Allocation of goodwill to reporting units requires judgments about the relative fair values of reporting units including the fair value of their identifiable assets and estimates as to the present value of future cash flows expected from the reporting units as adjusted by weighted average and/or risk-adjusted costs of capital. Goodwill is assessed for impairment at least annually.

Some of our business combinations have complex terms that may result in conflicting claims between buyers and sellers concerning the purchase price itself. Management is required to assess the probability and amount (or range of amounts) of such claims, and, where possible, determine the most likely amount due.

Legal Matters. We are involved in various legal proceedings, including commercial, product liability, intellectual property and environmental matters, of a nature that can be expected in our business. It is our 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. The probability that a contingent liability has been incurred is regularly assessed by our legal staff, based on periodic reviews of available facts and circumstances for our legal matters, with senior operating and finance management both at the business accountable for the potential liability and at our corporate offices. This is supplemented where applicable by consultation with outside counsel. We do not believe it is informative to quantify past experience at assessing probability or estimating exposure since material matters of this nature at Rockwood often represent unique situations with little applicability to the assessment of probability or estimation of potential liability regarding other legal matters. It is our policy to disclose such matters when there is at least a reasonable possibility that a loss may have been incurred.

Environmental Matters. We accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized, and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. As such, it can be extremely difficult to accurately estimate such costs. We do not include anticipated recoveries from insurance carriers or other third parties in our accruals for environmental liabilities.

We have estimated and established financial reserves relating to anticipated environmental cleanup obligations, site reclamation and remediation and closure costs. On a consolidated basis, we have accrued approximately \$55.1 million for known environmental liabilities as of December 31, 2009. Given that these obligations may be paid/relieved over extended time periods (30 years in some cases), charges or credits to operations may be required as information is gathered and estimates refined.

We have evaluated our total environmental exposure based on currently available data and believe that such environmental matters will not have a material adverse impact on our financial position or results of operations. If matters previously identified by management are resolved in a manner different from original estimates, there is the potential for a material adverse effect on operating results or cash flows in any one accounting period. See Note 20, Commitments and Contingencies.

Restructuring. We record restructuring charges from time to time that represent expenses incurred in connection with consolidations and cessations of certain of our operations as well as headcount reduction programs. These charges consist primarily of write-offs of surplus assets and severance costs. These 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, we calculate our best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

For example, we have accrued liabilities of \$7.5 million as of December 31, 2009 to cover restructuring liabilities for employee severance, facility closure and relocation costs. The portion of this accrued liability that was recorded as part of purchase accounting is not charged to operations, but was recorded as part of goodwill. In the event that our estimates of such costs are too low, an additional charge to operations would be required.

Income Taxes. Valuation Allowance - We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized based on available evidence weighted toward evidence that is objectively verifiable. If we were to determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the net deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our recorded net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made.

We have cumulative net operating loss carry forwards in the U.S., Germany and China for which we have reserved. The valuation allowance also includes certain states in the U.S. as we have concluded realizability of these net operating loss carryforwards is not more likely than not. We have not recorded valuation allowances on a significant portion of our German net operating loss carryforwards as we have considered positive evidence such as forecasted future taxable income based on historical taxable income adjusted for charges which are not indicative of future operations and as the carryforward period is indefinite.

We consider future taxable income and other available evidence when assessing the need for a valuation allowance. Various assumptions and strategies (including elections for tax purposes) are implicit in estimates of forecasted future taxable income.

We believe that, in situations in which future realization of deferred tax assets is dependent on taxable income from future operations, the relative significance of cumulative losses be addressed. Accordingly, in assessing the realization of U.S. jurisdiction net operating loss carry forwards for the years ended December 31, 2009, 2008 and 2007, and, considering future taxable income, we have identified the key elements of both positive and negative evidence and evaluated such evidence.

The worldwide valuation allowance increased by \$48.2 million to \$132.9 million at December 31, 2009. Of this amount, \$34.4 million was a charge to income tax expense relating primarily to net operating losses and \$13.8 million primarily represents an increase to other comprehensive income.

As of December 31, 2009, we had three years of net cumulative losses in the U.K. As such, we evaluated the realizability of the net deferred tax assets of \$23.5 million related to our U.K. entities. For any specific jurisdiction where a history of three years of cumulative losses has occurred or where there has been a substantial change in the business (e.g., a major acquisition or divestiture), the Company's policy is to determine its need for a valuation allowance on deferred tax assets, if any, by calculating an average steady-state normalized taxable income amount over the last three years, adjusted for acquisitions or divestitures if necessary. The steady-state calculation includes management assumptions that relate

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

to the appropriateness of certain items, such as, including permanent cost savings which have been/are being implemented and excluding one-time items.

In accordance with this policy, we calculated the average annual income before taxes in the U.K. on a steady-state normalized basis. We continue to be profitable on a normalized basis. We additionally considered the nature of the U.K. net deferred tax assets which includes unused tax depreciation (capital allowances in the U.K.). Under U.K. law, this tax attribute can be utilized indefinitely. Accordingly, we concluded that given the level of profitability and given their unlimited life, these assets should more likely than not be realizable as of December 31, 2009 in the U.K. and therefore no valuation allowance was recorded as of such date.

We are committed to buying and selling businesses within our portfolio of businesses as opportunities arise to enhance our overall results. We are committed to selling assets which are non-core and which would generate a taxable gain in the event of expiring U.S. Federal NOL s.

During the first quarter of 2007, the Company adopted a standard that clarified the accounting for uncertainty in income taxes recognized in an entity s financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized as the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

The Company is subject to taxation in the U.S., various states, and foreign jurisdictions. As part of the adoption of this standard, we evaluated all tax positions taken including the existing tax liabilities recorded in accordance with the accounting guidance for contingencies, and evaluated whether such tax positions would more-likely-than-not be sustained upon examination, based on the technical merits of the position. If the position met the more-likely-than-not threshold test, we estimated the amount of the benefit that would be more than 50% likely to be sustained upon ultimate settlement. The estimate includes management's judgment of the amounts and probabilities of outcomes that could be realized upon ultimate settlement, taking into account all facts, circumstances, and information available at the reporting date.

Although we have a full valuation allowance on the U.S. net deferred tax assets and certain U.S. states, we have evaluated the U.S. positions as well as foreign positions. Liabilities associated with positions taken as part of purchase accounting have been recorded as part of goodwill. Based on our year-end analysis, we have recorded unrecognized tax benefits of \$39.1 million (excluding interest and penalties) on a gross basis. The ultimate settlement of this liability is subject to tax audits or the expiration of the statute of limitations. As such, actual results will differ from our estimates.

In accordance with our policy, we have offset the gross liability in respect of our uncertain tax positions against deferred taxes where settlement of such liability would reduce tax loss carry forwards. On a net basis, we have recorded unrecognized tax benefits of \$19.8 million (excluding interest and penalties) as of December 31, 2009.

To the extent that the provision for income taxes increases/decreases by 1% of income before taxes, consolidated net income would have declined/improved by \$0.3 million in 2009.

Stock-Based Compensation. We have a stock-based compensation plan which includes stock options, restricted stock and other stock-based awards. See Note 1, Description of Business and Summary of Significant Accounting Policies, and Note 14, Stock-Based Compensation, for a complete discussion of our stock-based compensation programs. In accordance with the accounting guidance on stock compensation, we record stock-compensation expense associated with our equity awards. The accounting for stock compensation is a critical accounting estimate, which requires judgments and assumptions that have an impact on our financial statements.

The fair value of our stock options are estimated on the date of grant using the Black-Scholes option pricing model, which includes assumptions of expected term, expected volatility and risk-free rates. Changes in these assumptions can affect the fair value estimate. The fair value of our performance restricted stock units is estimated on the date of grant based on the closing market price of our stock. These performance-based equity awards require management to make assumptions regarding the likelihood of achieving company-performance goals, which in turn impacts our compensation expense. In addition, the recognition of expense is only recorded for awards that will eventually vest. This requires pre-vesting forfeitures to be estimated at the time of grant and modified, if necessary, if actual forfeitures differ from estimated forfeitures. Our forfeiture rates are based upon historical share-based equity award cancellations.

We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates and assumptions, we may be exposed to changes in stock-based compensation expense. A 10% change in our stock-based compensation expense for the year ended December 31, 2009, would have affected net income by approximately \$0.4 million for the year ended December 31, 2009.

Pensions, Postemployment and Postretirement Costs. In connection with prior year acquisitions, particularly the KKR and Dynamit Nobel acquisition, Rockwood assumed responsibility for the pension and postretirement benefits for substantially all of the employees of the businesses acquired that were active as of the date of the acquisition. For the KKR acquisition, obligations related to retired and terminated vested

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

employees as of such date remained the responsibility of the seller, and accordingly, these obligations are not reflected in our consolidated financial statements. Defined benefit costs and liabilities and postretirement benefit costs and liabilities have been determined in accordance with the accounting guidance for retirement benefits. Postemployment benefit costs and liabilities have been determined in accordance with the accounting guidance for nonretirement postemployment benefits.

The measurement of our pension obligations, costs and liabilities is dependent on a variety of assumptions used by our actuaries. These assumptions include estimates of the present value of projected future pension payments to all plan participants, with consideration to the likelihood of potential future events such as salary increases (due to marketplace conditions and/or inflation) and demographic experience (such as retirement and mortality rates). These assumptions may have an effect on the amount and timing of future contributions or benefit payments. For funded plans, the plan trustee obtains an independent valuation of the fair value of pension plan assets and prepares estimates of expected returns based on target asset allocations multiplied by current marketplace rates of return for comparable assets. We base the discount rate assumption on investment yields available at year-end on AA-rated corporate long-term bonds. The effects of actual results differing from our assumptions are accumulated and amortized over future periods and therefore are likely to affect our recognized expense in those periods. We cannot predict these bond yields or investment

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

returns and therefore cannot reasonably estimate whether adjustments to our stockholders' equity for minimum pension liability in subsequent years will be significant.

Estimated sensitivity of our pension funded status and stockholders' equity and annual pension expense to a 0.25% increase/decrease in the discount rate assumption is shown below as of and for the year ended December 31, 2009. The estimates were based on inquiries of all plan actuaries. The December 31, 2009 funded status and stockholders' equity are affected by assumptions as of December 31, 2009 while 2009 annual pension expense is affected by December 31, 2008 assumptions:

(\$ in millions) Impact of a Change in Discount Rate	As of December 31, 2009			
	U.S. Plans Funded Status	Non-U.S. Plans Funded Status	Equity	2009 Pension Expense
+25 basis points	\$ 1.0	\$ 21.5	\$ (22.5)	\$ (1.2)
-25 basis points	(1.0)	(22.6)	23.6	1.0

As shown above, changes in the discount rate can have a significant effect on the funded status of our pension plans and stockholders' equity. As noted above, the funded status and stockholders' equity of our funded plans might also be significantly affected by assumptions concerning expected return of plan assets. However, given that most of our pension obligations do not require funding, such sensitivity would be significantly less.

Useful lives of Plant and Equipment. We determine the estimated useful lives and related depreciation charges for our plant and equipment. Depreciation is determined using the straight-line method over the various asset classes. Estimated lives generally range from 20-30 years for buildings and improvements (including land improvements), 7-12 years for machinery and equipment, 3-5 years for furniture and fixtures and 14-50 years for mining rights. To the extent actual lives are less than previously estimated lives, we will increase our depreciation charge or will write-off or write-down obsolete assets.

To the extent that our plant and equipment actual useful lives differ from management's estimates by 10%, consolidated net income would be an estimated \$20.2 million higher/lower based upon 2009 results, depending upon whether the actual lives were longer/shorter, respectively, than the estimates.

Useful lives of Other Intangible Assets. We determine the estimated useful lives and related amortization charges for our other intangible assets. Other intangible assets primarily consist of patents and other intellectual property, trade names and trademarks, and customer relationships. Patents and other intellectual property are recorded at their estimated fair values at the time of acquisition and are being amortized over their estimated remaining useful lives, ranging from 4-20 years. Trade names and trademarks are being amortized from 18-25 years, customer relationships are amortized from 7-15 years and supply agreements are being amortized from 10-15 years. To the extent actual lives are less than previously estimated lives, we will increase our amortization charge or will write-off or write-down obsolete other intangible assets.

To the extent that the actual useful lives of our other intangible assets differ from management's estimates by 10%, consolidated net income would be an estimated \$8.1 million higher/lower based upon 2009 results, depending upon whether the actual lives were longer/shorter, respectively, than the estimates.

Recent Accounting Pronouncements

See Recent Accounting Pronouncements section in Note 1, Description of Business and Summary of Significant Accounting Policies, for discussion of recent accounting pronouncements.

Quarterly Financial Information (Unaudited)

(\$ in millions, except per share amounts)	First Quarter (a)	Second Quarter (b)	Third Quarter (c)	Fourth Quarter
2009				
Net sales	\$ 660.0	\$ 730.4	\$ 786.2	\$ 786.3
Gross profit	182.1	203.2	231.2	238.7
Amounts attributable to Rockwood Holdings, Inc.:				
(Loss) income from continuing operations	\$ (3.8)	\$ 0.6	\$ 10.2	\$ 11.3
Income (loss) from discontinued operations	2.3	1.1	(0.1)	(0.5)
Net (loss) income	\$ (1.5)	\$ 1.7	\$ 10.1	\$ 10.8
Basic (loss) earnings per share attributable to Rockwood Holdings, Inc.:				
Basic (loss) earnings from continuing operations	\$ (0.05)	\$ 0.01	\$ 0.14	\$ 0.15
Basic earnings from discontinued operations	0.03	0.01		
Basic (loss) earnings per share	\$ (0.02)	\$ 0.02	\$ 0.14	\$ 0.15
Diluted (loss) earnings per share attributable to Rockwood Holdings, Inc.:				
Diluted (loss) earnings from continuing operations	\$ (0.05)	\$ 0.01	\$ 0.14	\$ 0.15
Diluted earnings (loss) from discontinued operations	0.03	0.01	(0.01)	(0.01)
Diluted (loss) earnings per share	\$ (0.02)	\$ 0.02	\$ 0.13	\$ 0.14
(\$ in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (d)
2008				
Net sales	\$ 843.8	\$ 923.2	\$ 880.8	\$ 732.3
Gross profit	272.5	283.3	257.5	201.0
Amounts attributable to Rockwood Holdings, Inc.:				
Income (loss) from continuing operations	\$ 28.7	\$ 75.6	\$ (4.8)	\$ (734.1)
(Loss) income from discontinued operations	(1.0)	2.4	1.5	0.4
Gain on sale of discontinued operations, net of tax				42.9
Net income (loss)	\$ 27.7	\$ 78.0	\$ (3.3)	\$ (690.8)
Basic earnings (loss) per share attributable to Rockwood Holdings, Inc.:				
Basic earnings (loss) from continuing operations	\$ 0.39	\$ 1.02	\$ (0.06)	\$ (9.91)
Basic (loss) earnings from discontinued operations	(0.02)	0.04	0.02	0.58
Basic earnings (loss) per share	\$ 0.37	\$ 1.06	\$ (0.04)	\$ (9.33)
Diluted earnings (loss) per share attributable to Rockwood Holdings, Inc.:				
Diluted earnings (loss) from continuing operations	\$ 0.37	\$ 0.98	\$ (0.06)	\$ (9.91)
Diluted (loss) earnings from discontinued operations	(0.01)	0.03	0.02	0.58
Diluted earnings (loss) per share	\$ 0.36	\$ 1.01	\$ (0.04)	\$ (9.33)

(a) In the first quarter of 2009, we recorded a net gain of \$2.2 million on the early extinguishment of debt related to a discount of \$3.6 million due to the repurchase of \$15.5 million of our senior subordinated notes due in 2014, partially offset by the write-off of \$1.4 million of deferred financing costs.

(b) In the second quarter of 2009, we recorded a loss on early extinguishment of debt, net of \$27.9 million primarily related to the amendment of our senior secured credit facility in June 2009. This included the write-off of deferred financing costs of \$19.5 million and \$11.1 million of lender fees. This was partially offset by a discount of \$2.7 million related to the repurchase of \$137.7 million in aggregate principal amount of our Euro-denominated 2014 Notes.

(c) In the third quarter of 2009, we recorded a loss on early extinguishment of debt, net of \$0.9 million primarily related to lender fees to extend the maturity of our revolving credit facility.

(d) Results in the fourth quarter of 2008 include a goodwill impairment charge of \$809.5 million (\$675.7 million net of tax and noncontrolling interest) and a gain of \$42.9 million (net of tax) primarily related to the sale of the pool and spa chemicals business on October 10, 2008. In addition, we redeemed 11.0 million of our 2014 Notes at a discount in the fourth quarter of 2008 and recorded a gain of \$4.0 million.

The basic and diluted earnings (loss) per common share amounts are calculated independently for each of the quarters presented. The sum of the quarters may not equal the full year amounts.

Item 7A. 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.

Interest Rate Risk

We had \$1,186.9 million (a portion of which is subject to a Libor or Euribor floor of 2.00%) and \$699.5 million of variable rate debt (after hedging) outstanding as of December 31, 2009 and 2008, respectively, at the then applicable exchange rate. Any borrowings under the senior secured revolving credit facility and the Titanium Dioxide Pigments venture revolving credit facility are at a variable rate (with the senior secured revolving credit facility subject to a Libor or Euribor floor of 2.00%). As of December 31, 2009, we had 10.0 million (\$14.3 million) outstanding under the Titanium Dioxide Pigments venture revolving credit facility. There were no outstanding borrowings under the senior secured revolving credit facility as of December 31, 2009. Although we are not required under the terms of any of our long-term debt facilities to hedge, or otherwise protect against interest rate fluctuation in our variable rate debt, we have entered into interest rate swaps to manage our exposure to changes in interest rates related to variable-rate debt. In November 2009, a contract covering a notional amount of \$200.0 million matured and contracts covering notional amounts of \$410.0 million were terminated resulting in a payment of \$31.1 million. As of December 31, 2009, the remaining contracts cover notional amounts of 482.2 million (at interest rates ranging from 2.995% to 4.416%). As of December 31, 2008, the contracts covered notional amounts of \$610.0 million (at interest rates ranging from 4.864% to 5.038%) and 499.9 million (at interest rates ranging from 2.995% to 4.416%). The derivative contracts as of December 31, 2009 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 hedges 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 the Consolidated Statements of Operations. We may in the future consider adjusting the amounts covered by these derivative contracts to better suit our capital structure. Each 0.125% increase or decrease in the assumed weighted average interest rate would change the annual interest expense by \$1.5 million and \$0.9 million in 2009 and 2008, respectively.

Foreign Currency Risk

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

We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction risk and currency translation risk. We operate a geographically diverse business, with 52% of our net sales in 2009 generated from customers in Europe, 27% in North America (predominantly in the United States) and 21% from the rest of the world based upon customer ship to locations. For a geographic description of the origin of our net sales and location of our long-lived assets, see Note 3, Segment Information. Although we sell and manufacture our products in many countries, our sales and production costs are mainly denominated in U.S. dollars and Euros. Our results of operations and financial condition are therefore impacted by the fluctuation of the euro against our reporting currency, the U.S. dollar. Approximately 56% of our 2009 net sales were derived from subsidiaries whose local currency is the euro. This increases the impact of the fluctuation of the euro against the U.S. dollar.

We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. Gains and losses on currency transactions are included in operating income and do impact our operating margins. With respect to currency translation risk, our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our consolidated financial statements. Gains and losses on currency translations are recorded in our consolidated financial statements as a component of other comprehensive income (loss) and do not impact our operating margins. Exchange rates between these currencies and U.S. dollars in recent years have fluctuated significantly and may do so in the future.

