Rockwood Holdings, Inc.
Form 10-Q
November 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**52-2277366**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Overlook Center, Princeton, New Jersey 08540

(Address of principal executive offices) (Zip Code)

(609) 514-0300

(Registrant s telephone number, including area code)

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

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

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

Accelerated filer o
Smaller reporting company o

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

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

As of November 3, 2008, there were 74,058,417 outstanding shares of common stock, par value $0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net sales	$ 880.8	$ 763.1	$ 2,647.8	$ 2,281.1
Cost of products sold	623.3	525.8	1,834.5	1,549.2
Gross profit	257.5	237.3	813.3	731.9
Selling, general and administrative expenses	170.3	148.8	512.7	441.7
Restructuring charges, net	3.4	2.9	5.7	8.9
Gain on sale of assets and other	(2.7)	(0.1)	(1.8)	(5.3)
Operating income	86.5	85.7	296.7	286.6
Other income (expenses):				
Interest expense (a)	(56.3)	(57.0)	(139.7)	(158.6)
Interest income	0.6	1.7	4.2	10.1
Loss on early extinguishment of debt				(18.6)
Refinancing expenses				(0.9)
Foreign exchange (loss) gain, net	(26.5)	7.8	(12.2)	11.3
Other, net	0.2	(0.1)	0.7	(0.1)
Other expenses, net	(82.0)	(47.6)	(147.0)	(156.8)
Income from continuing operations before taxes and minority interest	4.5	38.1	149.7	129.8
Income tax provision	10.3	16.1	50.6	56.8
(Loss) income from continuing operations before minority interest	(5.8)	22.0	99.1	73.0
Minority interest in continuing operations, net of tax	1.0	(2.8)	0.4	(6.2)
Net (loss) income from continuing operations	(4.8)	19.2	99.5	66.8
Income from discontinued operations, net of tax	1.5	5.5	2.9	15.6
Gain on sale of discontinued operations, net of tax				115.7
Minority interest in discontinued operations, net of tax				(0.1)
Net (loss) income	$ (3.3)	$ 24.7	$ 102.4	$ 198.0
Basic (loss) earnings per share:				
(Loss) earnings from continuing operations	$ (0.06)	$ 0.26	$ 1.35	$ 0.91
Earnings from discontinued operations, net of tax	0.02	0.07	0.03	1.77
Basic (loss) earnings per share	$ (0.04)	$ 0.33	$ 1.38	$ 2.68
Diluted (loss) earnings per share:				
(Loss) earnings from continuing operations	$ (0.06)	$ 0.25	$ 1.30	$ 0.88

Earnings from discontinued operations, net of tax		0.02		0.07		0.03		1.72
Diluted (loss) earnings per share	$	(0.04)	$	0.32	$	1.33	$	2.60
Weighted average number of basic shares outstanding		74,039		73,820		73,957		73,801
Weighted average number of diluted shares outstanding		74,039		76,383		76,795		76,155
(a) Interest expense includes:								
Interest expense on debt	$	(43.9)	$	(41.4)	$	(125.8)	$	(136.3)
Mark-to-market losses on interest rate swaps		(10.0)		(13.4)		(6.8)		(15.4)
Deferred financing costs		(2.4)		(2.2)		(7.1)		(6.9)
Total	$	(56.3)	$	(57.0)	$	(139.7)	$	(158.6)

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 410.3	$ 350.1
Accounts receivable, net	585.6	460.3
Inventories	629.4	526.9
Deferred income taxes	24.6	22.6
Prepaid expenses and other current assets	68.7	69.7
Assets of discontinued operations	64.3	75.2
Total current assets	1,782.9	1,504.8
Property, plant and equipment, net	1,770.3	1,508.5
Goodwill	1,736.9	1,730.0
Other intangible assets, net	725.1	675.9
Deferred debt issuance costs, net of accumulated amortization of $36.9 and $31.2, respectively	40.9	41.1
Deferred income taxes	15.8	15.4
Other assets	60.2	39.2
Total assets	$ 6,132.1	$ 5,514.9
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 276.5	$ 285.5
Income taxes payable	11.6	9.5
Accrued compensation	89.6	81.5
Restructuring liability	10.5	14.0
Accrued expenses and other current liabilities	222.3	164.3
Deferred income taxes	7.9	7.2
Long-term debt, current portion	81.4	107.4
Liabilities of discontinued operations	14.8	17.1
Total current liabilities	714.6	686.5
Long-term debt	2,752.5	2,474.0
Pension and related liabilities	324.5	327.5
Deferred income taxes	165.8	112.5
Other liabilities	178.4	165.7
Total liabilities	4,135.8	3,766.2
Minority interest	377.2	175.3
Performance restricted stock units	5.2	1.8
Stockholders equity:		
Common stock ($0.01 par value, 400,000 shares authorized, 74,153 shares issued and 74,058 shares outstanding at September 30, 2008; 400,000 shares authorized, 73,989 shares issued and 73,895 shares outstanding at December 31, 2007)	0.7	0.7
Paid-in capital	1,161.5	1,156.2
Accumulated other comprehensive income	305.6	371.0
Retained earnings	147.5	45.1