In December 2008, we entered into foreign currency forward contracts to manage our exposure to fluctuations in currency rates on

third-party sales denominated in a currency other than the functional currency of the legal entity. These foreign currency forward contracts hedged the exposure to movements in foreign exchange rates for forecasted transactions for twelve months. We hedged such exposures with foreign currency forward contracts denominated in the same currency and with similar terms as the underlying exposure. Therefore, the instruments were designated as foreign exchange cash flow hedges and are effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction. As a result, any foreign currency gains or losses related to changes in the fair value of the derivative is accounted for as a component of accumulated other comprehensive income for as long as the hedge remains effective. See discussion of derivative contracts under Note 5, Derivatives for further details.

Our financial results are subject to the effect of currency fluctuations on the translation of our euro-denominated debt. As of December 31, 2009 and 2008, our total euro-denominated debt equaled 863.8 million (\$1,237.0 million) and 1,069.2 million (\$1,493.8 million), respectively. A weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$8.6 million and \$10.7 million in 2009 and 2008, respectively, the U.S. dollar equivalent of our total euro-denominated debt. Gains and losses on the translation of debt denominated in a currency other than the functional currency of the borrower are included as a separate component of other expenses, net in our statement of operations and accumulated other comprehensive income in our balance sheet.

In connection with the offering of the 2014 Notes, we entered into a cross-currency interest rate swap in November 2004 with 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. We designated this contract as a hedge of the foreign currency exposure of our net investment in our euro-denominated operations. In addition, we designated the remaining portion of our euro-denominated debt that is recorded on our U.S. books as a net investment hedge of our euro-denominated investments as of October 1, 2005 (euro debt of 103.1 million at December 31, 2009; \$147.6 million). As a result, any foreign currency gains and losses resulting from the euro-denominated debt discussed above is accounted for as a component of accumulated other comprehensive income.

Commodity Price Risk

We are subject to commodity price risk for certain of our raw materials, such as copper and zinc. We have not materially hedged this commodity price exposure to date. In March 2008, we entered into derivative contracts in our Titanium Dioxide Pigments segment to protect a portion of our exposure to movements in certain raw materials prices. These contracts expired in November 2008. We elected not to apply hedge accounting for these derivative contracts and recorded the mark-to-market of these contracts in cost of products sold in our Consolidated Statements of Operations.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Rockwood Holdings, Inc.
Princeton, New Jersey

We have audited the accompanying consolidated balance sheets of Rockwood Holdings, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rockwood Holdings, Inc. and subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
February 26, 2010

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts; shares in thousands)

	Year ended December 31,		
	2009	2008	2007
Net sales	\$ 2,962.9	\$ 3,380.1	\$ 3,065.2
Cost of products sold	2,107.7	2,365.8	2,089.1
Gross profit	855.2	1,014.3	976.1
Selling, general and administrative expenses	614.1	661.3	597.6
Impairment charges		809.5	
Restructuring and other severance costs	20.8	35.3	12.0
Loss (gain) on sale of assets and other	0.5	(2.4)	(4.7)
Operating income (loss)	219.8	(489.4)	371.2
Other expenses, net:			
Interest expense (a)	(180.2)	(231.1)	(219.3)
Interest income	2.1	6.0	11.5
(Loss) gain on early extinguishment of debt	(26.6)	4.0	(18.6)
Refinancing expenses			(0.9)
Foreign exchange gain (loss), net	16.0	(32.3)	7.8
Other, net	0.6	0.7	
Other expenses, net	(188.1)	(252.7)	(219.5)
Income (loss) from continuing operations before taxes	31.7	(742.1)	151.7
Income tax provision (benefit)	17.2	(23.9)	62.3
Income (loss) from continuing operations	14.5	(718.2)	89.4
Income from discontinued operations, net of tax	2.8	3.3	25.3
Gain on sale of discontinued operations, net of tax		42.9	210.4
Net income (loss)	17.3	(672.0)	325.1
Net loss (income) attributable to noncontrolling interest	3.8	83.6	(8.0)
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1
Amounts attributable to Rockwood Holdings, Inc.:			
Income (loss) from continuing operations	\$ 18.3	\$ (634.6)	\$ 81.5
Income from discontinued operations	2.8	46.2	235.6
Net income (loss)	\$ 21.1	\$ (588.4)	\$ 317.1
Basic earnings (loss) per share attributable to Rockwood Holdings, Inc.:			
Earnings (loss) from continuing operations	\$ 0.25	\$ (8.58)	\$ 1.10
Earnings from discontinued operations	0.03	0.63	3.20
Basic earnings (loss) per share	\$ 0.28	\$ (7.95)	\$ 4.30
Diluted earnings (loss) per share attributable to Rockwood Holdings, Inc.:			
Earnings (loss) from continuing operations	\$ 0.24	\$ (8.58)	\$ 1.07
Earnings from discontinued operations	0.04	0.63	3.09
Diluted earnings (loss) per share	\$ 0.28	\$ (7.95)	\$ 4.16
Weighted average number of basic shares outstanding	74,096	73,983	73,817
Weighted average number of diluted shares outstanding	74,851	73,983	76,279
(a) Interest expense includes:			
Interest expense on debt	\$ (176.2)	\$ (170.0)	\$ (177.9)
Mark-to-market gains (losses) on interest rate swaps	3.9	(51.5)	(32.2)

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

Deferred financing costs		(7.9)		(9.6)		(9.2)
Total	\$	(180.2)	\$	(231.1)	\$	(219.3)

See accompanying notes to consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts; shares in thousands)

	2009	December 31,	2008
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 300.5	\$	468.7
Accounts receivable, net	450.4		464.6
Inventories	517.0		641.0
Deferred income taxes	12.5		22.1
Prepaid expenses and other current assets	66.5		65.9
Total current assets	1,346.9		1,662.3
Property, plant and equipment, net	1,702.5		1,752.2
Goodwill	939.2		917.8
Other intangible assets, net	704.7		754.8
Deferred debt issuance costs, net of accumulated amortization of \$10.8 and \$39.2, respectively	26.0		39.1
Deferred income taxes	24.9		11.6
Other assets	37.5		39.5
Total assets	\$ 4,781.7	\$	5,177.3
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 237.3	\$	260.8
Income taxes payable	11.5		4.1
Accrued compensation	77.7		92.6
Restructuring liability	7.5		18.9
Accrued expenses and other current liabilities	149.4		198.5
Deferred income taxes	2.6		9.0
Long-term debt, current portion	94.2		90.9
Total current liabilities	580.2		674.8
Long-term debt	2,434.1		2,720.3
Pension and related liabilities	410.1		352.0
Deferred income taxes	69.1		97.6
Other liabilities	145.9		191.6
Total liabilities	3,639.4		4,036.3
Restricted stock units	1.5		2.1
EQUITY			
Rockwood Holdings, Inc. stockholders' equity:			
Common stock (\$0.01 par value, 400,000 shares authorized, 74,259 shares issued and 74,165 shares outstanding at December 31, 2009; 400,000 shares authorized, 74,155 shares issued and 74,061 shares outstanding at December 31, 2008)	0.7		0.7
Paid-in capital	1,169.2		1,163.5
Accumulated other comprehensive income	204.5		204.0
Accumulated deficit	(522.2)		(543.3)
Treasury stock, at cost	(1.4)		(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	850.8		823.5
Noncontrolling interest	290.0		315.4
Total equity	1,140.8		1,138.9
Total liabilities and equity	\$ 4,781.7	\$	5,177.3

See accompanying notes to consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	2009	Year ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 17.3	\$ (672.0)	\$ 325.1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income from discontinued operations, net of tax	(2.8)	(3.3)	(25.3)
Gain on sale of discontinued operations, net of tax		(42.9)	(210.4)
Depreciation and amortization	283.0	258.9	211.7
Deferred financing costs amortization	7.9	9.6	9.2
Loss (gain) on early extinguishment of debt (a)	26.6	(4.0)	18.6
Foreign exchange (gain) loss, net	(16.0)	32.3	(7.8)
Fair value adjustment of derivatives	(3.9)	51.5	32.2
Bad debt provision	0.5	3.4	(1.3)
Acquired in-process research and development		2.9	
Stock-based compensation	4.7	4.1	3.9
Deferred income taxes	(14.5)	(64.5)	29.0
Impairment charges		809.5	
Loss (gain) on sale of assets and other	1.0	0.7	(4.7)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:			
Accounts receivable	26.1	36.8	7.1
Inventories	133.5	(66.8)	(34.5)
Prepaid expenses and other assets	0.3	10.5	(18.5)
Accounts payable	(21.9)	(52.1)	1.6
Income taxes payable	5.4	(1.4)	(6.4)
Accrued expenses and other liabilities	(77.6)	(28.6)	0.7
Net cash provided by operating activities of continuing operations	369.6	284.6	330.2
Net cash provided by operating activities of discontinued operations		12.0	38.3
Net cash provided by operating activities	369.6	296.6	368.5
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, including transaction fees and payments for prior acquisitions, net of cash acquired	(6.4)	(226.7)	(240.1)
Post closing purchase price consideration		29.8	
Capital expenditures, excluding capital leases	(154.1)	(224.0)	(193.2)
Cross currency swap settlement	(32.9)		
Proceeds from formation of Viance joint venture, net			73.0
Contractual advance to Titanium Dioxide Pigments noncontrolling shareholder	(16.0)		
Proceeds on sale of assets	8.2	9.1	14.2
Net cash used in investing activities of continuing operations	(201.2)	(411.8)	(346.1)
Net cash (used in) provided by investing activities of discontinued operations, including net sale proceeds of \$122.0 and \$731.7 in 2008 and 2007, respectively	(3.1)	116.3	723.7
Net cash (used in) provided by investing activities	(204.3)	(295.5)	377.6

CASH FLOWS FROM FINANCING**ACTIVITIES:**

Issuance of common stock, net of fees	1.0	2.3	1.5
Repayment of 2011 Notes			(273.4)
Prepayment of 2014 Notes	(146.8)	(10.2)	
Proceeds from Titanium Dioxide Pigments revolving credit facility	14.1		
Prepayment of senior secured debt	(102.3)		
Repayment of senior secured debt	(56.5)	(68.7)	(57.1)
Repayment of senior secured debt revolver			(37.0)
Payments on other long-term debt	(5.5)	(30.9)	(24.1)
Deferred financing costs	(14.9)	(5.0)	
Fees related to early extinguishment of debt	(12.0)		(14.5)
Loan from Viance noncontrolling shareholder	2.0		
Titanium Dioxide Pigments venture financing		362.5	
Payment of assumed debt to Titanium Dioxide Pigments noncontrolling shareholder		(141.4)	
Distribution to noncontrolling shareholder		(3.9)	(7.2)
Net cash (used in) provided by financing activities of continuing operations	(320.9)	104.7	(411.8)
Net cash used in financing activities of discontinued operations			
Net cash (used in) provided by financing activities	(320.9)	104.7	(411.8)
Effect of exchange rate changes on cash and cash equivalents	(12.6)	12.8	(10.3)
Net (decrease) increase in cash and cash equivalents	(168.2)	118.6	324.0
Less increase in cash and cash equivalents from discontinued operations, net (b)			(1.6)
(Decrease) increase in cash and cash equivalents from continuing operations	(168.2)	118.6	322.4
Cash and cash equivalents of continuing operations, beginning of period	468.7	350.1	27.7
Cash and cash equivalents of continuing operations, end of period	\$ 300.5	\$ 468.7	\$ 350.1

(a) Includes the write-off of deferred financing costs of \$20.9 and lender fees related to the early extinguishment of debt of \$12.0, partially offset by a discount on the repayment of the 2014 Notes of \$6.3.

(b) Excludes net sale proceeds of \$122.0 and intercompany transfers of \$6.3 for the year ended December 31, 2008. Excludes net sale proceeds of \$731.7 and intercompany transfers of \$28.7 for the year ended December 31, 2007.

Supplemental disclosures of cash flow information:

Interest paid	\$ 164.3	\$ 167.3	\$ 174.4
Income taxes paid, net of refunds	26.0	41.9	39.8
Non-cash investing activities:			
Titanium Dioxide Pigments venture formation, net		246.0	
Acquisition of capital equipment	17.6	22.7	24.7
Fees related to early extinguishment of debt	0.4		

See accompanying notes to consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions; shares in thousands)

	Rockwood Holdings, Inc. Stockholders' Equity									
	Total	Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interest
Balance, January 1, 2007	\$ 1,154.1		73,785	\$ 0.7	\$ 1,151.8	\$ 234.0	\$ (264.6)	94	\$ (1.4)	\$ 33.6
Issuance of common stock	1.5		110		1.5					
Deferred compensation	4.7				4.7					
Acquisition of noncontrolling interest in subsidiaries	173.2									173.2
Sale of noncontrolling interest in subsidiaries	(33.4)									(33.4)
Distribution to noncontrolling shareholder	(7.2)									(7.2)
Restricted stock units	(1.8)				(1.8)					
Pension related adjustments, net of tax	36.7	36.7				36.7				
Effect of adoption of FIN No. 48	(7.4)	(7.4)					(7.4)			
Foreign currency translation	178.7	178.7				177.6				1.1
Sales of investments in foreign entities, primarily Electronics business	(35.8)	(35.8)				(35.8)				
Intercompany foreign currency loans	66.8	66.8				66.8				
Net investment hedges, net of tax	(108.3)	(108.3)				(108.3)				
Net income	325.1	325.1					317.1			8.0
Comprehensive income	\$ 455.8									
Balance, December 31, 2007	1,746.9		73,895	0.7	1,156.2	371.0	45.1	94	(1.4)	175.3
Issuance of common stock	2.3		166		2.3					
Deferred compensation	5.3				5.3					
Acquisition of noncontrolling interest in subsidiaries	239.9									239.9
Distribution to noncontrolling shareholder	(3.9)									(3.9)
Restricted stock units	(0.3)				(0.3)					
Pension related adjustments, net of tax	(27.9)	(27.9)				(27.9)				
Foreign currency translation	(158.3)	(158.3)				(146.0)				(12.3)
Intercompany foreign currency loans	(32.2)	(32.2)				(32.2)				
Net investment hedges, net of tax	38.9	38.9				38.9				
Cash flow hedges, net of tax	0.2	0.2				0.2				
Net loss	(672.0)	(672.0)					(588.4)			(83.6)
Comprehensive loss	\$ (851.3)									
Balance, December 31, 2008	1,138.9		74,061	0.7	1,163.5	204.0	(543.3)	94	(1.4)	315.4
Issuance of common stock	1.0		104		1.0					
Deferred compensation	4.1				4.1					
	(16.5)									(16.5)

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

Change in estimate of fair value of assets contributed to the Titanium Dioxide Pigments venture

Restricted stock units	0.6		0.6													
Pension related adjustments, net of tax	(31.4)	(31.4)		(24.4)				(7.0)								
Foreign currency translation	49.5	49.5		47.6				1.9								
Intercompany foreign currency loans	15.6	15.6		15.6												
Net investment hedges, net of tax	(37.9)	(37.9)		(37.9)												
Cash flow hedges, net of tax	(0.4)	(0.4)		(0.4)												
Net income (loss)	17.3	17.3				21.1			(3.8)							
Comprehensive income	\$	12.7														
Balance, December 31, 2009	\$	1,140.8	74,165	\$	0.7	\$	1,169.2	\$	204.5	\$	(522.2)	94	\$	(1.4)	\$	290.0

See accompanying notes to consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

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.

Rockwood was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition) by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR). The businesses acquired focus on specialty compounds, iron-oxide pigments, timber treatment chemicals and clay-based additives. On July 31, 2004, the Company completed the acquisition of certain businesses of Dynamit Nobel from mg technologies ag, now known as GEA Group Aktiengesellschaft (GEA Group). The remaining businesses acquired are focused on highly specialized markets and consist of surface treatment and lithium chemicals, advanced ceramics and titanium dioxide pigments. Effective November 2007, affiliates of KKR control less than a majority of the voting power of the Company s outstanding common stock.

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 Company s noncontrolling interest in continuing operations represents the total of the noncontrolling party s interest in certain investments (principally the Viance, LLC joint venture and the Titanium Dioxide Pigments venture) that are consolidated but less than 100% owned. On January 2, 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, a joint venture company 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 the joint venture and as such has consolidated the joint venture. At December 31, 2009 and 2008, the Viance, LLC joint venture had no third party debt outstanding, 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 to the general credit of the Company. The net assets of the Viance, LLC joint venture included in the Consolidated Balance Sheets of the Company were \$85.4 million and \$87.5 million at December 31, 2009 and 2008, respectively, and were primarily related to identifiable intangible assets. All intercompany accounts, balances and transactions have been eliminated.

The Company completed a Titanium Dioxide Pigments venture with Kemira in September 2008. The Company has consolidated this venture and has reported Kemira s interest as noncontrolling interest in the consolidated financial statements. This entity did not meet the definition of a variable interest entity, and therefore was consolidated. See Note 4, Acquisitions, for further details.

Unless otherwise noted, all balance sheet items as of December 31, 2009 which are denominated in Euros are converted at the December 31, 2009 exchange rate of 1.00 = \$1.4321.

Nature of Operations/Segment Reporting The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company currently operates in various business lines within its five reportable segments consisting of: (1) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (2) Performance Additives, which includes color pigments and services, timber treatment chemicals and clay-based additives, (3) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (4) Advanced Ceramics, which includes ceramic-on-ceramic ball head and liner components used in hip-joint prostheses systems, ceramic cutting tools and a range of other ceramic components and (5) Specialty Compounds, which consists of plastic and rubber compounds. See Note 3, Segment Information, for further details.

The basis for determining an enterprise's operating segments is the manner in which financial information is used internally by the enterprise's chief operating decision maker, the Company's Chief Executive Officer. See Note 3, Segment Information, for further segment reporting information.

Use of Estimates The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. These estimates include, among other things, assessing the collectability of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, the measurement of the accrual for uncertain tax benefits, impairment of goodwill as well as property, plant and equipment and other intangible assets, the accrual of environmental and legal reserves and the useful lives of tangible and intangible assets, among others. Actual results could differ from those estimates. Such estimates also include the fair value of assets acquired and liabilities assumed allocated to the purchase price of business combinations consummated.

Major Customers and Concentration of Credit The Company has a number of major end-user, retail and OEM customers, with the largest concentration in Europe and the United States. No single customer accounted for more than 2% of net sales during any of the periods presented. The Company does not believe a material part of its business is dependent upon any single customer, the loss of which would have a material long-term impact on the business of the Company. However, the loss of one or more of the Company's largest customers would most likely have a negative short-term impact on the Company's results of operations. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and derivative contracts.

Accounts Receivable The allowance for doubtful accounts is estimated at each reporting date based on factors such as receivable age, customer liquidity status and previous write-off history. The Company performs ongoing credit evaluations of customers and generally does not require collateral. Credit insurance is maintained by certain of the Company's businesses. An allowance is maintained for aggregate expected credit losses. Write-offs are charged to the allowance when taken, net of recoveries. Allowance for doubtful account activity is as follows:

(\$ in millions)	Year Ended December 31,		
	2009	2008	2007
Balance, January 1	\$ 10.8	\$ 8.6	\$ 8.6
Additions charged to expense	2.8	4.5	0.5
Write-offs, net of recoveries	(2.3)	(1.1)	(1.8)
Other	1.5	(1.2)	1.3
Balance, December 31	\$ 12.8	\$ 10.8	\$ 8.6

Risks Associated with International Operations and Currency Risk The Company's international operations are subject to risks normally associated with foreign operations, including, but not limited to, the disruption of markets, changes in export or import laws, restrictions on currency exchanges and the modification or introduction of other governmental policies with potentially adverse effects. A majority of the Company's sales and expenses are denominated in currencies other than U.S. dollars. Changes in exchange rates may have a material effect on the Company's reported results of operations and financial position. In addition, a significant portion of the Company's indebtedness is denominated in Euros.