Treasury stock, at cost		(1.4)		(1.4)
Total stockholders equity		1,613.9		1,571.6
Total liabilities and stockholders equity	$	6,132.1	$	5,514.9

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 102.4	$ 198.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(2.9)	(15.6)
Gain on sale of discontinued operations, net of tax		(115.7)
Minority interest in discontinued operations		0.1
Depreciation and amortization	190.6	152.6
Deferred financing costs amortization	7.1	6.9
Loss on early extinguishment of debt (including $4.1 of non-cash write-offs on deferred financing costs)		18.6
Foreign exchange loss (gain)	12.2	(11.3)
Fair value adjustment of derivatives	6.8	15.4
Bad debt provision	0.9	1.2
Acquired in-process research and development	2.8	
Stock-based compensation	6.3	2.4
Deferred income taxes	14.2	24.3
Gain on sale of assets and other	(1.8)	(5.3)
Minority interest in continuing operations	(0.4)	6.2
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(60.5)	(35.7)
Inventories, including inventory write-up charges	(45.0)	(1.1)
Prepaid expenses and other assets	6.4	(5.7)
Accounts payable	(29.1)	(25.0)
Income taxes payable	3.4	5.8
Accrued expenses and other liabilities	26.1	39.8
Net cash provided by operating activities of continuing operations	239.5	255.9
Net cash provided by operating activities of discontinued operations	11.9	35.9
Net cash provided by operating activities	251.4	291.8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees paid, net of cash acquired	(181.7)	(168.3)
Post closing purchase price consideration	29.1	
Capital expenditures, excluding capital leases	(157.1)	(135.5)
Proceeds from formation of Viance joint venture, net		73.0
Proceeds on sale of assets	4.3	13.7
Net cash used in investing activities of continuing operations	(305.4)	(217.1)
Net cash (used in) provided by investing activities of discontinued operations, including sale proceeds of $421.1 for the nine months ended September 30, 2007	(5.1)	416.3
Net cash (used in) provided by investing activities	(310.5)	199.2
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	2.4	0.7
Titanium Dioxide Pigments venture financing	362.5	
Payment of assumed debt to Titanium Dioxide Pigments venture minority shareholder	(141.4)	
Repayment of 2011 Notes		(273.4)
Repayment of senior secured credit facilities	(68.7)	(57.1)

Repayment of senior secured credit facilities revolver				(37.0)
Payments on other long-term debt		(30.7)		(22.2)
Deferred financing costs		(5.0)		
Payments related to early extinquishment of debt				(14.5)
Distribution to minority shareholder		(3.9)		
Net cash provided by (used in) financing activities of continuing operations		115.2		(403.5)
Net cash used in financing activities of discontinued operations				
Net cash provided by (used in) financing activities		115.2		(403.5)
Effect of exchange rate changes on cash and cash equivalents		4.1		(9.6)
Net increase in cash and cash equivalents		60.2		77.9
Less increase in cash and cash equivalents from discontinued operations, net (a)				(1.6)
Increase in cash and cash equivalents from continuing operations		60.2		76.3
Cash and cash equivalents of continuing operations, beginning of period		350.1		27.7
Cash and cash equivalents of continuing operations, end of period	$	410.3	$	104.0

(a) - Excludes $11.2 of intercompany transfers, net of $4.4 of sale-related cash outflows for the nine months ended September 30, 2008. Excludes sale proceeds of $421.1 and intercompany transfers of $29.5 for the nine months ended September 30, 2007.