Revenue Recognition The Company recognizes revenue when the earnings process is complete. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company's experience. Revenue under service agreements, which was less than 1% of consolidated net sales in 2009, 2008 and 2007, is realized when the service is performed. Liabilities for product warranties are less than 1% of consolidated net sales as of December 31, 2009 and 2008.

Foreign Currency Translation The functional currency of each of the Company's foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency), including intercompany financing arrangements for which settlement is

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

planned or anticipated, are included in determining net income for the period in which exchange rates change. Gains or losses on certain intercompany loans that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future and gains or losses on euro-denominated debt that is designated as a net investment hedge of the Company's euro-denominated investments are reported and accumulated in the same manner as translation adjustments. These loans are all related to intercompany debt arrangements. As of December 31, 2009, intercompany debt arrangements deemed to be of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future is predominantly related to 581.0 million (\$832.1 million) of intercompany loans.

Advertising The Company expenses advertising costs as incurred.

Research and Development Research and development costs are charged to expense, as incurred. Such costs were \$46.4 million, \$51.7 million and \$44.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Accounting for Shipping and Handling Costs The Company records shipping and handling costs in cost of products sold and records shipping and handling costs billed to customers in net sales.

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.

Inventories Inventories are stated at the lower of cost or market. Cost is determined primarily on average cost or the first-in, first-out method. Inventory quantities on hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based primarily on either the Company's estimated forecast of product demand and production requirements or historical usage. See Note 7, Inventories.

Property, Plant and Equipment Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the various asset classes. Estimated lives generally range from 20-30 years for buildings and improvements (including land improvements), 7-12 years for machinery and equipment, 3-5 years for furniture and fixtures and 14-50 years for mining rights. See Note 8, Property, Plant and Equipment.

The estimated useful lives of leasehold improvements are the lesser of the estimated life of the improvement or the term of the lease.

Major renewals and improvements are capitalized and minor replacements, maintenance and repairs are charged to current operations as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is reflected in the statement of operations.

The Company classifies depreciation and amortization in its Consolidated Statements of Operations consistent with the utilization of the underlying assets as follows:

(\$ in millions)	Year Ended December 31,		
	2009	2008	2007
Cost of products sold	\$ 185.9	\$ 161.9	\$ 129.5
Selling, general and administrative expenses (a)	97.1	97.0	82.2
Total depreciation and amortization	\$ 283.0	\$ 258.9	\$ 211.7

(a) Primarily consists of amortization costs.

Gain/Loss on Early Extinguishment of Debt In 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. In 2008, the Company redeemed 11.0 million of its 2014 Notes at a discount and recorded a gain of \$4.0 million. In 2007, the Company paid a redemption premium of \$14.5 million and wrote off \$4.1 million of deferred financing costs associated with the redemption of the 2011 Notes.

Goodwill Goodwill represents the cost in excess of fair value of net assets acquired for transactions accounted for using the purchase method of accounting. See Note 9, Goodwill, for details of goodwill activity by segment.

Other Intangible Assets Other intangible assets primarily consists of patents and other intellectual property, trade names and trademarks, and customer relationships. Patents and other intellectual property are recorded at their estimated fair values at the time of acquisition and are being amortized over their estimated remaining useful lives, ranging from 4-20 years. Trade names and trademarks are being amortized from 18-25 years, customer relationships are being amortized over periods ranging from 7-15 years and supply agreements are being amortized over periods ranging from 10-15 years. See Note 10, Other Intangible Assets.

Impairment Accounting The recoverability of goodwill is reviewed on an annual basis during the fourth quarter. Additionally, the recoverability of goodwill, long-lived tangible, 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. The Company determined that its reporting units for its

goodwill impairment review are its operating segments or components of an operating segment that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. Based on this analysis, the Company has identified nine reporting units within its reportable segments.

In accordance with the accounting guidance for determining a goodwill impairment, there is a two-step method. In the first step, the Company determines the fair value of each reporting unit (as discussed in the following sentence) and compares that fair value to the carrying value of such reporting unit. This begins with estimating the fair value of each reporting unit, which is derived from peer multiples. Specifically, the estimate of the fair value of such reporting unit is based on an industry metric that is the ratio of enterprise value (EV) which is commonly defined as market capitalization, plus long-term debt, less cash) to Adjusted EBITDA of the relevant benchmark peer companies and groups; this is the peer multiple approach. The Company uses EV multiples to the last twelve months Adjusted EBITDA and to the next fiscal year Adjusted EBITDA. The peer companies are typically based upon the competitors disclosed in Item 1, *Business* for each of the reporting units. The Company then multiplies this ratio by the Adjusted EBITDA for the recently completed year and the budgeted Adjusted EBITDA for the upcoming year of such reporting unit and compares it to the carrying value of such reporting unit. If the product of such peer multiple and reporting unit's Adjusted EBITDA is less than such carrying value, it may be an indication of an impairment. If the initial review indicates there may be an impairment, a review based on expected future cash flows is performed; this is the discounted cash flow approach. For the discounted cash flow approach, the Company makes certain assumptions about, among other things, estimates of future cash flows, including growth rates, price increases, capital expenditures, the benefits of recent acquisitions and expected synergies, and an appropriate discount rate. If the results of the peer multiple approach and the discounted cash flow approach differ materially, the relevant facts and circumstances are reviewed and a qualitative assessment is made to determine the proper weighting. If the results of the first step indicate the carrying amount of a reporting unit is higher than its fair value, the second step must be performed. Specifically, the Company determines the implied fair value of goodwill in the same manner as if the Company had acquired those reporting units. In the second step, the potential impairment is computed by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess. If necessary, the Company may consult with valuation specialists to assist with its goodwill impairment review.

These calculations are based on inherent assumptions and estimates about future cash flows and appropriate benchmark peer companies or groups. Subsequent changes in these assumptions could result in future impairment. Although the Company consistently uses the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain by nature and can vary from actual results.

In the fourth quarter of 2008, the Company recorded a non-cash goodwill impairment charge of \$809.5 million. See Note 9, *Goodwill*, for further details.

Financial Instruments Management believes the carrying amount of financial instruments, including accounts receivable, accounts payable and debt, approximates fair value, except as described in Note 5, *Derivatives*, and Note 6, *Fair Value Measurements*.

Derivatives All derivatives are recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings while changes in the fair value of derivatives that are designated as hedging instruments are recognized as a component of comprehensive income. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. See *Comprehensive Income* section of Note 1 and Note 19, *Accumulated Other Comprehensive Income*, for the impact of the Company's net investment and cash flow hedges. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

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

Pension, Postemployment and Postretirement Costs Defined benefit costs and liabilities and Postretirement benefit costs and liabilities have been determined in accordance with accounting standards for retirement benefits. Postemployment benefit costs and liabilities have been determined in accordance with accounting standards for nonretirement postemployment benefits. See Note 15, Employee Benefit Plans, for further details.

Related Party Transactions In the ordinary course of business, Rockwood has engaged in transactions with certain related parties including KKR and DLJ Merchant Banking Partners III, L.P. (DLJMB) and affiliates of each.

Credit Suisse Securities (USA) LLC (Credit Suisse), an affiliate of DLJMB, served as an underwriter in the secondary offering of the Company's common stock by certain selling stockholders in November 2007 and June 2008. The Company did not receive any proceeds in these offerings or pay any commissions. Also, from time to time, Credit Suisse provides the Company with services in connection with certain transactions. For example, the Company paid fees of \$15.5 million in 2009 related to the amendment of its senior secured credit agreement, \$0.5 million in 2008 primarily in connection with the Titanium Dioxide Pigments venture completed

in September 2008 and \$3.2 million in 2007 for advice primarily related to the sale of the Electronics business.

As part of the Titanium Dioxide Pigments venture with Kemira that was completed in September 2008, the venture has a long-term agreement expiring in August 2018 to purchase steam and electricity (energy) from Kemira. The venture purchased \$31.2 million and \$13.4 million, respectively, of energy from Kemira during 2009 and 2008. As of December 31, 2009 and 2008, \$2.8 million and \$9.4 million, respectively, was due to Kemira, for energy purchases. In 2009, the venture also made a contractual advance of \$16.0 million in connection with this agreement. Minimum annual payments under the energy agreement are approximately \$17.2 million per year. In connection with this arrangement, the venture has approximately \$30.7 million of non-interest bearing notes receivable from Kemira that are due in August 2028. The carrying value of the notes receivable were \$5.4 million at December 31, 2009. Interest is imputed at an effective rate of 8.96%.

As part of the Titanium Dioxide Pigments venture with Kemira, the venture has a supply agreement for the sale of certain raw materials to Kemira that are manufactured by the venture. The term of this contract expires in December 2015. Transactions between the Titanium Dioxide Pigments venture and Kemira consisted of sales to Kemira of \$2.8 million and \$0.5 million in 2009 and 2008, respectively, and amounts due from Kemira of \$0.2 million and \$0.2 million at December 31, 2009 and 2008, respectively. In addition, there were sales from the Titanium Dioxide Pigments venture to companies owned by Kemira of \$11.1 million and \$5.8 million during 2009 and 2008, respectively, of which \$0.1 million and \$1.7 million was due to the venture at December 31, 2009 and 2008, respectively.

As part of the Viance, LLC joint venture, the Company's CSI subsidiary within the Timber Treatment Chemicals business and The Dow Chemical Company (Dow) entered into certain related party transactions. Viance, LLC does not own manufacturing facilities, and as a result, relies on the members of the joint venture to provide substantially all product and distribution requirements. In addition, the members sell products to Viance, LLC. Transactions between Viance, LLC and Dow amounted to: purchases from Dow of \$5.0 million, \$9.2 million and \$8.2 million in 2009, 2008 and 2007, respectively, and sales to Dow of \$0.3 million, \$0.5 million and \$2.7 million in 2009, 2008 and 2007, respectively. Amounts due to Dow totaled \$0.6 million and \$3.0 million at December 31, 2009 and 2008, respectively.

Income Taxes Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested.

The accounting for uncertainty in income taxes recognized in an entity's financial statements and the recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return were clarified in an accounting standard adopted in January 2007. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to not be sustained upon audit by the relevant authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

The Company records liabilities for uncertain tax benefits net of deferred tax assets associated with tax loss carryforwards for liabilities arising in the same year as the asset and for liabilities arising in different years from the asset, provided that the related tax loss can be carried back or forward to offset the liability.

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

The Company has allocated a tax benefit to its U.S. loss from continuing operations, offset by a tax provision charged to discontinued operations and separately to other comprehensive income. When a tax jurisdiction has a loss from continuing operations and income from other items on a net basis, the Company's policy is to allocate a tax benefit to continuing operations from the other items of income on a pro-rata basis.

Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryforward period available under the tax law. The Company's policy is to consider the following sources of taxable income, which may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

- Future reversals of existing taxable temporary differences.
- Future taxable income exclusive of reversing temporary differences and carryforwards.
- Taxable income in prior carry back year (s) if carry back is permitted under the tax law.

- Tax planning strategies that would, if necessary, be implemented to:
 - (1) Accelerate taxable amounts to utilize expiring carryforwards.
 - (2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.
 - (3) Switch from tax-exempt to taxable investments.

Evidence available about each of those possible sources of taxable income will vary between tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, the Company's policy is that other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that may be required to be recognized for deferred tax assets.

For any specific jurisdiction where a history of three years of cumulative losses has occurred or where there has been a substantial change in the business (e.g., a major acquisition or divestiture), the Company does not rely on projections of future taxable income as described above. Instead, the Company determines its need for a valuation allowance on deferred tax assets, if any, by determining an average steady-state normalized taxable income amount over the last three years, adjusted for acquisitions or divestitures if necessary. The Company will also consider the following positive evidence in the above scenarios, if present:

- Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.
- An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset.

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 stockholders' equity in the balance sheets and net investment and cash flow hedges. Foreign currency translation amounts are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries and certain intercompany debt. See Note 19, Accumulated Other Comprehensive Income.

Accounting for Environmental Liabilities In the ordinary course of business, Rockwood is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. Rockwood's policy has been to accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. If the aggregate amount of the obligation and the amount and timing of the cash payments for a site

are fixed or reliably determinable, the liability is discounted. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. In some matters, Rockwood may share costs with other parties. Rockwood does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

Stock-Based Compensation The Company has previously granted awards under the 2008 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan). Under 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. There were 10,000,000 authorized shares available for grant under the Plan. However, the Company will no longer issue equity awards under this Plan. In April 2009, the Company adopted the 2009 Stock Incentive Plan (the New Plan), which has 11,000,000 authorized shares.

The Company granted additional stock options and restricted stock units in 2009, 2008 and 2007 to certain employees of Rockwood Corporate Headquarters and its business units. The restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment upon a change in control as defined in the equity agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of December 31, 2009 and 2008 have been recorded as mezzanine equity (outside of permanent equity) in the Consolidated Balance Sheets.

Recent Accounting Pronouncements The Company adopted the following accounting pronouncements:

In December 2007, the FASB issued a statement that establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This statement also establishes disclosure requirements to enable users of financial statements to evaluate the nature and financial effects of the business combination. This statement was adopted as of January 1, 2009 and is effective for acquisitions completed on or after January 1, 2009.

In December 2007, the FASB issued a statement that pertains to the accounting and reporting for minority interests. Minority Interests were recharacterized as noncontrolling interests and classified as a component of equity (but separate from parent's equity). This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement was adopted as of January 1, 2009 and primarily relates to the Company's Viance, LLC joint venture and Titanium Dioxide Pigments venture.

In February 2008, the FASB issued a statement that delayed the effective date of a previous statement on fair value measurements for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company applied the provisions of this statement on January 1, 2009, and this statement did not have a material impact on its financial statements.

In March 2008, the FASB issued a statement that changed the disclosure requirements for derivative instruments and hedging activities, including enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted this statement on January 1, 2009. See Note 5, Derivatives, for the disclosure requirements of this new statement.

In April 2008, the FASB issued a statement that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this statement is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This statement is effective for recognized intangible assets acquired after January 1, 2009 and did not have a material impact on the Company's financial statements.

In December 2008, the FASB issued a statement that provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This includes disclosing objectives about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets, and significant concentrations of risk within plan assets. The disclosures about plan assets required by this statement are effective beginning with the Company's 2009 Form 10-K. See Note 15, Employee Benefit Plans, for the disclosure requirements of this new statement.

In April 2009, the FASB issued a statement that addressed application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This statement was adopted as of January 1, 2009 and is effective for acquisitions completed on or after January 1, 2009.

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

In April 2009, the FASB issued a statement that provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This statement also includes guidance on identifying circumstances that indicate a transaction is not orderly. This statement was effective for the Company beginning with its Form 10-Q for the period ended June 30, 2009 and did not have a material impact on its financial statements.

In June 2009, the FASB issued a statement that requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and will require additional disclosures. This Statement is effective for financial asset transfers occurring after January 1, 2010 for the Company. The Company does not expect this statement to have a material impact on its financial statements.

In June 2009, the FASB issued a statement that requires an enterprise to perform an analysis to determine whether the enterprise's variable interest entity or interests give it a controlling financial interest in a variable interest entity. It also will require additional disclosures about involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This

Statement is effective for the Company as of January 1, 2010. The Company does not expect this statement to have a material impact on its financial statements.

In June 2009, the FASB issued a statement that establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP. The Codification does not change current GAAP. Instead, it introduces a new structure that reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics. The Codification supersedes all accounting standards in existing FASB, Emerging Issues Task Force (EITF), American Institute of Certified Public Accountants (AICPA), and related standards. This Codification was effective for the Company's financial statements beginning with its Form 10-Q for the period ended September 30, 2009.

In August 2009, the FASB issued an accounting update that provides clarification for the fair value measurement of liabilities and provides clarification in circumstances in which a quoted price in an active market for the identical liability is not available. This update was effective for the Company in its fourth quarter beginning October 1, 2009. The adoption of this update did not have a material impact on the financial statements.

In September 2009, the FASB issued an accounting update that addressed the need for additional implementation guidance on accounting for uncertainty in income taxes. This update was effective for the Company's financial statements beginning with its Form 10-Q for the period ended September 30, 2009. The adoption of this update did not have a material impact on the financial statements.

In October 2009, the FASB issued an accounting update that addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit. In addition, the amendments in this update significantly expand the disclosures related to a vendor's multiple-deliverable arrangements. This update is effective for the Company in its first quarter beginning January 1, 2011. The Company does not expect this update to have a material impact on its financial statements.

2. DISCONTINUED OPERATIONS:

On October 10, 2008, the Company completed the sale of its pool and spa chemicals business and received net proceeds of \$122.0 million in cash. On January 9, 2007, the Company completed the sale of its Groupe Novasep segment. The transaction was valued at approximately \$425.0 million, which included the repayment of third party and intercompany indebtedness. On December 31, 2007, the Company completed the sale of its Electronics business, excluding its European wafer reclaim business, for \$315.6 million. The Company's financial statements have been reclassified to reflect the pool and spa chemicals business, the Groupe Novasep segment and the Electronics business sold as discontinued operations for all periods presented.

For the year ended December 31, 2009, income from discontinued operations, net of tax, was \$2.8 million and was primarily related 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.

Operating results of the discontinued operations of the pool and spa chemicals business for the year ended December 31, 2008 are as follows:

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

(\$ in millions)	Total	
Net sales	\$	54.9
Cost of products sold		39.4
Gross profit		15.5
Selling, general and administrative expenses		10.9
Gain on sale of business/assets		(66.3)
Operating income		70.9
Other expenses:		
Interest expense		(0.2)
Other expenses		(0.2)
Income before taxes		70.7
Income tax provision		26.9
Net income	\$	43.8

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

The Company also recorded a tax gain of \$2.4 million related to the sale of Groupe Novasep for the year ended December 31, 2008.

Operating results of the discontinued operations for the year ended December 31, 2007 are as follows:

(\$ in millions)	Pool and Spa Chemicals Business	Electronics Business	Groupe Novasep	Total
Net sales	\$ 71.2	\$ 201.9	\$ 8.9	\$ 282.0
Cost of products sold	46.1	149.4	7.0	202.5
Gross profit	25.1	52.5	1.9	79.5
Selling, general and administrative expenses	14.1	28.8	1.1	44.0
Gain on sale of business/assets		(106.8)	(117.7)	(224.5)
Operating income	11.0	130.5	118.5	260.0
Other expenses, net:				
Interest expense			(0.3)	(0.3)
Interest income	(0.3)	0.8		0.5
Loss on early extinguishment of debt	(0.5)	(0.3)		(0.8)
Foreign exchange loss, net		(0.5)		(0.5)
Other expenses, net	(0.8)		(0.3)	(1.1)
Income before taxes	10.2	130.5	118.2	258.9
Income tax provision	4.0	17.1	2.1	23.2
Net income	6.2	113.4	116.1	235.7
Net income attributable to noncontrolling interest			(0.1)	(0.1)
Net income attributable to Rockwood Holdings, Inc.	\$ 6.2	\$ 113.4	\$ 116.0	\$ 235.6

The Company received net cash proceeds of \$122.0 million in 2008 from the sale of the pool and spa chemicals business. These proceeds were reported as net cash provided by investing activities of discontinued operations for the year ended December 31, 2008 in the Company's Consolidated Statements of Cash Flows. The net gain on the pool and spa chemicals business sale recorded in the fourth quarter of 2008 was \$40.5 million (net of \$25.7 million of taxes).

The Company received net cash proceeds of \$420.7 million and \$311.0 million in 2007 from the sale of Groupe Novasep and the Electronics business, excluding the European wafer reclaim business, respectively. These proceeds were reported as net cash provided by investing activities of discontinued operations for the year ended December 31, 2007 in the Company's Consolidated Statements of Cash Flows. The net gain on the Groupe Novasep sale recorded in the first quarter of 2007 was \$115.6 million (net of \$2.1 million of German taxes) and the net gain on the sale of the Electronics business, excluding the European wafer reclaim business, recorded in the fourth quarter of 2007 was \$94.8 million (net of \$12.0 million of taxes).

3. 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 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.

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

In September 2008, the Company completed the formation of its Titanium Dioxide Pigments venture. The water treatment business, formerly part of the Titanium Dioxide Pigments segment, is being reported within the Clay-based Additives business in the Performance Additives segment. As a result, the Company's financial statements have been reclassified to reflect the water treatment business as part of the Performance Additives segment for the periods presented.

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
Year ended December 31, 2009							
Net sales	\$ 996.6	\$ 671.5	\$ 666.3	\$ 412.2	\$ 210.7	\$ 5.6	2,962.9
Total Adjusted EBITDA	245.7	95.1	97.3	107.7	34.0	(39.3)	540.5
Capital expenditures	46.2	26.2	40.6	32.8	5.6	2.7	154.1
Year ended December 31, 2008							
Net sales	\$ 1,232.6	\$ 835.6	\$ 534.8	\$ 505.9	\$ 261.5	\$ 9.7	3,380.1
Total Adjusted EBITDA	313.0	107.1	83.1	150.2	34.0	(48.5)	638.9
Capital expenditures	74.5	45.6	42.5	46.1	9.6	5.7	224.0
Year ended December 31, 2007							
Net sales	\$ 1,082.9	\$ 798.5	\$ 442.9	\$ 452.5	\$ 276.6	\$ 11.8	3,065.2
Total Adjusted EBITDA	262.2	150.7	82.7	128.1	34.3	(55.6)	602.4
Capital expenditures	63.5	37.0	39.2	31.2	17.6	4.7	193.2

	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Eliminations (a)	Consolidated
Identifiable assets as of:								
December 31, 2009	\$ 2,088.9	\$ 762.7	\$ 945.1	\$ 866.3	\$ 124.9	\$ 323.6	(329.8)	\$ 4,781.7
December 31, 2008	2,030.9	829.8	990.0	879.9	130.2	541.4	(224.9)	5,177.3

(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.

The following table represents summarized geographic information with net sales based on seller's location:

(\$ in millions)	Year ended December 31,		
	2009	2008	2007
Net sales:			
Germany	\$ 1,176.0	\$ 1,371.0	\$ 1,298.6
Rest of Europe	751.5	799.3	655.1
United States	733.5	890.2	852.5
Rest of World	301.9	319.6	259.0
	\$ 2,962.9	\$ 3,380.1	\$ 3,065.2

The following table presents the Company's long-lived assets located in the regions indicated:

(\$ in millions)	December 31,	
	2009	2008
Long-lived assets:		
Germany	\$ 782.2	\$ 791.5
Rest of Europe	427.7	456.9
United States	275.9	293.4
Rest of World	216.7	210.4
	\$ 1,702.5	\$ 1,752.2

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 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 excludes 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-K

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
Year ended December 31, 2009							
Income (loss) from continuing operations before taxes	\$ 86.5	\$ (15.0)	\$ (8.3)	\$ 5.3	\$ 12.2	\$ (49.0)	\$ 31.7
Interest expense (a)	69.2	31.4	26.3	36.3	10.2	6.8	180.2
Interest income	(0.9)	0.4	(1.7)	(0.2)		0.3	(2.1)
Depreciation and amortization	74.1	62.7	77.7	52.0	10.7	5.8	283.0
Restructuring and other severance costs	5.8	6.3	0.1	7.1	0.2	1.3	20.8
Systems/organization establishment expenses	0.7	2.1	3.1	0.3		0.1	6.3
Acquisition and disposal costs	0.1	2.7	0.1			0.1	3.0
Loss on early extinguishment of debt	11.6	2.4		7.2	0.8	4.6	26.6
Loss on sale of assets and other	0.3			0.2			0.5
Foreign exchange (gain) loss, net	(4.2)	0.1		(0.6)		(11.3)	(16.0)
Other	2.5	2.0		0.1	(0.1)	2.0	6.5
Total Adjusted EBITDA	\$ 245.7	\$ 95.1	\$ 97.3	\$ 107.7	\$ 34.0	\$ (39.3)	\$ 540.5
Year ended December 31, 2008							
Income (loss) from continuing operations before taxes	\$ 166.5	\$ (470.6)	\$ (266.3)	\$ 61.3	\$ (92.8)	\$ (140.2)	\$ (742.1)
Interest expense (a)	56.2	30.4	37.9	34.2	9.3	63.1	231.1
Interest income	(1.2)	1.3	(0.2)	(0.2)	(0.5)	(5.2)	(6.0)
Depreciation and amortization	69.7	67.2	56.3	47.0	11.3	7.4	258.9
Impairment charges		456.6	247.7		105.2		809.5
Restructuring and other severance costs	17.2	10.3	0.2	4.5	0.7	2.4	35.3
Systems/organization establishment expenses	2.7	5.1	3.4	0.3	0.4	1.0	12.9
Acquisition and disposal costs		0.9			0.4	0.4	1.7
Inventory write-up charges	0.8	1.5	3.3	1.3			6.9
Gain on early extinguishment of debt						(4.0)	(4.0)
(Gain) loss on sale of assets and other	(1.3)		1.1	0.1		(2.3)	(2.4)
Acquired in-process research and development		2.6		0.3			2.9
Foreign exchange loss (gain), net	2.9	0.3	(0.3)	1.4		28.0	32.3
Other	(0.5)	1.5				0.9	1.9
Total Adjusted EBITDA	\$ 313.0	\$ 107.1	\$ 83.1	\$ 150.2	\$ 34.0	\$ (48.5)	\$ 638.9
Year ended December 31, 2007							
Income (loss) from continuing operations before taxes	\$ 165.4	\$ 62.5	\$ 6.0	\$ 50.9	\$ 11.8	\$ (144.9)	\$ 151.7
Interest expense (a)	42.0	19.5	32.4	33.8	9.4	82.2	219.3
Interest income		(1.6)	(0.2)	0.3	(0.3)	(9.7)	(11.5)
Depreciation and amortization	54.4	57.6	42.4	40.5	11.2	5.6	211.7
Restructuring and other severance costs	2.6	2.2		2.5		4.7	12.0
Systems/organization establishment expenses	(0.4)	2.8		1.1	0.6	0.1	4.2
Acquisition and disposal costs	0.1	0.1	1.6		0.5		2.3
Inventory write-up charges	0.1	5.5		0.1			5.7

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

Loss on early extinguishment of debt		1.4		1.1		16.1		18.6						
Refinancing expenses						0.9		0.9						
(Gain) loss on sale of assets and other	(0.2)	0.2	0.5			(5.2)		(4.7)						
Foreign exchange gain, net	(0.6)	(0.2)		(1.2)		(5.8)		(7.8)						
Other	(1.2)	0.7		0.1		0.4								
Total Adjusted EBITDA	\$	262.2	\$	150.7	\$	82.7	\$	128.1	\$	34.3	\$	(55.6)	\$	602.4

(a) Includes gains (losses) of \$3.9 million, \$(51.5) million, \$(32.2) million for the years ended December 31, 2009, 2008 and 2007, 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:

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

- *Impairment charges:* In the fourth quarter of 2008, the Company recorded goodwill impairment charges of \$809.5 million in several businesses (see Note 9, *Goodwill*, for further details).
- *Restructuring and other severance costs:* Charges of \$20.8 million, \$35.3 million and \$12.0 million were recorded in 2009, 2008 and 2007, respectively, for miscellaneous restructuring activities, including facility closures, headcount reductions and

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

severance costs (see Note 18, Restructuring And Other Severance Costs, for further details).

- *Systems/organization establishment expenses:* In 2009, expenses of \$6.3 million were recorded related to the integration of businesses acquired, primarily related to the completion of the Titanium Dioxide Pigments venture in September 2008 and the acquisition of the Elementis plc business in the Performance Additives segment in August 2007. In 2008, expenses of \$12.9 million were recorded primarily related to the integration of businesses acquired in the Specialty Chemicals, Performance Additives and Titanium Dioxide Pigments segments. In 2007, expenses of \$4.2 million were recorded primarily related to the integration of businesses acquired in the Performance Additives and Advanced Ceramics segments.
- *Acquisition and disposal costs:* Costs of \$3.0 million, \$1.7 million and \$2.3 million were recorded in 2009, 2008 and 2007, respectively, in connection with potential and actual acquisitions and dispositions.
- *Inventory write-up charges:* All inventories acquired in an acquisition must be revalued to fair value. This resulted in a consequential reduction in gross profit of \$6.9 million and \$5.7 million for the years ended December 31, 2008 and 2007, respectively, as the inventory was sold in the normal course of business. The reduction in 2008 and 2007 primarily related to the acquisition of Holliday Pigments in August 2008 in the Performance Additives segment and the completion of the Titanium Dioxide Pigments venture in September 2008. The reduction in gross profit in 2007 was primarily related to the acquisition of the Elementis plc business.
- *(Gain) loss on early extinguishment of debt:* In 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. In 2008, the Company redeemed 11.0 million of the 2014 Notes at a discount and recorded a gain of \$4.0 million. In 2007, the Company paid a redemption premium of \$14.5 million to redeem long-term debt and wrote off \$4.1 million of deferred financing costs associated with the redemption of the 2011 Notes.
- *Refinancing expenses:* In March 2007, the Company expensed \$0.9 million related to the fourth amendment of the senior secured credit agreement to refinance all outstanding borrowings under the tranche F term loans with new tranche G term loans.
- *(Loss) gain on sale of assets and other:* The Company recorded (losses) gains, net of \$(0.5) million, \$2.4 million and \$4.7 million in 2009, 2008 and 2007, respectively, related to asset sales. The Company recorded a loss of \$0.5 million for the year ended December 31, 2009 primarily related to the sale of property, plant and equipment within the Specialty Chemicals and Advanced Ceramics segments. The gain recorded in 2008 primarily relates to the sale of land that was acquired as part of the acquisition of Dynamit Nobel in 2004. The gain reported in 2007 primarily relates to the sale of the U.S. wafer reclaim business.
- *Acquired in-process research and development:* Acquired in-process research and development costs are charged to expense as of the acquisition date. For the year ended December 31, 2008, the Company expensed \$2.9 million primarily related to the acquisition of Holliday Pigments in August 2008 in the Performance Additives segment. These acquired in-process research and development costs are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

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

- *Foreign exchange loss (gain):* For 2009, the Company recorded foreign exchange gains of \$16.0 million primarily due to the impact of the stronger pound sterling, as well as a stronger euro, as of December 31, 2009 versus December 31, 2008 in connection with non-operating Euro-denominated transactions. For 2008, foreign exchange losses of \$32.3 million were recorded primarily due to the impact of the weaker pound sterling as of December 31, 2008 versus December 31, 2007 related to non-operating euro-denominated transactions. For the year ended December 31, 2007, foreign exchange gains of \$7.8 million were recorded primarily related to euro-denominated debt, cash and inter-company loans.
- *Other:* In 2009, the Company recorded expenses of \$6.5 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. In 2008, the Company recorded expenses of \$1.9 million which includes fees incurred in connection with the secondary offering of the Company's common stock in June 2008.

4. ACQUISITIONS:

Pursuant to the Company's business strategy of achieving profitable growth through selective acquisitions, the Company has acquired several businesses in recent years.

On August 11, 2008, the Company completed the acquisition of Holliday Pigments, the leading global manufacturer of technical grade ultramarine blue and manganese violet pigments, from Yule Catto & Co. plc for a purchase price of approximately \$46.0 million (\$68.6 million using an August 11, 2008 exchange rate of \$1.4909). Holliday Pigments manufactures inorganic ultramarine pigments for a wide range of applications, including plastics, cosmetics, coatings and inks. Holliday Pigments was incorporated into the Color Pigments and Services business, which is part of the Performance Additives segment.

On September 1, 2008, the Company completed the formation of a venture with Kemira that focuses on specialty titanium dioxide pigments. The venture combines the Company's titanium dioxide pigments and functional additives businesses, which are part of the Titanium Dioxide Pigments segment, 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 consolidated this venture and has reported Kemira's interest as noncontrolling interest in the consolidated financial statements. The Company owns 61% of the venture with Kemira owning the remaining portion. The venture's acquisition of the shares of the Rockwood and Kemira entities was facilitated by the borrowings under a term loan of \$250.0 million on September 3, 2008 (\$362.5 million using a September 3, 2008 exchange rate of \$1.4498). The venture made a payment of \$97.5 million (\$141.4 million using a September 3, 2008 exchange rate) to the venture's noncontrolling shareholder. In addition, the venture obtained a \$30.0 million (\$43.0 million) revolving credit facility to finance its operations and the venture has other debt of \$24.2 million (\$34.7 million) from Kemira, primarily due to a defined benefit pension plan. The Company estimates that the potential exposure range for assumed environmental liabilities is from \$11.9 million to \$23.3 million. At December 31, 2009, \$11.9 million of related reserves were recorded.

On September 4, 2008, the Company completed the acquisition of Nalco Holdings, Inc.'s (Nalco) Finishing Technologies business for a purchase price of approximately \$75.0 million. Nalco's Finishing Technologies business provides chemicals and services for pre-treating of metal and is part of the Surface Treatment business within the Specialty Chemicals segment.

In addition to the acquisitions described above, the Company had completed other smaller acquisitions in 2008. The purchase price allocation to the net assets acquired for all acquisitions in 2008 was complete as of December 31, 2009.

The above acquisitions were not material on an individual basis, or in the aggregate.

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

The Company had \$1,186.9 million (a portion of which is subject to a Libor or Euribor floor of 2.00%) and \$699.5 million of variable rate debt (after hedging) outstanding as of December 31, 2009 and December 31, 2008, respectively. Any borrowings under the senior secured revolving credit facility and the Titanium Dioxide Pigments venture revolving credit facility are at a variable rate (with the senior secured revolving credit facility subject to a Libor or Euribor floor of 2.00%). As of December 31, 2009, the Company had \$10.0 million (\$14.3 million) outstanding

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

under the Titanium Dioxide Pigments venture revolving credit facility. There were no outstanding borrowings under the senior secured revolving credit facility as of December 31, 2009. Historically, the Company has entered into interest rate swaps to manage its exposure to changes in interest rates related to variable rate debt. In November 2009, a contract covering a notional amount of \$200.0 million matured and contracts covering notional amounts of \$410.0 million were terminated resulting in a payment of \$31.1 million. As of December 31, 2009, the remaining contracts cover notional amounts of 482.2 million (at interest rates ranging from 2.995% to 4.416%). As of December 31, 2008, the Company had contracts covering notional amounts of \$610.0 million (at interest rates ranging from 4.864% to 5.038%) and 499.9 million (at interest rates ranging from 2.995% to 4.416%). The derivative contracts as of December 31, 2009 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 hedges 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 the 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.

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 U.S. dollar borrowings into euro-based obligations at an effective interest rate of Euribor plus 4.00%. As of December 31, 2009 and 2008, the notional amounts of this cross-currency interest rate hedge were \$19.1 million and 17.0 million and \$19.3 million and 17.0 million, respectively. This contract has a final maturity date of July 2010. The Company has not

applied hedge accounting for this cross-currency interest rate swap and has recorded the mark-to-market of this derivative as a component of interest expense in the 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. These foreign currency forward contracts hedged the exposure to movements in foreign exchange rates for forecasted transactions for twelve months, expiring in December 2009. The instruments were designated as foreign exchange cash flow hedges and are effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction. There was no gain or loss reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of cash flow hedges due to the probability of the original forecasted transaction not occurring.

In March 2009, 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. These foreign currency forward contracts hedged the exposure to movements in foreign exchange rates for forecasted transactions for nine months, expiring in December 2009. The Company has not applied hedge accounting for these foreign currency forward contracts.

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 converts 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. The Company 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 103.1 million at December 31, 2009; \$147.6 million). In 2009, the Company dedesignated a portion of its euro-denominated debt (411.0 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 December 31, 2009.

The following table provides the fair value and balance sheet location of the Company's derivative instruments as of December 31, 2009 and 2008:

(in millions)	Balance Sheet Location	Asset Derivatives Fair Value as of December 31,		Liability Derivatives Fair Value as of December 31,	
		2009	2008	2009	2008
Derivatives designated as hedging instruments:					
Foreign exchange contracts	Prepaid expenses and other current assets	\$	\$	1.1	\$
Cross-currency interest rate swaps - net investment hedge	Accrued expenses and other current liabilities				16.4
Total derivatives designated as hedging instruments		\$	\$	1.1	\$
					16.4

Derivatives not designated as hedging instruments:

Interest rate swaps	Accrued expenses and other current liabilities	\$	\$	\$	8.8	\$	6.5	
	Other liabilities				23.5		58.9	
Cross-currency interest rate swaps	Accrued expenses and other current liabilities				5.2		0.1	
	Other liabilities						4.7	
Total derivatives not designated as hedging instruments		\$	\$	\$	37.5	\$	70.2	
Total derivatives		\$	\$	1.1	\$	37.5	\$	86.6

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

The following table provides the gains and losses reported in Other Comprehensive Income (OCI) within Equity for the years ended December 31, 2009, 2008 and 2007:

(in millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives and Other Financial Instruments (Effective Portion) Year ended December 31,			
	2009	2008	2007	
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange contracts	\$ (0.5)	\$ 0.5	\$	
Derivatives and Other Financial Instruments in Net Investment Hedging Relationships:				
Cross-currency interest rate swaps - net investment hedge	\$ (16.5)	\$ 9.1	\$	(14.9)
Euro-denominated debt	(21.4)	41.6		(93.7)
	\$ (37.9)	\$ 50.7	\$	(108.6)

In the year ended December 31, 2009, gains of \$0.5 million were reclassified from accumulated other comprehensive income into income. In the years ended December 31, 2008 and 2007, no gains or losses were reclassified from accumulated other comprehensive income into income.

The following table provides the gains and losses reported in the Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007:

(in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives			Location of Gain or (Loss) Recognized in Income on Derivatives
	Year ended December 31,			
	2009	2008	2007	
Derivatives Not Designated as Hedging Instruments				
Interest rate contracts	\$ 4.0	\$ (51.7)	\$ (29.8)	Interest expense
Cross-currency interest rate swaps	(0.1)	0.2	(2.4)	Interest expense
	\$ 3.9	\$ (51.5)	\$ (32.2)	

6. FAIR VALUE MEASUREMENTS:

The Company follows a fair value measurement hierarchy to measure assets and liabilities. As of December 31, 2009 and 2008, the assets and liabilities measured at fair value on a recurring basis are derivatives and marketable securities. In addition, the Company measures its pension plan assets at fair value (see Note 15, Employee Benefit Plans 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.

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

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 December 31, 2009 and 2008.