Supplemental disclosures of cash flow information:				
Interest paid	$	104.0	$	119.2
Income taxes paid, net of refunds	$	32.9	$	27.1
Non-cash investing activities:				
Titanium Dioxide Pigments venture formation, net	$	214.7	$	
Acquisition of capital equipment	$	8.0	$	8.5

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

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

Business Description, Background Rockwood Holdings, Inc. and Subsidiaries is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes. Unless otherwise indicated, any references to we, our, us, the Company or Rockwood refer to Rockwo 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 focused on specialty compounds, iron-oxide pigments, timber-treatment chemicals, clay-based additives and pool and spa chemicals.

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 businesses acquired are focused on highly specialized markets and consist of surface treatment and lithium chemicals; advanced ceramics and titanium dioxide pigments.

On January 9, 2007, the Company completed the sale of its Groupe Novasep segment and on December 31, 2007, the Company completed the sale of its Electronics business, excluding its European wafer reclaim business.

On June 17, 2008, funds affiliated with KKR, DLJ Merchant Banking Partners III, L.P. (DLJMB) and certain management stockholders sold an aggregate of 10 million shares of the Company s common stock.

On September 1, 2008, the Company completed the formation of a venture with Kemira Oyj (Kemira) that focuses on specialty titanium dioxide pigments (See Note 4, Acquisitions, for further details).

On October 10, 2008, the Company completed the sale of its pool and spa chemicals business (See Note 16, Subsequent Event, for further details).

Basis of Presentation The accompanying condensed financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts related to reporting the sale of the Groupe Novasep segment, the Electronics business, excluding the wafer reclaim business, and the pool and spa chemicals business as discontinued operations, have been reclassified to

conform to current-year classification. See Note 2, Discontinued Operations, for further details.

The interim financial statements included herein are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America (U.S. GAAP), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company s 2007 Form 10-K. In the opinion of management, this information contains all adjustments necessary, consisting of normal and recurring accruals, for a fair presentation of the results for the periods presented.

The Company s minority interest in continuing operations represents the total of the minority 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 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. In accordance with the consolidation principles of FIN 46 (R), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*, the Company has concluded that Rockwood is the primary beneficiary of the joint venture and as such has consolidated the joint venture.

As noted above, 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 minority interest in the condensed consolidated financial statements. The water treatment business formerly within the Titanium Dioxide Pigments segment was not part of the transaction and is now 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. See Note 4, Acquisitions, for further details.

Unless otherwise noted, all amounts which are denominated in currencies other than the U.S. dollar are converted at the September 30, 2008 exchange rate of 1.00 = $1.4093.

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 compounds. As discussed above, the Company sold its Electronics business, excluding its European wafer reclaim business, in December 2007. As a result, the European wafer reclaim business is included within Corporate and other for all periods presented (See Note 3, Segment Information, for further details). The Company completed the sale of its pool and spa chemicals business in October 2008. As a result, the Company s financial statements have been reclassified to reflect the pool and spa chemicals business as a discontinued operation for the periods presented.

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 collectibility 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.

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.

Related Party Transactions Rockwood has engaged in transactions with certain related parties including KKR and DLJMB and affiliates of each. Information concerning certain transactions is included in the Company s 2007 Form 10-K. Credit Suisse Securities (USA) LLC, an affiliate of DLJMB, served as an underwriter in the secondary offering of the Company s stock by certain stockholders in June 2008. The Company did not receive any proceeds in that offering or pay any commissions. Except for the aforementioned secondary offering, there have not been additional related party transactions for the period ended September 30, 2008.

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 2007, is realized when the service is performed. Liabilities for product warranties are less than 1% of consolidated net sales as of September 30, 2008 and December 31, 2007.

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 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 September 30, 2008, 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 519.4 million (or $732.0 million at September 30, 2008) of intercompany loans.

Derivatives The Company accounts for derivatives based on Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS 133 requires that all derivatives be 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 for the impact of the Company s net investment hedges. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

Pension, Postemployment and Postretirement Costs Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers Accounting for Pensions* and SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)*. Other postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers Accounting for Postretirement Benefits Other Than Pensions* and SFAS 158. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers Accounting for Postemployment Benefits.*

Income Taxes Income taxes are determined in accordance with SFAS 109, *Accounting for Income Taxes* and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*. 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 SFAS 109. 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 or could be distributed to the parent company in a tax free manner. It is the Company s policy that the valuation allowance is reversed in the period management determines it is more likely than not that the deferred tax assets will be realized.

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* 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. Under FIN 48, 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. Additionally, FIN 48 provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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 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.

Comprehensive income (loss) is summarized as follows:

($ in millions)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net (loss) income	$ (3.3)	$ 24.7	$ 102.4	$ 198.0
Pension related adjustments, net of tax	(1.3)	(0.8)	(0.9)	(0.7)
Foreign currency translation	(190.9)	77.9	(71.4)	139.3
Intercompany foreign currency loans	(86.6)	38.3	(25.1)	49.9
Net investment hedge, net of tax	125.8	(54.8)	32.0	(79.2)
Total comprehensive (loss) income	$ (156.3)	$ 85.3	$ 37.0	$ 307.3

In November 2004, the Company completed the sale of 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). In connection with the 2014 Notes, the Company entered into a cross-currency swap with a five-year term and a notional amount of 155.6 million that effectively converted the U.S. dollar fixed-rate debt in respect of the dollar notes sold into euro fixed-rate debt. The Company has designated this contract as a hedge of the foreign currency exposure of its net investment in its euro-denominated operations. There was no ineffective portion of the net investment hedge as of September 30, 2008. The Company does not expect any of the loss on the net investment hedge residing in comprehensive income at September 30, 2008 to be reclassified into earnings during the subsequent twelve months.

In addition, the Company designated the remaining portion of the euro-denominated debt that is recorded on the U.S. books as a net investment hedge of our euro-denominated investments (euro-denominated debt of 663.0 million or $934.4 million). As a result, any foreign currency gains and losses resulting from the euro-denominated debt discussed above are accounted for as a component of accumulated other comprehensive income. There was no ineffective portion of the net investment hedge as of September 30, 2008. The Company does not expect any of the loss on the net investment hedge residing in comprehensive income at September 30, 2008 to

be reclassified into earnings during the subsequent twelve months.

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.

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.

Stock-Based Compensation The Company has in place the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan). Under the Plan, the Company may grant stock options, restricted stock and other stock-based awards to the Company s employees and directors and allow employees and directors to purchase shares of its common stock. There are 10,000,000 authorized shares available for grant under the Plan. Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, and related interpretations and began expensing the grant-date fair value of stock options.

The compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plan resulted in a decrease to income from continuing operations before taxes and minority interest of $2.2 million and $1.5 million for the three months ended September 30, 2008 and 2007, respectively, and $6.3 million and $2.2 million for the nine months ended September 30, 2008 and 2007, respectively. See Note 10, Stock-Based Compensation, for further details.

The Company granted additional stock options and performance restricted stock units in 2007 to certain employees of Rockwood Corporate Headquarters and its business units. The performance 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 September 30, 2008 have been recorded as mezzanine equity (outside of permanent equity) in the Condensed Consolidated Balance Sheets.

Recent Accounting Pronouncements The following represents the impact of recently issued accounting pronouncements:

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. Certain disclosure provisions of this standard were effective for the Company as of January 1, 2008 and are disclosed in Note 14, Fair Value Measurements. The adoption of SFAS No. 157 did not have a material impact on the Company s financial statements.

In September 2006, SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R),* was issued. The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit postretirement plans as of December 31, 2006. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for the Company for the 2008 fiscal year end. The Company does not expect a material impact on its financial statements as a result of this change in 2008.

In February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,* was issued. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value and permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective for the Company as of January 1, 2008. The Company adopted this standard on January 1, 2008. However, the Company has elected not to measure any instruments at fair value under SFAS No. 159.

In December 2007, SFAS No. 141 (revised 2007), *Business Combinations* (FAS 141R) was issued, which replaces FASB Statement No. 141, *Business Combinations.* FAS 141R 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 is effective for acquisitions completed on or after January 1, 2009.

In December 2007, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51,* was issued. Per this statement, the accounting and reporting for minority interests will be 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 is effective for the Company as of January 1, 2009. The Company is currently evaluating the impact this statement will have on its financial statements, primarily relating to its Viance, LLC joint venture and its Titanium Dioxide Pigments venture, as discussed above.

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, which provided interpretive guidance regarding the use of a simplified method, as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123R, *Share-Based Payment.* SAB 110 is effective for share options granted as of January 1, 2008. SAB 110 extended the use of the simplified method beyond December 31, 2007, under certain circumstances, which included not having sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time a company s equity shares have been publicly traded. As Rockwood became a public company in August 2005, there is not sufficient historical exercise data available to estimate expected term. As a result, the Company will continue to use the simplified method to estimate expected term for share option grants until more relevant detailed information becomes widely available.