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 December 31, 2009 and 2008:

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

(\$ in millions)	As of		Fair Value Measurements		
	December 31, 2009	Level 1	Level 2	Level 3	
Assets					
Marketable securities (a)	\$ 162.0	\$ 162.0	\$	\$	
Total assets at fair value	\$ 162.0	\$ 162.0	\$	\$	
Liabilities					
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	\$	

(\$ in millions)	As of		Fair Value Measurements		
	December 31, 2008	Level 1	Level 2	Level 3	
Assets					
Marketable securities (a)	\$ 395.8	\$ 395.8	\$	\$	
Foreign exchange contracts (b)	1.1		1.1		
Total assets at fair value	\$ 396.9	\$ 395.8	\$ 1.1	\$	
Liabilities					
Interest rate swaps (b)	\$ 65.4	\$	\$ 65.4	\$	
Cross-currency interest rate swaps (b)	4.8		4.8		
Cross-currency interest rate swaps - net investment hedge (b)	16.4		16.4		
Total liabilities at fair value	\$ 86.6	\$	\$ 86.6	\$	

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

(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 December 31, 2009 and 2008 based on market participant assumptions. In addition, based on the credit evaluation of each institution comprising its derivative assets as of December 31, 2009 and 2008, the Company believes the carrying values of these assets as of December 31, 2009 and 2008 to be fully realizable.

Debt The Company estimates that its debt under the senior secured credit facilities and Titanium Dioxide Pigments venture facility agreement, based on current interest rates and terms, approximates fair value. Based on quoted market values at December 31, 2009 and 2008, the Company estimates the fair value of its 2014 Notes approximated \$561.0 million and \$501.0 million, respectively. As of December 31, 2009 and 2008, the principal carrying amount of the 2014 Notes was \$558.2 million and \$708.5 million, respectively.

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)	December 31,	
	2009	2008
Raw materials	\$ 165.6	\$ 203.8
Work-in-process	73.7	74.2
Finished goods	270.7	355.3
Packaging materials	7.0	7.7
Total	\$ 517.0	\$ 641.0

8. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, net is comprised of the following:

(\$ in millions)	December 31,	
	2009	2008
Land	\$ 161.1	\$ 155.6
Buildings and improvements, including land improvements	621.5	594.6
Machinery and equipment	1,541.5	1,394.7
Furniture and fixtures	128.9	117.9
Mining rights	86.3	86.3
Construction-in-progress	68.9	95.7
Property, plant and equipment, at cost	2,608.2	2,444.8
Less accumulated depreciation and amortization	(905.7)	(692.6)
Property, plant and equipment, net	\$ 1,702.5	\$ 1,752.2

Depreciation expense was \$201.5 million, \$179.1 million and \$144.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In addition, property, plant and equipment at December 31, 2009 and 2008 includes items recorded under capital leases as follows:

(\$ in millions)	December 31,	
	2009	2008
Buildings and improvements, including land improvements	\$ 51.9	\$ 49.5
Machinery and equipment	3.1	3.0
Furniture and fixtures	5.7	6.0
	60.7	58.5
Accumulated depreciation	(13.3)	(9.2)

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

Total \$ 47.4 \$ 49.3

At December 31, 2009, minimum payments due under capital leases are as follows:

(\$ in millions)

Years ended December 31:		
2010	\$	6.5
2011		5.7
2012		5.4
2013		4.9
2014		5.1
Thereafter		35.3
		62.9
Less amount representing interest		12.1
	\$	50.8

9. GOODWILL:

For the years ended December 31, 2009 and 2007, the Company did not recognize a goodwill impairment loss as a result of the impairment analysis that was performed. In the fourth quarter of 2008, the Company tested the recoverability of goodwill as part of its annual review. In connection with the determination of fair value of the reporting units, the Company made significant estimates and

assumptions with respect to those reporting units and engaged independent valuation specialists to assist with this review. The first step of the review indicated that the fair values of the Color Pigments and Services, Timber Treatment Chemicals, Clay-based Additives, Titanium Dioxide Pigments, Specialty Compounds and Rubber Chemicals reporting units were less than their carrying values, thus requiring the Company to complete the second step of the impairment review. To compute the amount of the impairment under step two, the Company determines the implied fair value of goodwill in the same manner as if the Company had acquired those reporting units. Specifically, the Company allocated the fair value of the reporting units to all of the assets, including any unrecognized intangible assets and liabilities of that unit, in a hypothetical calculation that would yield the implied fair value of goodwill. The impairment loss is measured as the difference between the book value of the goodwill and the implied fair value of the goodwill. Based on these results, the Company recorded goodwill impairment charges in the Color Pigments and Services business (\$293.2 million), Timber Treatment Chemicals business (\$88.3 million) and Clay-based Additives business (\$75.1 million) within the Performance Additives segment; Titanium Dioxide Pigments segment (\$247.7 million); and Specialty Compounds segment, including the Rubber Chemicals business (\$105.2 million). The goodwill impairment charges were attributed to the significant drop in global stock valuations, the substantial reduction in the market valuation of Rockwood and comparable companies, and the continuing negative global economic and market outlook. In particular, the downturn in the construction industry has had a negative impact on a number of the Company's businesses.

Prior to completing the assessment of goodwill for impairment during the fourth quarter of 2008, the Company performed a recoverability test of certain long-lived assets. As a result, the Company concluded that there was no impairment of those assets in the fourth quarter of 2008.

Below are goodwill balances and activity by segment:

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Total
Balance, December 31, 2007	\$ 684.1	\$ 493.9	\$ 172.3	\$ 258.5	\$ 121.2	\$ 1,730.0
Post closing purchase price consideration (a)	(18.8)		(6.0)	(5.0)		(29.8)
Goodwill impairment charges		(456.6)	(247.7)		(105.2)	(809.5)
Acquisitions	9.7	34.9	114.8	25.3		184.7
Foreign exchange and other (b)	(27.0)	(72.2)	(33.4)	(9.0)	(16.0)	(157.6)
Balance, December 31, 2008	648.0			269.8		917.8
Acquisitions (c)	(1.1)			0.6		(0.5)
Foreign exchange and other (b)	14.8			7.1		21.9
Balance, December 31, 2009	\$ 661.7	\$	\$	\$ 277.5	\$	\$ 939.2

(a) In March 2008, the Company entered into an agreement with GEA Group and GEA North America to settle all existing and future environmental claims in consideration of payment to the Company of 18.8 million (\$29.1 million) which was received on March 28, 2008. This payment was considered an adjustment to the purchase price per the claims settlement agreement between the Company and GEA Group and its subsidiary. As a result, the Company has reported this as an adjustment to the purchase price with a credit to goodwill in the first quarter of 2008.

(b) Consists primarily of foreign currency changes.

(c) Represents purchase price allocation adjustments for 2008 acquisitions.

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

The gross balance of goodwill as of December 31, 2009 and 2008 was \$1,748.7 million and \$1,727.3 million, respectively. The accumulated impairment charges were \$809.5 million as of December 31, 2009 and 2008 and related to the goodwill impairment charge recorded in the fourth quarter of 2008.

10. OTHER INTANGIBLE ASSETS:

Other intangible assets, net consist of:

(\$ in millions)	As of December 31, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 384.3	\$ (133.0)	\$ 251.3	\$ 411.9	\$ (142.0)	\$ 269.9
Trade names and trademarks	146.3	(33.7)	112.6	141.5	(27.1)	114.4
Customer relationships	390.1	(117.7)	272.4	372.2	(79.1)	293.1
Supply agreements	62.8	(12.3)	50.5	57.3	(6.3)	51.0
Other	48.8	(30.9)	17.9	61.7	(35.3)	26.4
Total	\$ 1,032.3	\$ (327.6)	\$ 704.7	\$ 1,044.6	\$ (289.8)	\$ 754.8

Amortization of other intangible assets was \$81.5 million, \$79.8 million and \$66.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

(\$ in millions) Year ended	Amortization Expense
2010	\$ 81.7
2011	78.9
2012	74.9
2013	71.6
2014	68.3

11. LONG-TERM DEBT:

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

(\$ and in millions)	2009	December 31, 2008
Senior secured credit facilities:		
Tranche A-1 term loans (4.2 and 22.8, respectively)	\$ 6.0	\$ 31.9
Tranche A-2 term loans (36.5 and 99.4, respectively)	52.3	138.9
Tranche E term loans	139.4	1,104.9
Tranche G term loans (65.1 and 265.2, respectively)	93.2	370.5
Tranche H term loans	937.2	

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

Tranche I term loans (194.7 as of December 31, 2009)	278.8	
2014 Notes (250.1 and \$200.0 and 364.0 and \$200.0, respectively)	558.2	708.5
Titanium Dioxide Pigments venture term loans (240.0 and 250.0, respectively)	343.7	349.3
Titanium Dioxide Pigments venture revolving short-term loans (10.0 as of December 31, 2009)	14.3	
Capitalized lease obligations (31.9 and 34.3, respectively)	45.7	47.9
Other loans	59.5	59.3
	2,528.3	2,811.2
Less current maturities	(94.2)	(90.9)
	\$ 2,434.1	\$ 2,720.3

Maturities of long-term debt are as follows:

(\$ in millions)		
2010	\$	94.2
2011		97.8
2012		283.9
2013		249.0
2014		1,778.6
Thereafter		24.8
	\$	2,528.3

Senior Secured Credit Facilities

a) Structure

In connection with the Dynamit Nobel Acquisition, the Company entered into a senior secured credit agreement on July 30, 2004. On June 15, 2009, the Company entered into the amended and restated credit agreement, which amended and restated in its entirety the Company's senior secured credit agreement. The senior secured credit agreement, as amended, extended the maturity of certain term loans by providing for (i) approximately \$942.0 million of new tranche H term loans with a maturity date of May 15, 2014, the aggregate amount of which is deemed to convert a like amount of outstanding principal of existing tranche E term loans (that had a maturity date of July 30, 2012) under the previous credit agreement and (ii) approximately 195.6 million (\$270.0 million using the exchange rate on the date of amendment, June 15, 2009, of \$1.3803) of new tranche I term loans with a maturity date of May 15, 2014, the aggregate amount of which is deemed to convert a like amount of outstanding principal of existing tranche G term loans (that had a maturity date of July 30, 2012) under the previous credit agreement. See Long-Term Debt table above for senior secured credit facility balances as of December 31, 2009 and 2008.

b) Availability

The senior secured credit facilities consist of the term loan tranches listed above as well as a senior secured revolving credit facility in an aggregate principal amount of \$250.0 million made available in U.S. dollars, Euros and/or pounds sterling, of which \$70.0 million matures on July 30, 2010. A portion of the revolving credit facility is available in the form of letters of credit and swingline loans. In the third quarter of 2009, the Company extended the maturity of \$180 million of availability under the revolving credit facility from 2010 to 2012 bearing interest at its option of either (i) Libor (subject to Libor floor of 2.00%) plus 4.50% or (ii) ABR plus 3.25%. As of December 31, 2009, the Company had no outstanding borrowings under this revolving credit facility, and \$26.4 million of letters of credit issued on its behalf. Under the terms of the senior secured credit agreement, the Company may, under certain circumstances and subject to receipt of additional commitments from existing lenders or other eligible institutions, request that the tranche H and/or tranche I term loans and/or the revolving credit commitments be increased by an aggregate amount of up to \$250.0 million.

Amounts borrowed under the term loans, other than the revolving credit facility, that are repaid or prepaid may not be reborrowed.

c) Interest and Fees

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

As of December 31, 2009, the senior secured credit facilities, as amended, consisted of:

- tranche A-1 term loans in an aggregate principal amount of 4.2 million (\$6.0 million) and tranche A-2 term loans in an aggregate principal amount of 36.5 million (\$52.3 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);
- tranche E term loans in an aggregate principal amount of \$139.4 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);
- tranche G term loans in an aggregate principal amount of 65.1 million (\$93.2 million) maturing on July 30, 2012 and bearing interest at a Euribor floor of 2.00% plus 2.75%;
- tranche H term loan in an aggregate principal amount of \$937.2 million maturing on May 15, 2014 and bearing interest at a Libor floor of 2.00% plus 4.00%;
- tranche I term loan in an aggregate principal amount of 194.7 million (\$278.8 million) maturing on May 15, 2014 and bearing interest at a Euribor floor of 2.00% Euribor plus 4.25%; and

- a revolving credit facility in an aggregate principal amount of \$250.0 million, of which \$70.0 million matures on July 30, 2010 bearing interest at the Company's option of either (i) Libor (subject to Libor floor of 2.00%) plus 3.00% or (ii) ABR plus 1.75%, and of which \$180.0 million matures on July 30, 2012 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%.

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%.

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 December 31, 2009, 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 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 borrowings. The senior secured credit facilities require payment of customary commitment, letter of credit and other fees.

d) Guarantees; Security

Obligations under the senior secured credit facilities are guaranteed by Rockwood Specialties International, Inc. and each of Rockwood Specialties Group Inc.'s existing and subsequently acquired or organized direct or indirect domestic subsidiaries, subject to certain exceptions, and are secured by first-priority security interests in: substantially all the tangible and intangible assets of the Company and its direct or indirect domestic subsidiaries, subject to exceptions; all the capital stock of or other equity interest in the Company and each of its direct or indirect domestic subsidiaries; a maximum of 65% of the capital stock of or other equity interests in each direct foreign subsidiary of either Group or of any domestic subsidiary of the Company.

e) Amortization and Prepayments

In the first half of 2009, the Company prepaid \$63.2 million (\$85.1 million based on the exchange rate in effect on the date of payment) and \$17.2 million of its senior secured term loans.

Tranche A-1 and A-2 term loans are payable in January and July of each year at escalating percentages of the amount outstanding on the amendment date. Tranches E, G, H and I are payable in January and July of each year at amounts equal to 0.50% of the amount outstanding on the amendment date, with the remainder due at the final maturity date.

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

In addition, the Company is required to make the following mandatory prepayments of the term loans under the senior secured credit facilities, in each case subject to certain exceptions, with:

- 100% of the net cash proceeds of all sales or other dispositions by the Company or any of its restricted subsidiaries under the senior secured credit facilities of assets other than net cash proceeds (a) from the sale or other disposition of assets in the ordinary course of business, (b) of certain disposals permitted under the senior secured credit agreement (including the proceeds of sales or transfers of accounts receivable (including pursuant to a securitization) in the amount of up to \$200.0 million at any time) or (c) that are reinvested in the Company and its restricted subsidiaries within twelve months of the sale or other disposition (subject to extension in certain circumstances).
- 100% of the net cash proceeds of issuances of certain debt obligations.
- 50% of excess cash flows, as defined, in respect of any fiscal year at the end of which the consolidated total debt to consolidated EBITDA ratio is equal to or greater than 3.50 to 1.0, reduced by any amounts reinvested during the first six months of the year and voluntary prepayments.

f) Financial Covenants

The senior secured credit agreement contains the following financial covenants:

- a consolidated net senior secured debt to consolidated Adjusted EBITDA test;

- a consolidated Adjusted EBITDA to consolidated cash interest expense test; and
- limitations on capital expenditures.

For purposes of calculating compliance with the financial covenants as of any date, foreign currency denominated indebtedness is to be converted to U.S. dollars based on average exchange rates for the twelve-month period ending on such date. In addition to the financial covenants described above, the Company's senior secured credit agreement contains various affirmative and restrictive covenants. The restrictive covenants limit the Company's 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. 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 4.40 to 1.00 on the last day of any fiscal quarter through and including March 31, 2010, 4.25 to 1.00 on the last day of any fiscal quarter thereafter through and including September 30, 2010, and 4.00 to 1.00 on the last day of any fiscal quarter thereafter. The senior secured credit agreement also reset the asset sales basket, increased the available amount basket that applies to certain investment, debt and capital expenditure negative covenants and certain other baskets.

2011 Notes On May 15, 2007, the Company redeemed its outstanding 10 5/8% Senior Subordinated Notes due 2011 in the aggregate principal amount of \$273.4 million. In connection with this debt repayment, the Company paid redemption premiums of \$14.5 million and wrote off deferred financing costs of \$4.1 million.

2014 Notes In November 2004, the Company issued 375.0 million aggregate principal amount of 7.625% senior subordinated notes and \$200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 (2014 Notes). As of December 31, 2009, the 2014 Notes had an aggregate principal amount of 250.1 million (\$358.2 million) in the case of the Euro notes and \$200.0 million in the case of the U.S. Dollar notes. The 2014 Notes are *pari passu* to future senior subordinated indebtedness and junior to all of the Company's existing and future senior indebtedness. The 2014 Notes are guaranteed on a senior subordinated unsecured basis by certain of the Company's domestic subsidiaries. In the fourth quarter of 2008, the Company redeemed 11.0 million of its 2014 Notes at a discount. In the first half of 2009, the Company voluntarily repurchased at a discount 113.9 million in aggregate principal amount (\$153.2 million based on the exchange rates in effect on the dates of repurchase) of its Euro-denominated senior subordinated notes due in 2014.

Titanium Dioxide Pigments venture term loans, revolving credit facility and other debt As of December 31, 2009, the Titanium Dioxide Pigments venture, which was completed in September 2008, had 240.0 million (\$343.7 million) outstanding under the term loans of its facility agreement entered into in June 2008, as amended in August 2008. The facility also provides for a revolving credit facility of 30.0 million (\$43.0 million) of which 10.0 million (\$14.3 million) was outstanding as of December 31, 2009. The weighted average rate of the borrowings outstanding under this revolving credit facility was 4.229% as of December 31, 2009. An outstanding bank guarantee of 10.0 million (\$14.3 million) related to a defined benefit pension obligation further reduced its availability under this facility. Both the term loan and revolving credit facility mature in June 2013.

As of December 31, 2009, the interest rate on the term loan and revolving credit facility is Euribor (or Libor if the currency is in USD) plus 3.00%, 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 commencing 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.

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

In addition, the Titanium Dioxide Pigments venture has other debt of 24.2 million (\$34.7 million), primarily due to a defined benefit plan, at interest rates ranging from 3.70% to 5.00%.

The facility agreement requires the venture to meet the following financial covenants:

- a net debt to EBITDA (which is substantially similar to the definition of Adjusted EBITDA in the Company's senior secured credit agreement) test;
- a EBITDA to cash interest expense test; and
- a cash generated for financing activities to debt service test.

The covenants are calculated in accordance with International Financial Reporting Standards and are based solely on the results of the venture's European operations.

Other term loan facilities The Company has euro-denominated term loan facilities that provide aggregate outstanding borrowings of approximately 7.1 million (\$10.2 million) as of December 31, 2009. These term loans mature between 2010 and 2024 and bear

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

annual interest rates ranging up to 5.22%. In addition, the Company has term loan facilities denominated in Chinese Renminbi and Indian Rupees, providing for borrowings of an aggregate U.S. dollar equivalent amount of \$12.8 million as of December 31, 2009. These term loans mature in 2010 and bear annual interest rates of 7.56% and 13.00%, respectively. The term loan facilities described above contain customary events of default and some of them are secured by mortgages or accounts receivable.

As of December 31, 2009, \$1,237.0 million of the debt outstanding was denominated in Euros.

12. INCOME TAXES:

Income (loss) from continuing operations before income taxes is as follows:

(\$ in millions)	Year Ended December 31,		
	2009	2008	2007
United States	\$ (61.2)	\$ (395.2)	\$ (44.6)
Foreign	92.9	(346.9)	196.3
	\$ 31.7	\$ (742.1)	\$ 151.7

The provision (benefit) for taxes on income (loss) consisted of the following:

(\$ in millions)	Year Ended December 31,		
	2009	2008	2007
Current income tax expense:			
Federal	\$ 0.1	\$ (0.4)	\$ 2.7
State	0.3	1.6	6.6
Foreign	31.3	39.4	35.1
	31.7	40.6	44.4
Deferred income tax expense:			
Federal	6.2	3.2	4.9
State	0.2	(0.1)	(1.3)
Foreign	(19.5)	(32.4)	25.4
	(13.1)	(29.3)	29.0
Allocation from discontinued operations:			
Federal		(23.7)	(9.3)
State			(1.8)
		(23.7)	(11.1)
Allocation from other comprehensive income:			
Federal	(1.4)	(11.5)	
Total provision (benefit) for taxes	\$ 17.2	\$ (23.9)	\$ 62.3

Amounts are reflected in the preceding table based on the location of the taxing authorities. Changes in enacted rates impact the tax provision in the year a rate change is enacted.