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions,* and FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP FAS 157-1 removes leasing from the scope of SFAS No. 157. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 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 will apply the provisions of FSP 157-2 on January 1, 2009 and does not expect this FSP to have a material impact on its financial statements.

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133* was issued. This statement changes 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 under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company as of January 1, 2009. The Company does not expect this statement to have a material impact on its financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations*, and other U.S. GAAP. This FSP is effective for recognized intangible assets acquired after January 1, 2009. The Company is currently evaluating the impact this FSP will have on its financial statements.

In May 2008, SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* was issued. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective as of November 15, 2008. As issued by the FASB, the effective date of this statement was tied to the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The Company does not expect this statement to have a material impact on its financial statements.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP is effective upon issuance, including prior periods for which financial statements have not been issued. This FSP did not have an impact on the Company s condensed consolidated financial statements.

2. DISCONTINUED OPERATIONS:

On October 10, 2008, the Company completed the sale of its pool and spa chemicals business and received approximately $124.0 million in cash. As of September 30, 2008, the Company met the criteria for reporting the pending sale of this business as an asset held for sale and discontinued operations pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As a result, the Company s financial statements have been reclassified to reflect this business as a discontinued operation for all periods presented.

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. In connection with SFAS No. 144, the Company s financial statements have been reclassified to reflect the Groupe Novasep segment as a discontinued operation for all periods presented.

On December 31, 2007, the Company completed the sale of its Electronics business, excluding its European wafer reclaim business, for $315.6 million. In connection with SFAS No. 144, the Company s financial statements have been reclassified to reflect the Electronics business sold as a discontinued operation for all periods presented.

Operating results of the discontinued operations of the pool and spa chemicals business for the three and nine months ended September 30, 2008 were as follows:

($ in millions)	Three months ended September 30, 2008	Nine months ended September 30, 2008
Net sales	$ 19.5	$ 52.0
Cost of products sold	13.5	37.4
Gross profit	6.0	14.6
Selling, general and administrative expenses	3.5	10.3
Operating income	2.5	4.3
Other expenses:		
Interest expense	(0.2)	(0.2)
Other	(0.5)	(0.5)
Other expenses	(0.7)	(0.7)
Income before taxes	1.8	3.6
Income tax provision	0.3	0.7
Net income	$ 1.5	$ 2.9

Operating results of the discontinued operations of the pool and spa chemicals business and the Electronics business for the three months ended September 30, 2007 were as follows:

($ in millions)	Pool and Spa Chemicals Business	Electronics Business	Total
Net sales	$ 15.7	$ 50.8	$ 66.5
Cost of products sold	10.5	38.0	48.5
Gross profit	5.2	12.8	18.0
Selling, general and administrative expenses	3.3	7.5	10.8
Operating income	1.9	5.3	7.2
Other income (expenses):			
Interest income		0.2	0.2
Foreign exchange loss, net		(0.2)	(0.2)
Other, net		0.1	0.1
Other income, net		0.1	0.1
Income before taxes	1.9	5.4	7.3
Income tax provision	0.8	1.0	1.8
Net income	$ 1.1	$ 4.4	$ 5.5

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Operating results of the discontinued operations of the pool and spa chemicals business, the Electronics business and Groupe Novasep for the nine months ended September 30, 2007 were as follows:

($ in millions)	Pool and Spa Chemicals Business	Electronics Business	Groupe Novasep	Total
Net sales	$ 48.1	$ 147.2	$ 8.9	$ 204.2
Cost of products sold	32.8	109.4	7.0	149.2
Gross profit	15.3	37.8	1.9	55.0
Selling, general and administrative expenses	10.2	22.7	1.0	33.9
Gain on sale of business/assets			(117.7)	(117.7)
Operating income	5.1	15.1	118.6	138.8
Other income (expenses):				
Interest expense	(0.1)		(0.3)	(0.4)
Interest income		0.9		0.9
Loss on early extinguishment of debt	(0.5)	(0.3)		(0.8)
Other income (expenses), net	(0.6)	0.6	(0.3)	(0.3)
Income before taxes and minority interest	4.5	15.7	118.3	138.5
Income tax provision	1.8	3.3	2.1	7.2
Net income before minority interest	2.7	12.4	116.2	131.3
Minority interest, net of tax			(0.1)	(0.1)
Net income	$ 2.7	$ 12.4	$ 116.1	$ 131.2