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

The income tax provision from continuing operations has been reduced by \$1.4 million, \$35.2 million and \$11.1 million for the years ended December 31, 2009, 2008 and 2007, respectively, through allocations from discontinued operations and other comprehensive income in accordance with the Company's policy disclosed in Note 1, Description of Business and Summary of Significant Accounting Policies, as the Company had both a loss in continuing operations and a net profit in other categories including discontinued operations and other comprehensive income in the United States.

Deferred income taxes are provided for the effects of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. The deferred tax assets and liabilities are determined by applying the enacted tax rate in the year in which the temporary difference is expected to reverse.

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

The tax effects of the major items recorded as deferred tax assets and liabilities are as follows:

(\$ in millions)	December 31,	
	2009	2008
Current deferred income tax assets, net:		
Allowance for doubtful accounts	\$ 1.8	\$ 1.8
Restructuring	2.8	2.8
Derivative instruments	8.0	10.0
Other current reserves and accruals	7.8	5.6
Valuation allowance	(10.5)	(7.1)
Total current deferred income tax assets, net	9.9	13.1
Noncurrent deferred income tax assets:		
Investment basis difference	55.9	57.1
Pension and postretirement benefits	52.0	37.3
Tax loss carryforwards and credits	155.0	43.9
Other noncurrent reserves and accruals	16.6	20.5
Foreign exchange on debt	45.0	54.3
Valuation allowance	(122.4)	(77.6)
Total noncurrent deferred income tax assets	202.1	135.5
Noncurrent deferred income tax liabilities:		
Derivative instruments	(16.8)	0.6
Goodwill and other intangibles	(88.7)	(94.3)
Property, plant and equipment	(140.8)	(127.8)
Total noncurrent deferred income tax liabilities	(246.3)	(221.5)
Net deferred income tax liability	\$ (34.3)	\$ (72.9)

Reconciliations of the U.S. statutory income tax rate to the effective tax rate are as follows:

	Year Ended December 31,		
	2009	2008	2007
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal effect	1.1	(0.1)	1.5
Foreign/U.S. tax differential	(37.6)	(1.3)	1.2
Goodwill	1.0	(26.4)	0.3
Increase (decrease) in valuation allowance	102.4	(4.8)	7.1
Debt instruments	(46.6)	(3.5)	15.4
Allocation to discontinued operations	(4.4)	4.7	(7.3)
Noncontrolling interest	1.2	(0.1)	(1.9)
Foreign tax rate reductions	0.4	0.2	(7.3)
Other	1.8	(0.5)	(2.9)
Effective tax rate	54.3%	3.2%	41.1%

In 2009, the effective tax rate was negatively impacted by domestic tax losses which are not tax effected as a result of a full valuation allowance and was positively impacted by a nonrecurring tax benefit in respect of debt related foreign currency changes and geographic earnings mix.

For 2008, the effective income tax rate compared to the federal statutory rate was negatively impacted by non-deductible book goodwill impairments.

The Company's U.S. operations are included in a consolidated federal income tax return. The amount of current and deferred tax expense is computed on a separate entity basis for each member of the group based on applying the principles of ASC 740.

As of December 31, 2009, the Company has U.S. federal and foreign corporate tax loss carryforwards (excluding state and local amounts) of approximately \$496.0 million, of which \$202.1 million expire in 2029, \$67.2 million expire between 2010 and 2026 and

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

\$226.7 million which have no current expiration date. The Company also has state and local tax loss carryforwards of approximately \$300.7 million expiring in years 2010 through 2029.

The worldwide valuation allowance increased by \$48.2 million to \$132.9 million at December 31, 2009. Of this amount, \$34.4 million was a charge to income tax expense relating primarily to net operating losses and \$13.8 million primarily represents an increase to other comprehensive income.

The valuation allowance as of December 31, 2009 and 2008 is attributable to deferred tax assets related to certain items, such as tax loss carryforwards in the United States, including certain states, and Germany, China and other foreign countries for which it is more likely than not that the related tax benefits will not be realized. It is the Company's policy that the valuation allowance is decreased or increased in the year management determines that it is more likely than not that the deferred tax assets will be realized.

A table reflecting the activity in the valuation allowance is as follows:

(\$ in millions)	Year Ended December 31,		
	2009	2008	2007
Balance, January 1	\$ 84.7	\$ 99.9	\$ 98.1
Increase as reflected in income tax expense	34.4	42.1	4.7
Other (a)	13.8	(57.3)	(2.9)
Balance, December 31	\$ 132.9	\$ 84.7	\$ 99.9

(a) Primarily related to net investment hedges, as well as the mark-to-market of the Company's Euro-denominated debt and discontinued operations.

At December 31, 2009 and 2008, the Company had undistributed foreign earnings of \$949.3 million and \$881.7 million, respectively, which the Company intends to be permanently reinvested. The Company has determined that it is not practicable to compute a deferred tax liability for foreign withholding taxes or U.S. income taxes on these earnings. In accordance with the indefinite reversal criteria, the foreign currency gains recorded in other comprehensive income related to intercompany debt and foreign currency translation have not been tax affected.

The Company records liabilities for potential assessments in various tax jurisdictions. The liabilities relate to tax return positions which, although supportable by the Company, may be challenged by the tax authorities. The Company adjusts these liabilities as a result of changes in tax legislation, interpretations of laws by Courts, rulings by tax authorities, changes in estimates and the closing of the statute of limitations. The Company's effective tax rate in any given year includes the impact of any changes to these liabilities. Favorable resolution of an issue would generally be recognized as a reduction to the Company's annual tax rate.

The Company adopted a standard on January 1, 2007 that clarified the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribed a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The total amount of unrecognized tax benefits as of the date of adoption was \$44.1 million. In conjunction with the adoption, the Company has classified uncertain tax positions as non-current income tax liabilities (other liabilities) unless expected to

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

be paid within one year. As of December 31, 2009, the total amount of unrecognized tax benefits was \$27.7 million including interest and penalties. A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

(\$ in millions)	2009		2008		2007	
Unrecognized tax benefits at January 1	\$	48.0	\$	41.2	\$	44.1
Increases in tax positions for prior years		2.9		9.1		15.5
Decreases in tax positions for prior years		(2.0)		(2.9)		(15.4)
Increases in tax positions for the current year		0.9		3.8		10.5
Decreases due to settlements with taxing authorities		(0.7)		(2.6)		(14.2)
Lapse in statute of limitations		(2.5)		(0.1)		(0.7)
Foreign exchange		0.4		(0.5)		1.4
Unrecognized tax benefits at December 31, before reconciling item		47.0		48.0		41.2
Reconciling item: Offset against deferred tax assets		(19.3)		(18.2)		(14.5)
Unrecognized tax benefits at December 31	\$	27.7	\$	29.8	\$	26.7

In accordance with the Company's policy, where tax losses can be carried back or forward to offset liabilities for uncertain tax benefits, then the deferred tax assets associated with such tax losses are netted against liabilities for uncertain tax benefits arising in

the same year as the losses, and also against liabilities for uncertain tax benefits arising in different years. This policy results in a \$19.3 million reduction in liabilities and deferred tax assets as of December 31, 2009.

Included in the balance of unrecognized tax benefits at December 31, 2009 are \$27.3 million of tax benefits that, if recognized, would affect the effective tax rate and \$0.4 million that, if recognized, would result in an adjustment to other tax accounts.

The Company recognizes interest and penalties related to unrecognized tax benefits in its income tax provision. The Company had accrued \$7.9 million, \$7.1 million and \$4.3 million for interest and penalties as of December 31, 2009, 2008 and 2007, respectively.

The Company is currently under audit in certain jurisdictions and during the next twelve months, it is reasonably possible that resolution of these audits could result in a benefit of up to \$11.7 million or a cost of up to \$18.3 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. In 2009, the Internal Revenue Service completed its audit of the Company's 2004 tax year. The Company's tax filings in other major jurisdictions are open to investigation by tax authorities; in the U.K. from 2007 and in Germany from 2001.

Tax law changes were enacted in Germany and the U.K. in the third quarter of 2007 and in Italy in the fourth quarter of 2007. The change in law and tax rates had an impact on the existing deferred tax assets and liabilities recorded in those jurisdictions. The impact of the change in the law and tax rates was recorded as a discrete tax benefit in the income tax provision for the year ended December 31, 2007. If the tax law changes had not occurred, the effective tax rate would have been 47.9% for the year ended December 31, 2007.

13. OPERATING LEASE OBLIGATIONS:

The following is a schedule of minimum future rentals under the terms of noncancelable operating leases as of December 31, 2009:

(\$ in millions)		
Years ended December 31:		
2010	\$	16.8
2011		12.4
2012		8.7
2013		6.1
2014		5.0
Thereafter		9.7
Total	\$	58.7

Rent expense under all operating leases was \$28.2 million, \$28.3 million and \$24.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. Rent escalations and other lease concessions are reflected on a straight-line basis over the minimum lease term. Minimum

future rentals include the effect of any index or rate that was applicable at lease inception.

14. STOCK-BASED COMPENSATION:

The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants, as discussed below, caused income from continuing operations before taxes to decrease by \$4.7 million, \$4.1 million and \$3.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Restricted Stock Restricted stock of the Company can be granted with or without payment of consideration with restrictions on the recipient's right to transfer or sell the stock.

Performance-based restricted stock units. The Company typically grants performance-based restricted stock unit awards to its management and key employees. Certain employees have company-wide performance targets, for which vesting is based on the achievement of specified Adjusted EBITDA and earnings per share levels, while others have divisional performance targets for

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

which vesting is based on a particular division's achievement of Adjusted EBITDA performance. The Company granted a target amount of performance restricted stock units, whereby if the specified performance target is met, shares of the Company's common stock would be awarded upon vesting of these units. However, these awards provide the employee with the possibility of earning from 0% to 200% of the share targeted units granted based upon performance versus the target.

In December 2009, the Company approved 233,657 performance restricted stock units to be awarded 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 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 will form the basis for vesting of these restricted stock units were not approved as of December 31, 2009. These performance targets were set in January 2010 when such performance targets were approved by the Compensation Committee.

In December 2008, the Company awarded 606,256 performance restricted stock units to management and key employees, which will vest on December 31, 2011 as long as the employee continues to be employed by the Company on such date and based upon the achievement of certain performance targets as approved by the Compensation Committee. The number of shares of the Company's common stock ultimately awarded upon vesting is determined based on the Company's achievement of specified performance criteria over the period January 1, 2009 through December 31, 2009. The performance targets for these awards were set, and effectively granted, in February 2009 when such performance targets were approved by the Compensation Committee. For this December 2008 grant, certain performance targets were achieved, and as a result, 180,057 shares will vest as long as the employees continue to be employed by the Company on December 31, 2011.

Time-based restricted stock units. The Company typically grants time-based restricted stock unit awards to its management and key employees. In December 2009 and 2008, the Company granted 127,375 and 320,867, respectively, time restricted stock units to management and key employees, which will vest on December 31, 2012 and December 31, 2011, respectively as long as the employee continues to be employed by the Company on such date.

With regard to our performance-based restricted stock units, the Company reversed previously recorded expense in 2009 related to performance targets that were no longer probable to be achieved. As a result, the net effect of compensation cost related to restricted stock units caused income from continuing operations to increase by \$0.6 million for the year ended December 31, 2009. A tax expense of \$0.1 million was recorded for the year ended December 31, 2009. The compensation cost related to restricted stock units of the Company caused income from continuing operations before taxes to decrease by \$0.2 million and \$1.8 million for the years ended December 31, 2008 and 2007, respectively. The total tax benefit recognized related to restricted stock was \$0.1 million and \$0.2 million for the years ended December 31, 2008 and 2007, respectively. The weighted average grant date fair value of the restricted shares granted in 2009, 2008 and 2007 were \$10.40, \$16.57 and \$31.94, respectively, per stock unit. As of December 31, 2009, there was \$10.6 million of unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

A summary of the status of the Company's nonvested restricted stock units granted pursuant to the Plan at December 31, 2009 and 2008 and changes during the year ended December 31, 2009 is presented below:

	Shares ('000)	Weighted Average Fair Value
Nonvested at December 31, 2008	700	\$ 21.56

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

Granted	733	10.40
Vested	(1)	20.70
Forfeited	(5)	14.02
Nonvested at December 31, 2009	1,427	\$ 15.67

Stock Purchase Eligible employees and directors can purchase shares of the Company's common stock at prices as determined by its board of directors. There were no stock purchases by eligible employees and directors in 2009, 2008 or 2007.

Board of Directors Stock Grant The Company granted 37,392 shares of its common stock to its independent directors during the year ended December 31, 2009. Compensation cost related to the directors' stock grant caused income from continuing operations before taxes and net income to decrease by \$0.5 million, \$0.3 million and \$0.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Board of Directors Stock Options Stock options granted to directors under this Plan shall have an exercise price at least equal to the fair market value of the Company's common stock on the date of grant. Options available for grant under this Plan are time options which have a life of ten years from the date of grant and vest in three equal annual installments on each of the first three anniversaries of the grant date. The Company did not grant any stock options to directors in 2009.

Stock Options Stock options granted to employees under the Plan shall have an exercise price at least equal to the fair market value of the Company's common stock on the date of grant. The Company has granted two types of options under the Plan (time and performance options).

Time-Based Stock Options. Time options granted in 2004 have a life of ten years from the date of grant and vest in installments of 20% on each of the first five anniversaries of the grant date. Time options granted after 2004 typically have a life of seven years and vest in three equal annual installments on each of the first three anniversaries of December 31 of the year granted. In 2009, the Company granted 277,419 time-based stock options to management and key employees.

The compensation cost related to stock options of the Company caused income from continuing operations before taxes to decrease by \$4.8 million, \$3.6 million and \$2.0 million in the years ended December 31, 2009, 2008 and 2007, respectively. The total tax benefit recognized related to stock options was \$0.5 million, \$0.4 million and \$0.3 million in the years ended December 31, 2009, 2008 and 2007, respectively.

As of December 31, 2009, there was \$7.8 million of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

The weighted-average fair value of options granted during the years ended December 31, 2009, 2008 and 2007 was \$13.13, \$4.26 and \$10.41, respectively. The fair value of stock options granted in the years ended December 31, 2009, 2008 and 2007 are estimated on the date of grant using the Black-Scholes option pricing model that used the assumptions noted in the following table:

	Year ended December 31,		
	2009	2008	2007
Expected term (in years)	4.5	4.5	4.5
Expected volatility	68%	54%	30%
Risk-free rate	2.3%	1.6%	4.2%
Expected dividends	N/A	N/A	N/A

The expected term represents the period of time that options granted are expected to be outstanding based on the simplified method for determining the expected term of an employee share option. The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. As a result, the Company's expected term was based on the simplified method. The expected volatility for awards granted in December 2008 and 2009 is based on historical share prices of the Company since it became a public company. For awards granted prior to December 2008, the expected volatility was based on the expected volatilities of comparable peer companies that are publicly traded as Rockwood became a public Company in August 2005 and did not have a long period of history of the Company's share price. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividends are not applicable as the Company currently does not pay and does not expect to pay a dividend on its shares.

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

In addition, the recognition of expense only occurs for awards that will eventually vest. This requires pre-vesting forfeitures to be estimated at the time of grant and modified, if necessary, if actual forfeitures differ from estimated forfeitures. The Company's forfeiture rates are based upon historical share-based equity award cancellations.

The total intrinsic value of stock options exercised during the years ended December 31, 2009, 2008 and 2007 was \$0.4 million, \$3.6 million and \$2.1 million, respectively. Cash received from option exercises during 2009 was \$1.0 million. The total fair value of shares vested during the years ended December 31, 2009, 2008 and 2007 was \$7.0 million, \$4.3 million and \$3.4 million, respectively.

During 2008, the Company extended the exercise period of 193,165 fully vested share options held by four employees and accelerated the vesting of 55,857 share options held by six employees. As a result of the modifications, the Company recognized additional expense of \$0.2 million for the year ended December 31, 2008.

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

A summary of the status of the Company's options granted pursuant to the Plan at December 31, 2009 and 2008 and changes during the year ended December 31, 2009 is presented below:

	Shares ('000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ in millions)
Outstanding at December 31, 2008	5,228	\$ 17.10		
Granted	277	23.79		
Exercised	(67)	14.61		
Forfeited	(20)	27.57		
Outstanding at December 31, 2009	5,418	\$ 17.43	4.2	\$ 42.0
Options vested at December 31, 2009 and expected to vest in the future (a)	5,361	\$ 17.44	4.2	\$ 41.5
Options exercisable at December 31, 2009	4,271	\$ 17.65	3.7	\$ 32.3

(a) The number of options expected to vest takes into account an estimate of expected forfeitures.

15. EMPLOYEE BENEFIT PLANS:

The Company maintains various defined benefit pension plans, which cover certain employees in the U.S., U.K., Germany, Finland and other countries. In Germany, plan obligations include the provision of postretirement benefits covering private health insurance premiums. Two U.S. subsidiaries provide certain retirees with healthcare and life insurance.

Funding requirements and investment policies for the Company's various defined benefit plans are governed by local statutes and fiduciary standards outlined below.

The following tables summarize the benefit obligations, plan assets and the funded status of the pension plans, along with the amounts recognized in the Consolidated Balance Sheets and the weighted average assumptions used.

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

(\$ in millions)	Pension Benefits			
	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of year	\$ 29.8	\$ 27.7	\$ 567.1	\$ 471.2
Service cost	0.2	0.2	8.3	7.4
Interest cost	1.8	1.7	33.4	28.4
Actuarial loss (gain)	1.4	1.1	53.1	(29.7)
Benefits paid	(1.0)	(1.1)	(33.3)	(27.4)
Plan changes			7.0	
Acquisitions				170.6
Foreign exchange loss (gain)			23.5	(52.0)
Effect of curtailment/settlement			(3.0)	
Other		0.2	1.6	(1.4)
Benefit obligation at end of year	\$ 32.2	\$ 29.8	\$ 657.7	\$ 567.1
<i>Change in fair value of plan assets:</i>				
Fair value of plan assets at beginning of year	\$ 19.0	\$ 26.7	\$ 209.7	\$ 130.6
Actual return on assets	4.6	(7.7)	28.2	(42.6)
Employer contributions	0.8	1.1	6.4	5.3
Benefits paid from fund	(1.0)	(1.1)	(15.0)	(8.6)
Acquisitions				157.3
Foreign exchange gain (loss)			11.0	(30.9)
Effect of curtailment/settlement			(2.1)	
Other			(0.3)	(1.4)
Fair value of plan assets at end of year	\$ 23.4	\$ 19.0	\$ 237.9	\$ 209.7
Funded status	\$ (8.8)	\$ (10.8)	\$ (419.8)	\$ (357.4)
<i>Amounts recognized in the consolidated balance sheets:</i>				
Current liabilities	\$	\$	\$ (13.8)	\$ (13.5)
Noncurrent liabilities (a)	(8.8)	(10.8)	(406.0)	(343.9)
Net amount recognized	\$ (8.8)	\$ (10.8)	\$ (419.8)	\$ (357.4)
<i>Amounts recognized in accumulated other comprehensive income:</i>				
Net actuarial losses	\$ 8.8	\$ 11.0	\$ 47.4	\$ 7.5
Prior service cost	0.1	0.1	7.2	
Accumulated other comprehensive loss	\$ 8.9	\$ 11.1	\$ 54.6	\$ 7.5
Accumulated benefit obligation	\$ 32.2	\$ 29.8	\$ 614.9	\$ 526.9
<i>Information for pension plans with an accumulated benefit obligation in excess of plan assets:</i>				
Accumulated benefit obligation	\$ 32.2	\$ 29.8	\$ 614.2	\$ 500.4
Fair value of plan assets	\$ 23.4	\$ 19.0	\$ 237.2	\$ 178.9
<i>Weighted-average assumptions used to determine benefit obligations at December 31:</i>				
Discount rate	5.89%	6.18%	5.29%	6.02%
Rate of compensation increase	N/A	N/A	3.15%	3.13%

(a) Balances include \$11.3 million and \$10.7 million as of December 31, 2009 and 2008, respectively, related to certain German defined benefit obligations which are reported as Other Liabilities in the Consolidated Balance Sheets. Balances do not include \$6.8 million and \$8.4 million as of December 31, 2009 and 2008, respectively, representing certain individually immaterial pension and postretirement medical benefit plans which are reported within Pension and Related Liabilities in the Consolidated Balance Sheets.

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

(\$ in millions)	2009	U.S. Plans 2008	2007	2009	Non-U.S. Plans 2008	2007
<i>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</i>						
Discount rate	6.18%	6.26%	5.76%	6.02%	5.53%	4.62%
Expected return on plan assets (a)	8.28%	8.28%	8.28%	6.17%	6.00%	5.19%
Rate of compensation increase	N/A	N/A	N/A	3.13%	3.32%	3.19%
<i>Components of net pension benefit costs:</i>						
Service cost	\$ 0.2	\$ 0.2	\$ 0.2	\$ 8.3	\$ 7.4	\$ 7.0
Interest cost	1.8	1.7	1.6	33.4	28.4	21.3
Expected return on assets	(1.6)	(2.2)	(2.0)	(13.7)	(10.9)	(6.5)
Net amortization of actuarial losses (gains)	0.7		0.1	0.1	(0.4)	(1.0)
Other				1.2		
Net periodic pension cost (benefit)	1.1	(0.3)	(0.1)	29.3	24.5	20.8
Settlement/curtailment				(0.4)		
Total pension cost (benefit)	\$ 1.1	\$ (0.3)	\$ (0.1)	\$ 28.9	\$ 24.5	\$ 20.8

(a) The long-term rate of return on assets listed above is the average of expected returns developed for each plan weighted by each plan's assets, as of January 1 of the year measured. Rates of return have been estimated based on various asset-appropriate price and yield indices, adjusted for projected inflation and long-term dividend growth.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(\$ in millions)	U.S. Plans	Non-U.S. Plans
2010	\$ 1.1	\$ 35.5
2011	1.3	35.2
2012	1.4	37.1
2013	1.6	37.4
2014	1.8	38.7
Years 2015 - 2019	10.9	200.9
<i>Expected employer contributions to plan assets:</i>		
2010	\$ 1.1	\$ 5.5

Recognition of actuarial losses In 2010, the Company expects to recognize \$2.3 million of previously unrecognized actuarial losses.

Other postretirement benefits The Company had liabilities of \$4.0 million and \$4.9 million as of December 31, 2009 and 2008, respectively, related to other postretirement benefit plans reported as Pension and Related Liabilities in the Consolidated Balance Sheets. These plans recorded expenses of \$0.3 million, \$0.4 million and \$0.4 million in 2009, 2008 and 2007, respectively.

Plans with projected benefit obligations in excess of plan assets The Company's defined benefit plans all had projected benefit obligations in excess of plan assets.

Contributions During the year ended December 31, 2009, the Company made contributions of approximately \$7.2 million to its defined benefit pension trusts and an additional \$18.3 million in benefit payments directly to plan participants. For 2010, the Company expects to make payments of approximately \$6.6 million as contributions to pension trusts plus benefit payments directly to plan participants of approximately \$18.8 million.

Investment policies and strategies The Company's plans have varying statutory and plan governance requirements. For example, U.K. plan investments are limited to listed securities not affiliated with the Company or the investment advisor and equities are divided between domestic and foreign equity. U.S. plan investments are generally limited to mutual funds. Although the Company has representatives of local management involved in the governance of all plans, some plans or statutes also have representation by workers, employee unions, and/or corporate-level executives.

Plans in Finland, the U.K. and the U.S. represent over 90% of total plan assets. In these countries, the general investment objectives are to maximize the expected return on the plans' assets without unduly prejudicing the security of the members' accrued benefits and with sufficient liquidity to meet current plan cash flow requirements. As each plan is locally governed, asset allocations may vary between plans. Most plans do not have fixed targets but vary their investment allocations based on plan trustees' consultation with professional investment advisors as to whether these allocations remain appropriate in light of relative investment performance and

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

risk and/or actuarial changes related to plan participants. The following table presents weighted-average of the plans' targeted investment allocations in 2009 as well as the actual weighted-average investment allocations as of December 31, 2009 and 2008:

	Target	U.S. Plans			Non-U.S. Plans		
		2009	2008	2009	2008	2008	
Cash and cash equivalents		%	%	%	6%	3%	1%
Equity securities	61				33	32	39
Fixed income	39				51	53	46
Insurance contracts, real estate and other					10	12	14

The following table presents the Company's plan assets using the fair value hierarchy as of December 31, 2009. See Note 6, Fair Value Measurements, for descriptions of the Company's fair value hierarchy levels.

(in millions)	As of		Fair Value Measurements			
	December 31, 2009	Level 1	Level 2	Level 3	Level 3	Level 3
Cash and cash equivalents	\$ 7.3	\$ 2.5	\$ 4.8	\$	\$	\$
Equity securities:						
Domestic large-cap growth (a) (b)	23.0	0.3	22.7			
International large-cap growth (a)	17.8	0.3	17.5			
Other equity funds	49.1	2.2	46.9			
Fixed income securities:						
Domestic government bonds (a) (b)	13.0		13.0			
International government bonds (a)	7.9		7.9			
Corporate bonds (a)	58.1	3.4	54.7			
Plan sponsor	32.5		32.5			
Other bond funds	8.8	2.7	6.1			
Other	15.3	0.7	14.6			
Other investments:						
Insurance contracts	24.5		24.5			
Real estate funds	1.4		1.4			
Other	2.6		2.6			
Total	\$ 261.3	\$ 12.1	\$ 249.2	\$	\$	\$

(a) Represents a direct investment or mutual pooled fund.

(b) Domestic refers to investment in the plan's home country. Most plan assets are located in Finland, the U.K., the U.S. or Germany.

Level 1

Direct investments in publicly traded equity and debt securities are valued at quoted market prices. Similarly, mutual funds are public investment vehicles valued at quoted market prices, which represent the net asset value of the shares held.

Level 2

Direct investments in corporate and government bonds that are not actively traded are based on institutional bid evaluations using proprietary models. Commingled and proprietary funds are valued at unit or net asset values provided by investment managers, which are based on the fair value of the underlying investments utilizing public information, independent external valuation from third-party services, third-party advisors, or standard bond or other investment valuation models. Insurance contracts are valued as reported by the issuer, typically either using cash surrender value - the amount a plan would receive if a contract was cashed out at year end - or based on the present value of the expected future cash flows. Participations in real estate funds are valued at net asset value as determined by the fund manager. The plan sponsor loan is valued at its principal amount, consistent with its valuation in Rockwood's consolidated financial statements.

Other Retirement Benefit Plans

Savings Plans The Company sponsors various defined contribution plans for certain employees. Contributions under the plans are based on specified percentages of employee compensation. In aggregate, the Company's contributions to these plans were \$6.7 million, \$13.3 million and \$10.6 million in 2009, 2008 and 2007, respectively.

Multiemployer Plans The Company participates in three multiemployer plans. Contributions under the plans are based on specified percentages of employee contributions. The Company's contributions to the plans were \$6.1 million, \$5.0 million and \$4.8 million in 2009, 2008 and 2007, respectively.

16. EARNINGS PER SHARE:

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

(\$ in millions, except per share amounts; shares in thousands)	Year ended December 31,		
	2009	2008	2007
EPS Numerator:			
Amounts attributable to Rockwood Holdings, Inc.:			
Income (loss) from continuing operations	\$ 18.3	\$ (634.6)	\$ 81.5
Income from discontinued operations	2.8	3.3	25.2
Gain on sale of discontinued operations, net of tax		42.9	210.4
Net income (loss)	\$ 21.1	\$ (588.4)	\$ 317.1
EPS Denominator:			
Basic weighted average number of common shares outstanding	74,096	73,983	73,817
Effect of dilutive stock options and other incentives	755		2,462
Diluted weighted average number of common shares outstanding and common stock equivalents	74,851	73,983	76,279
Basic earnings (loss) per common share attributable to Rockwood Holdings, Inc.:			
Earnings (loss) from continuing operations	\$ 0.25	\$ (8.58)	\$ 1.10
Earnings from discontinued operations, net of tax	0.03	0.63	3.20
Basic earnings (loss) per common share	\$ 0.28	\$ (7.95)	\$ 4.30
Diluted earnings (loss) per common share attributable to Rockwood Holdings, Inc.:			
Earnings (loss) from continuing operations	\$ 0.24	\$ (8.58)	\$ 1.07
Earnings from discontinued operations, net of tax	0.04	0.63	3.09
Diluted earnings (loss) per common share	\$ 0.28	\$ (7.95)	\$ 4.16

Stock options under employee compensation plans representing common stock of 1,069,304 shares, 6,620,466 shares and 1,031,629 shares were outstanding as of December 31, 2009, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per common share because their inclusion would have had an anti-dilutive effect.

17. WARRANTS:

In connection with the issuance of the redeemable convertible preferred stock in connection with the July 2003 refinancing, the Company issued warrants to an affiliate of KKR, exercisable at any time at a \$14.61 per share exercise price, to purchase 958,315 additional shares of common stock of the Company. The warrants expire July 23, 2013. The Company has attributed a portion of the proceeds from issuance of the redeemable convertible preferred stock to the fair value of the warrants. The warrants were valued at \$6.1 million and were recorded as a

component of stockholders' equity.

18. 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.

During the year ended December 31, 2009, the Company expensed \$7.0 million of restructuring charges, which included asset write-offs of \$0.7 million. The major components of the restructuring charge included \$3.7 million in the Specialty Chemicals segment primarily related to facility closures and headcount reductions and \$2.2 million in the Performance Additives segment, primarily related to a restructuring plan implemented in the Color Pigments and Services business in connection with the integration of the businesses acquired from Elementis plc, including the reorganization and relocation of the North American Finance and IT services,

and the closure of three manufacturing facilities in 2008. In addition, restructuring and other severance costs in the Consolidated Statements of Operations included other severance-related costs of \$13.8 million related to headcount reductions undertaken throughout the Company.

During the year ended December 31, 2008, the Company expensed \$17.7 million of restructuring charges, which included asset write-offs of \$3.5 million in the Color Pigments and Services business of the Performance Additives segment. The major components of the restructuring charge included \$7.6 million in the Performance Additives segment primarily related to the integration of the businesses acquired from Elementis plc. In the Specialty Chemicals segment, \$8.2 million was recorded primarily for severance costs arising from the cessation and relocation of manufacturing in certain locations. In addition, restructuring and other severance costs in the Consolidated Statements of Operations included other severance-related costs of \$17.6 million related to headcount reductions undertaken throughout the Company.

During the year ended December 31, 2007, the Company expensed \$12.0 million of restructuring charges. In the Corporate and other segment, facility closure and severance costs of \$4.7 million were recorded, primarily related to the restructuring of the wafer reclaim business. In addition, \$2.6 million was recorded in the Specialty Chemicals segment, \$2.5 million was recorded in the Advanced Ceramics segment and \$2.2 million was recorded in the Performance Additives segment for miscellaneous headcount reductions and facility closures.

Restructuring actions from 2008 and 2009 are expected to be completed 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, 2008	\$	\$	\$
Restructuring charge in 2009	0.3	1.4	1.7
Utilized	(0.2)	(0.9)	(1.1)
Liability balance, December 31, 2009	\$ 0.1	\$ 0.5	\$ 0.6

(\$ in millions)	Severance/ Relocation	Facility Closure	Total
Liability balance, December 31, 2007	\$	\$	\$
Acquisitions (a)	5.6		5.6
Restructuring charge in 2008	12.1	0.9	13.0
Utilized	(5.0)	(0.9)	(5.9)
Foreign exchange and other	0.7	0.1	0.8
Liability balance, December 31, 2008	13.4	0.1	13.5
Restructuring charge in 2009	1.3	1.7	3.0
Utilized	(10.7)	(1.5)	(12.2)
Foreign exchange and other	(0.6)		(0.6)
Liability balance, December 31, 2009	\$ 3.4	\$ 0.3	\$ 3.7

(a) Relates primarily to the Titanium Dioxide Pigments venture and other bolt-on acquisitions.

Prior Years

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

As of December 31, 2009, restructuring liabilities include outstanding obligations of \$3.2 million from prior year actions primarily related to an unexpired lease in connection with the restructuring of the Wafer Reclaim business. These actions are now complete, with the exception of one action to be completed in 2010.

Restructuring reserves by segment are as follows:

(\$ in millions)	December 31,	
	2009	2008
Specialty Chemicals	\$ 3.7	\$ 8.1
Performance Additives	0.7	2.3
Titanium Dioxide Pigments		1.4
Advanced Ceramics	1.0	4.5
Specialty Compounds		0.5
Corporate and other	2.1	2.1
	\$ 7.5	\$ 18.9

19. ACCUMULATED OTHER COMPREHENSIVE INCOME:

Changes in accumulated other comprehensive income (loss) are as follows:

(\$ in millions)	Pension related adjustments, net of tax (a)	Foreign currency translation (b)	Intercompany foreign currency loans (b)	Net investment hedge, net of tax (c)	Cash flow hedges, net of tax (d)	Total accumulated other comprehensive income (loss)
Balance at						
December 31, 2006	\$ (24.2)	\$ 200.8	\$ 132.2	\$ (74.8)		\$ 234.0
Period change	36.7	177.6	66.8	(108.3)		172.8
Foreign currency translation of entities sold, primarily Electronics business		(35.8)				(35.8)
Balance at						
December 31, 2007	12.5	342.6	199.0	(183.1)		371.0
Period change	(27.9)	(146.0)	(32.2)	38.9	0.2	(167.0)
Balance at						
December 31, 2008	(15.4)	196.6	166.8	(144.2)	0.2	204.0
Period change	(24.4)	47.6	15.6	(37.9)	(0.4)	0.5
Balance at						
December 31, 2009	\$ (39.8)	\$ 244.2	\$ 182.4	\$ (182.1)	\$ (0.2)	\$ 204.5

(a) The tax effect on the pension related adjustments is a benefit (expense) of \$11.4 million, \$6.2 million and \$(17.6) million for 2009, 2008 and 2007, respectively.

(b) The foreign currency translation and intercompany loan adjustments are not adjusted for income taxes in accordance with the indefinite reversal criteria.

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

- (c) The tax effect on the net investment hedge is an (expense) benefit of \$(2.0) million and \$0.4 million for 2008 and 2007, respectively.

- (d) The tax effect on the cash flow hedges is an expense of \$0.1 million and \$0.3 million for 2009 and 2008, respectively.

Gains and losses on intercompany foreign currency loans that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future are reported as a component of accumulated other comprehensive income.

20. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings The Company is involved in various legal proceedings, including commercial, intellectual property, product liability 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 LLC (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 related to 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, 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 at a recent hearing. 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 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. The Company expects its portion of the fine to not exceed 1.1 million. 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 Pori, 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. 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.

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 \$1.0 million and in the aggregate \$4.5 million as of December 31, 2009. 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. 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 may 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 will require 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 and 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.

In addition, the Company is 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. 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.

Remediation 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-K

The following table provides a list of the Company's present and former facilities with environmental contamination for which the Company has reserved for at December 31, 2009:

Country	Location	(a)	(b)	(c)	(d)	(e)
Brazil	Diadema			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		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		
	Romulus, MI			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.

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

(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 December 31, 2009. 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.

Government Enforcement Proceedings and Civil Litigation

During the course of the Company's business, the Company may receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable SHE laws. During 2008, the Company's Timber Treatment Chemicals subsidiary was cited by the U.S. EPA for failure to report hazardous material production quantities under the Toxic Substances Control Act - 2005 Inventory Update Rule. The business has subsequently provided the required information; however, the business paid a fine of \$0.1 million as a result of this violation.

In September 2009, a subsidiary of the Company's Specialty Chemicals segment was cited by the U.S. EPA for failure to report hazardous material production quantities under the Toxic Substances Control Act - 2005 Inventory Update Rule. The business has provided the required information and expects to pay a fine as a result of this violation. The Company does not believe, based upon currently available information, that this issue will have a material adverse impact on its results of operations, financial position or liquidity.

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 \$55.1 million and \$55.1 million for known environmental liabilities as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, \$53.6 million and \$55.1 million, respectively, were classified as other non-current liabilities in the Consolidated Balance Sheets. 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. Included in the \$55.1 million as of December 31, 2008 is \$21.4 million that is discounted using discount rates ranging from 5.0% to 7.5%, with the undiscounted amount of these reserves equaling \$30.9 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 December 31, 2009 is from \$55.1 million to \$91.2 million. For the year ended December 31, 2009, the Company recorded charges of \$13.8 million to increase its environmental liabilities and made payments of \$14.4 million for clean-up and remediation costs, which reduced its environmental liabilities. These amounts included costs incurred and paid for a State Superfund remediation project in Laurel, MD related to legacy obligations assumed in connection with the acquisition of Laporte, plc in 2000. For this Superfund project, the Company was indemnified by Evonik Degussa GmbH for most of these costs. For the year ended December 31, 2009, the recurring cost of managing hazardous substances for ongoing operations is \$45.9 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 flow 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.

Commitments

As of December 31, 2009, the Company has unconditional purchase obligations of \$543.0 million primarily consisting of take-or-pay contracts to purchase goods and energy that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These purchase obligations are expected to be incurred as follows: \$228.3 million in less than one year, \$211.4 million in two-three years, \$34.5 million in four-five years and \$68.8 million after five years.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

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 December 31, 2009 and concluded that our disclosure controls and procedures are effective. In connection with this evaluation, our management did not identify any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during the fourth quarter of 2009.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Rockwood Holdings, Inc. and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, who expressed an unqualified opinion as stated in their report included herein.

/s/ SEIFI GHASEMI
Seifi Ghasemi
Chairman and Chief Executive Officer
February 26, 2010

/s/ ROBERT J. ZATTA
Robert J. Zatta
Senior Vice President and Chief Financial Officer
February 26, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rockwood Holdings, Inc.
Princeton, New Jersey

We have audited the internal control over financial reporting of Rockwood Holdings, Inc. and subsidiaries (the Company) as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company and our report, dated February 26, 2010, expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
February 26, 2010

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information concerning directors, executive officers of the Company and corporate governance is included under the caption

Proposal One Election of Directors, Corporate Governance and Related Matters, Executive Officers, Stock Ownership Section 16(a) Beneficial Ownership Reporting Compliance and Proxies on Voting Procedures Stockholder Director Nominations and Proposals for the 2011 Annual Meeting in the Proxy Statement for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation.