The carrying values of the assets and liabilities of the pool and spa chemicals business included in the Condensed Consolidated Balance Sheets are as follows:

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Accounts receivable, net	$ 10.4	$ 23.4
Inventories	11.4	8.5
Prepaid expenses and other current assets	0.7	1.0
Property, plant and equipment, net	3.8	4.3
Goodwill	37.0	37.0
Other intangible assets, net	0.9	0.9
Deferred income taxes	0.1	0.1
Total assets to be disposed	$ 64.3	$ 75.2
LIABILITIES		
Current liabilities:		
Accounts payable	$ 7.0	$ 7.7
Income taxes payable	2.3	3.2
Accrued compensation	1.4	1.6
Accrued expenses and other current liabilities	2.1	1.5
Other liabilities	2.0	3.1
Total liabilities to be disposed	$ 14.8	$ 17.1

As of September 30, 2007, the Company had received net cash proceeds of $421.1 million from the sale of Groupe Novasep. These proceeds were reported as net cash provided by investing activities of discontinued operations for the nine months ended September 30, 2007 in the Company s Condensed Consolidated Statements of Cash Flows. Net cash proceeds for the year ended December 31, 2007 from the sale of Groupe Novasep were $420.7 million. The net gain on the Groupe Novasep sale recorded in the first quarter of 2007 was $115.7 million (net of $2.0 million of German 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 our 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 European wafer reclaim business line is a provider of semiconductor wafer refurbishment services with market positions in Europe. This business works with semiconductor manufacturers to refurbish used test wafers and return them to the manufacturer for reuse in test and process monitor applications. In February 2007, the Company completed the sale of its U.S. wafer reclaim business.

In September 2008, the Company completed the formation of its Titanium Dioxide Pigments venture. The water treatment business of the Titanium Dioxide Pigments segment has been retained and 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
Three months ended September 30, 2008							
Net sales	$ 319.5	$ 223.2	$ 140.6	$ 126.4	$ 68.6	$ 2.5	$ 880.8
Total Adjusted EBITDA (a)	78.8	28.6	23.9	38.1	7.9	(14.1)	163.2
Three months ended September 30, 2007							
Net sales	$ 261.4	$ 203.7	$ 113.8	$ 111.7	$ 69.8	$ 2.7	$ 763.1
Total Adjusted EBITDA (a)	58.2	40.8	21.8	30.7	7.8	(13.8)	145.5
Nine months ended September 30, 2008							
Net sales	$ 966.7	$ 676.8	$ 380.8	$ 404.9	$ 210.8	$ 7.8	$ 2,647.8
Total Adjusted EBITDA (a)	241.4	99.5	60.2	121.5	26.7	(41.8)	507.5
Nine months ended September 30, 2007							
Net sales	$ 800.2	$ 590.8	$ 334.7	$ 335.8	$ 210.2	$ 9.4	$ 2,281.1
Total Adjusted EBITDA (a)	192.8	119.5	60.9	92.2	25.4	(41.5)	449.3

	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other (b)	Eliminations (c)	Consolidated (d)

Identifiable assets as of:								
September 30, 2008	$ 2,042.3	$ 1,384.6	$ 1,247.2	$ 821.2	$ 271.9	$ 497.8	$ (197.2)	$ 6,067.8
December 31, 2007	1,900.1	1,344.2	764.8	843.6	281.8	464.3	(159.1)	5,439.7

(a) This amount does not include $2.7 million and $5.1 million of Adjusted EBITDA for the three and nine months ended September 30, 2008, respectively, and $2.2 million and $5.9 million of Adjusted EBITDA for the three and nine months ended September 30, 2007, respectively, from the pool and spa chemicals business sold in October 2008. This amount also excludes $9.6 million and $27.3 million of Adjusted EBITDA for the three and nine months ended September 30, 2007, respectively, from the Electronics business sold on December 31, 2007 and $1.8 million of Adjusted EBITDA for the nine months ended September 30, 2007 from the former Groupe Novasep segment sold on January 9, 2007.

(b) This amount includes $52.9 million and $56.5 million of assets from legacy businesses at September 30, 2008 and December 31, 2007, respectively. These businesses were formerly owned primarily by Dynamit Nobel.

(c) 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 segment s identifiable assets.