Information concerning executive compensation is included under the captions Executive Compensation, Corporate Governance and Related Matters Compensation Committee Interlocks and Insider Participation, Corporate Governance and Related Matters Compensation Committee Report and Director Compensation in the Proxy Statement for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information concerning security ownership of certain beneficial owners and management is included under the caption Stock Ownership Security Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in the Proxy Statement for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information concerning certain transactions is included under the caption Certain Relationships and Related Party Transactions, Corporate Governance and Related Matters Director Independence in the Proxy Statement for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information concerning certain transactions is included under the caption "Audit and Related Fees" and "Corporate Governance and Related Matters - Audit Committee" in the Proxy Statement for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

List of documents filed as part of this report:

	Page No.
1. Financial Statements:	
<u>Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007</u>	70
<u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u>	71
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007</u>	72
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007</u>	73
<u>Notes to Consolidated Financial Statements</u>	74
2. <u>Financial Statement Schedules.</u>	120
3. <u>Exhibits.</u>	124

2. Financial Statement Schedules

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS

(Dollars in millions)

	2009	2008	2007
Equity in undistributed earnings of subsidiaries	\$ 21.1	\$ (588.4)	\$ 317.1
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEETS

(Dollars in millions, except per share amounts; shares in thousands)

	2009	December 31,	2008
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6.3	\$	5.3
Total current assets	6.3		5.3
Investment in subsidiaries	830.0		808.4
Due from affiliates	15.8		11.7
Total assets	\$ 852.1	\$	825.4
LIABILITIES			
Deferred income taxes	\$ (0.2)	\$	(0.2)
Total liabilities	(0.2)		(0.2)
Restricted stock units	1.5		2.1
EQUITY			
Rockwood Holdings, Inc. stockholders' equity:			
Common stock (\$0.01 par value, 400,000 shares authorized, 74,259 shares issued and 74,165 shares outstanding at December 31, 2009; 400,000 shares authorized, 74,155 shares issued and 74,061 shares outstanding at December 31, 2008)	0.7		0.7
Paid-in capital	1,169.2		1,163.5
Accumulated other comprehensive income	204.5		204.0
Retained (deficit) earnings	(522.2)		(543.3)
Treasury stock, at cost	(1.4)		(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	850.8		823.5
Total liabilities and equity	\$ 852.1	\$	825.4

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

ROCKWOOD HOLDINGS, INC. (PARENT COMPANY)**SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT****CONDENSED STATEMENTS OF CASH FLOWS**

(Dollars in millions)

	Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) attributable to Rockwood Holdings, Inc.	\$ 21.1	\$ (588.4)	\$ 317.1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(21.1)	588.4	(317.1)
Deferred income taxes			
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:			
Due from affiliates			0.1
Income taxes payable			(0.2)
Accrued expenses and other liabilities			(0.2)
Net cash used in operating activities			(0.3)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash used in investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock, net of fees	1.0	2.3	1.5
Net cash provided by financing activities	1.0	2.3	1.5
Net increase in cash and cash equivalents	1.0	2.3	1.2
Cash and cash equivalents, beginning of year	5.3	3.0	1.8
Cash and cash equivalents, end of year	\$ 6.3	\$ 5.3	\$ 3.0

These condensed financial statements should be read in conjunction with the accompanying consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries.

See accompanying notes to condensed financial statements.

Notes to Condensed Financial Statements

The accompanying condensed financial statements of Rockwood Holdings, Inc. (the Registrant) should be read in conjunction with the consolidated financial statements and notes thereto of Rockwood Holdings, Inc. and Subsidiaries included elsewhere in this filing.

1. BASIS OF PRESENTATION

Pursuant to rules and regulations of the Securities and Exchange Commission, the unconsolidated condensed financial statements of Rockwood Holdings, Inc. (the Company) do not reflect all of the information and notes normally included with financial statements prepared in accordance with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in this filing.

Accounting for subsidiaries The Company has accounted for its subsidiaries under the equity method in the unconsolidated condensed financial statements.

2. STOCK-BASED COMPENSATION

The Company has in place the 2009 Stock Incentive Plan. See Note 14, *Stock-Based Compensation* to the consolidated financial statements.

3. DIVIDEND RESTRICTIONS

Under the terms of the senior secured credit facilities of Rockwood Holdings, Inc. and subsidiaries, certain subsidiaries may not, subject to certain exceptions, (i) declare or pay any dividends, other than dividends payable solely in its equity interests; (ii) redeem or otherwise acquire or retire for value any of its or its parent companies' equity interests; (iii) make any principal payment on or otherwise acquire or retire for value any subordinated indebtedness; or (iv) make any loan or capital contribution to, or purchase any securities or assets of, any person. So long as no default exists, the Company's subsidiaries may make certain otherwise restricted payments, such as (i) redeeming capital stock with the proceeds from concurrent equity contributions; (ii) repurchasing shares of their capital stock pursuant to employee stock plans or shareholder agreements; (iii) paying dividends to any parent company; (iv) paying taxes; (v) making certain permitted investments; or (vi) redeeming or refinancing certain other debt obligations; however, some of these permitted payments are subject to certain limitations and others may only be made subject to compliance with certain financial covenants, such as Senior Secured Debt to Consolidated EBITDA ratio (as defined).

Generally, under the terms of the 2014 Notes, the Company's subsidiaries may not (i) declare or pay any dividend on their equity interests other than dividends payable solely in equity interests or in options, warrants, or other rights to purchase such equity interests; (ii) redeem or otherwise acquire or retire for value any of the Company's subsidiaries or the Company's equity interests; (iii) make any principal payment on or otherwise acquire or retire for value any subordinated indebtedness; or (iv) make any loan or capital contribution to, or purchase any securities or assets of, any person. These restrictions do not apply if, at the time of taking any of these actions, (a) no Default or Event of Default exists under the Company's debt obligations, (b) immediately after taking such action, the Company could incur additional indebtedness without violating the

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

Company's debt covenants, and (c) the total amount of payments made pursuant to the above actions does not exceed the sum of (1) 50% of net income, (2) the proceeds of any capital contributions or equity offerings, and (3) the fair market value of any unrestricted subsidiary redesignated as a restricted subsidiary. Numerous exceptions to these general prohibitions exist that permit the Company's subsidiaries to make certain restricted payments without compliance with (a), (b) and (c).

3. 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual 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: February 26, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated

	Name	Title	Date
/s/ By:	SEIFI GHASEMI Seifi Ghasemi	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2010
/s/ By:	ROBERT J. ZATTA Robert J. Zatta	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2010
/s/ By:	JAMES T. SULLIVAN James T. Sullivan	Corporate Controller and Treasurer (Principal Accounting Officer)	February 26, 2010
/s/ By:	BRIAN F. CARROLL Brian F. Carroll	Director	February 26, 2010
/s/ By:	NANCE K. DICCIANI Nance K. Dicciani	Director	February 26, 2010
/s/ By:	SHELDON R. ERIKSON Sheldon R. Erikson	Director	February 26, 2010
/s/ By:	TODD A. FISHER Todd A. Fisher	Director	February 26, 2010
/s/ By:	DOUGLAS L. MAINE Douglas L. Maine	Director	February 26, 2010
/s/ By:	J. KENT MASTERS J. Kent Masters	Director	February 26, 2010

Exhibit Index

Exhibit No.	Description of Exhibit
2.1 (A)	Business and Share Sale and Purchase Agreement, dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
2.2 (B)	Sale and Purchase Agreement, dated April 19, 2004 among mg technologies ag and MG North America Holdings Inc., as Sellers and other parties named as purchasers therein
2.3(J)	Share Purchase Agreement dated November 29, 2006 by and among Rockwood Specialties Group GmbH and Gilde Buyout Partners BV, Banexi Capital and Groupe Novasep management.
2.4 (K)	Stock Purchase Agreement dated as of October 7, 2007 by and between Rockwood Specialties Group, Inc. and OM Group, Inc.
3.1 (G)	Form of Amended and Restated Certificate of Incorporation of Rockwood Holdings, Inc.
3.2 (S)	Third Amended and Restated By-Laws of Rockwood Holdings, Inc.
4.1 (G)	Form of Certificate of Common Stock
4.2 (G)	Warrant Agreement, dated as of July 23, 2003, between Rockwood Holdings, Inc. and KKR Millennium Fund L.P.
4.3 (G)	Registration Rights Agreement, dated as of November 20, 2000, among Rockwood Holdings, Inc., KKR 1996 Fund L.P. and KKR Partners II, L.P.
4.4 (G)	First Amendment, dated as of July 23, 2003, to the Registration Rights Agreement, among Rockwood Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II, L.P. and KKR Millennium Fund L.P.
4.5 (A)	Registration Rights Agreement, dated as of July 23, 2003, among Rockwood Specialties Group, Inc., the Guarantors named therein and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc. and Goldman, Sachs & Co., as Initial Purchasers
4.6 (G)	Stockholders Agreement, dated as of July 29, 2004, among Rockwood Holdings, Inc., KKR 1996 Fund, L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P., KKR European Fund, Limited Partnership and DLJ Merchant Banking Partners III, L.P., DLJ Offshore Partners III-1, C.V., DLJ Offshore Partners III-2, C.V., DLJ Offshore Partners III, C.V., DLJ MB Partners III GmbH & Co. KG, Millennium Partners II, L.P. and MBP III Plan Investors, L.P.
4.7 (C)	Indenture, dated as of November 10, 2004, among Rockwood Specialties Group, Inc., the Guarantors named therein and The Bank of New York, as Trustee
4.8 (C)	Registration Rights Agreement, dated as of November 10, 2004, among Rockwood Specialties Group, Inc., the Guarantors named therein and Credit Suisse First Boston (Europe) Limited, Goldman, Sachs & Co., UBS Limited, Credit Suisse First Boston LLC, UBS Securities LLC, BNP Paribas Securities Corp., ING Financial Markets LLC, NatCity Investments, Inc., Rabo Securities USA, Inc. and WestLB AG, London Branch, as the Initial Purchasers
4.9 (G)	Investors Rights Agreement, dated as of November 20, 2000, among K-L Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II L.P. and Merrill Lynch Capital Corporation
4.10 (G)	Amendment and Supplement No. 1 dated as of February 7, 2001 to the Investors Rights Agreement, dated as of November 20, 2000, among Rockwood Holdings, Inc., KKR 1996 Fund L.P., KKR Partners II, L.P., Merrill Lynch Capital Corporation and Allianz Lebensversicherungs AG, Stuttgart
4.11 (G)	Supplement No. 2 dated as of January 14, 2005 to the Investors Rights Agreement, dated as of November 20, 2000, among Rockwood Holdings, Inc., Merrill Lynch Capital Corporation and SPCP Group, L.L.C.
4.12 (I)	Amendment to Stockholders Agreement and Waiver, dated as of January 27, 2006, by and among Rockwood Holdings, Inc., KKR 1996 Fund, L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P., KKR European Fund, Limited Partnership and DLJ Merchant Banking Partners III, L.P., DLJ Offshore Partners III-1, C.V., DLJ Offshore Partners III-2, C.C., DLJ Offshore Partners III, C.V., DLJ MB Partners III GmbH & Co. KG, Millennium Partners II, L.P. and MBP III Plan Investors, L.P.
10.1 (R)	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(D)	Security Agreement, dated as of July 30, 2004, among Rockwood Specialties International, Inc., Rockwood Specialties Group, Inc., as US Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent

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

- 10.3(D) Pledge Agreement, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., as U.S. Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent
- 10.4(D) Guarantee, dated as of July 30, 2004, among Rockwood Specialties International, Inc., Rockwood Specialties Group, Inc., as U.S. Borrower, the Subsidiaries of the U.S. Borrower named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent
- 10.5(D) Guarantee, dated as of July 30, 2004, among Rockwood Specialties Group, Inc., the Subsidiaries of Rockwood Specialties Limited named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent
- 10.6(D) Guarantee, dated as of July 30, 2004, among the Subsidiaries of Rockwood Specialties Group, Inc. named therein and Credit Suisse First Boston, acting through its Cayman Islands Branch, UBS Securities LLC and Goldman Sachs Credit Partners L.P. and UBS AG, Stamford Branch, as Agents
- 10.7(A) Deed of Tax Covenant dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
- 10.8(A) Environmental Deed dated September 25, 2000 between Rockwood Holdings, Inc. and Laporte plc
- 10.9(A) Form of Management Stockholder s Agreement, dated as of February 2, 2001, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
- 10.10(G) Form of Management Stockholder s Agreement, dated as of November 30, 2004 between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
- 10.11(G) Form of Amended and Restated Management Stockholder s Agreement, dated as of October, 2004, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
- 10.12(A) Form of Sale Participation Agreement, dated as of January 30, 2001, among Rockwood Holdings, Inc., each Management Stockholder party to the Management Stockholders Agreement, dated as of January 30, 2001, KKR Partners II L.P. and KKR 1996 Fund L.P.
- 10.13(G) Form of Sale Participation Agreement, dated as of November 30, 2004, among KKR 1996 Fund L.P., KKR Partners II L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P. and KKR European Fund, Limited Partnership and each Management Stockholder (as defined therein)
- 10.14(G) Form of Amended and Restated Sale Participation Agreement, dated as of October, 2004, between Rockwood Holdings, Inc. and each Management Stockholder (as defined therein)
- 10.15(A) Form of Pledge Agreement in favor of Rockwood Specialties, Inc. made by an executive officer in connection with 2001 management equity program
- 10.16(E) Amended and Restated Management Stockholder s Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi
- 10.17(E) Amended and Restated Sale Participation Agreement, dated as of September 24, 2004, among Seifi Ghasemi, KKR 1996 Fund L.P., KKR Partners II, L.P., KKR Millennium Fund, L.P., KKR Partners III, L.P. and KKR European Fund, Limited Partnership
- 10.18(E) Time Stock Option Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi (included as Exhibit A to the Second Amendment to the Employment Agreement listed as Exhibit 10.37 herewith)
- 10.19(H) Time/Performance Stock Option Agreement, dated as of September 24, 2004, between Rockwood Holdings, Inc. and Seifi Ghasemi
- 10.20(F) Amended and Restated Management Stockholder s Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.21(F) Time/Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.22(F) Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.23(F) Amended and Restated Sale Participation Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.24(G) Amendment to Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.25(F) Amended and Restated Management Stockholder s Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
- 10.26(F) Time/Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan

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

- 10.27(F) Performance Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
- 10.28(F) Amended and Restated Sale Participation Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
- 10.29(G) Amendment to Stock Option Agreement, dated as of October 15, 2004, between Rockwood Holdings, Inc. and Thomas J. Riordan
- 10.30(O) Amended and Restated Employment Agreement, dated November 13, 2008, by and between Rockwood Holdings, Inc. and Seifi Ghasemi
- 10.31(O) Employment Agreement, dated November 13, 2008, by and between Rockwood Holdings, Inc. and Robert J. Zatta
- 10.32(O) Employment Agreement, dated November 13, 2008, by and between Rockwood Holdings, Inc. and Thomas Riordan
- 10.33(Q) Profit-Sharing/401(K) Plan for Employees of Rockwood Specialties Inc. as amended and restated effective as of January 1, 2008
- 10.34(Q) The Rockwood Specialties Inc. Money Purchase Pension Plan as amended and restated effective as of January 1, 2008
- 10.35(Q) Supplementary Savings Plan of Rockwood Specialties Inc. as amended and restated effective as of January 1, 2009
- 10.36(A) Rockwood Specialties Inc. Deferred Compensation Plan
- 10.37(G) Management Services Agreement dated as of July 29, 2004 between Kohlberg Kravis Roberts & Co. L.P., DLJ Merchant Banking Partners III, L.P. and Rockwood Holdings, Inc.
- 10.38(G) Termination Agreement dated as of May 13, 2005 between Kohlberg Kravis Roberts & Co. L.P., DLJ Merchant Banking Partners III, L.P. and Rockwood Holdings, Inc.
- 10.39(G) Restricted Stock Unit Award Agreement effective as of November 1, 2001 between Rockwood Holdings, Inc. and Seifi Ghasemi
- 10.40(G) Form of 2001 Stock Option Agreement, dated as of February 2, 2001, between K-L Holdings, Inc. and an employee of the Company or a Subsidiary or Affiliate of the Company.
- 10.41(G) Form of 2004 Stock Option Agreement between Rockwood Holdings, Inc. and an employee of the Company or a Subsidiary or Affiliate of the Company.
- 10.42(U) 2009 Rockwood Holdings, Inc. Stock Incentive Plan
- 10.43 (U) 2009 Rockwood Holdings, Inc. Short-Term Incentive Plan
- 10.44(G) Form of Non-Employee Director Stock Option Agreement
- 10.45(L) Form of Company s Stock Option Agreement (May 2007)
- 10.46(L) Form of Performance Restricted Stock Unit Award Agreement (May 2007)
- 10.47(M) Form of Company s Stock Option Agreement (December 2007)
- 10.48(M) Form of Performance Restricted Stock Unit Award Agreement (December 2007)
- 10.49(N) Master Agreement, dated May 21, 2008, by and among, Rockwood Holdings, Inc., Rockwood Specialties Group, Inc. and certain of their affiliates and Kemira Oyj and certain of its affiliates
- 10.50(N) Shareholders and Joint Venture Agreement, dated May 21, 2008, by and among, Rockwood Holdings, Inc., Rockwood Specialties Group, Inc. and certain of their affiliates and Kemira Oyj and certain of its affiliates
- 10.51(N) Share and Asset Purchase and Transfer Agreement, dated May 21, 2008, by and among, Rockwood Holdings, Inc., Rockwood Specialties Group, Inc. and certain of their affiliates and Kemira Oyj and certain of its affiliates
- 10.52(N) 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
- 10.53(Q) 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
- 10.54(P) Form of Stock Option Agreement (December 2008)
- 10.55(P) Form of Restricted Stock Unit Award Agreement (December 2008)
- 10.56(P) Form of Performance Restricted Stock Unit Award Agreement (December 2008)
- 10.57(T) Form of Stock Option Agreement (December 2009)
- 10.58(T) Form of Restricted Stock Unit Award Agreement (December 2009)
- 10.59(T) Form of Performance Restricted Stock Unit Award Agreement (December 2009)
- 10.60* First Amendment to the Profit-Sharing/401(K) Plan for Employees of Rockwood Specialties Inc.
- 10.61* First Amendment to the Rockwood Specialties Inc. Money Purchase Pension Plan
- 21.1* List of Subsidiaries

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

- 23.1* Consent of Deloitte & Touche LLP
- 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.

* Filed herewith.

- (A) Incorporated by reference to Rockwood Specialties Group, Inc.'s Registration Statement on form S-4 (File No. 333-109686).
- (B) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on May 4, 2004.
- (C) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on November 12, 2004.
- (D) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on August 4, 2004.
- (E) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on September 30, 2004.
- (F) Incorporated by reference to the Current Report on Form 8-K of Rockwood Specialties Group, Inc filed on October 19, 2004.
- (G) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 333-122764).
- (H) Incorporated by reference to the Annual Report on Form 10-K of the Rockwood Specialties Group, Inc. filed on April 29, 2005.
- (I) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 2, 2006.
- (J) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 16, 2007.
- (K) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 7, 2008.
- (L) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 22, 2007.
- (M) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 20, 2007.
- (N) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 6, 2008.
- (O) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 13, 2008.
- (P) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 12, 2008.
- (Q) Incorporated by reference to the Company's Annual Report on Form 10-K filed on March 2, 2009.
- (R) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 17, 2009.
- (S) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 24, 2009.
- (T) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 11, 2009.
- (U) Incorporated by reference to the Proxy Statement for the 2009 Annual Meeting.