(d) This amount does not include $64.3 million and $75.2 million of identifiable assets at September 30, 2008 and December 31, 2007, respectively, from the pool and spa chemicals business sold in October 2008. Total identifiable assets including these amounts were $6,132.1 million and $5,514.9 million at September 30, 2008 and December 31, 2007, respectively.

Geographic information regarding net sales based on seller s location and long-lived assets are described in Note 4, Segment Information, in the Company s 2007 Form 10-K.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges deemed by senior management to be non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement, which reflects management s interpretations thereof. The indenture governing the 2014 Notes 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.

The Company uses Adjusted EBITDA on a segment basis to assess its operating performance. 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 and minority interest as the most comparable GAAP measure.

The following table presents a reconciliation of income (loss) from continuing operations before taxes and minority interest to Adjusted EBITDA on a segment GAAP basis:

($ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
Three months ended September 30, 2008							
Income (loss) from continuing operations before taxes and minority interest	$ 44.5	$ (5.2)	$ (1.5)	$ 17.0	$ 2.5	$ (52.8)	$ 4.5
Interest expense (a)	14.6	7.8	8.6	8.5	2.3	14.5	56.3
Interest income	1.0	1.0	(0.1)	0.1	(0.1)	(2.5)	(0.6)
Depreciation and amortization	17.8	17.2	14.3	11.8	2.6	1.9	65.6
Restructuring charges, net	0.6	1.6		0.4	0.4	0.4	3.4
Systems/organization establishment expenses	0.6	1.4	0.7	0.1	0.1	0.8	3.7
Cancelled acquisition and disposal costs		0.1			0.1		0.2
Inventory write-up charges	0.1	1.5	2.1				3.7
(Gain) loss on sale of assets and other	(0.5)			0.1		(2.3)	(2.7)
Acquired in-process research and development		2.8					2.8
Foreign exchange loss (gain), net	0.3	0.3	(0.1)	0.2		25.8	26.5
Other	(0.2)	0.1	(0.1)	(0.1)		0.1	(0.2)
Total Adjusted EBITDA (b)	$ 78.8	$ 28.6	$ 23.9	$ 38.1	$ 7.9	$ (14.1)	$ 163.2
Three months ended September 30, 2007							
Income (loss) from continuing operations before taxes and minority interest	$ 34.9	$ 15.7	$ 3.4	$ 11.4	$ 3.0	$ (30.3)	$ 38.1
Interest expense (a)	11.5	6.9	8.0	8.6	2.3	19.7	57.0
Interest income	(1.2)	(0.1)	0.1	(0.1)	(0.3)	(0.1)	(1.7)
Depreciation and amortization	13.5	14.4	10.2	10.1	2.9	1.5	52.6
Restructuring charges, net	1.4	0.7		0.7		0.1	2.9
Systems/organization establishment expenses		0.4		0.3	(0.1)		0.6
Cancelled acquisition and disposal costs	(0.1)		0.4			1.7	2.0
Inventory write-up charges	0.1	2.6					2.7
(Gain) loss on sale of assets and other	(0.4)	0.2	0.1				(0.1)
Foreign exchange gain, net	(0.6)	(0.2)	(0.4)	(0.3)		(6.3)	(7.8)
Other	(0.9)	0.2				(0.1)	(0.8)
Total Adjusted EBITDA (b)	$ 58.2	$ 40.8	$ 21.8	$ 30.7	$ 7.8	$ (13.8)	$ 145.5
Nine months ended September 30, 2008							
Income (loss) from continuing operations before taxes and minority interest	$ 148.7	$ 13.1	$ (9.0)	$ 59.2	$ 10.8	$ (73.1)	$ 149.7
Interest expense (a)	41.0	22.6	26.6	26.4	6.9	16.2	139.7
Interest income	(0.9)	1.1	(0.1)	(0.1)	(0.4)	(3.8)	(4.2)
Depreciation and amortization	51.0	50.9	39.3	35.6	8.3	5.5	190.6
Restructuring charges, net	0.8	3.2		0.9	0.4	0.4	5.7
Systems/organization establishment expenses	1.4	3.6	0.7	0.3	0.3	0.8	7.1
Cancelled acquisition and disposal costs		0.1			0.4	0.4	0.9
Inventory write-up charges	0.6	1.5	2.1				4.2
(Gain) loss on sale of assets and other	(0.5)		0.8	0.2		(2.3)	(1.8)
Acquired in-process research and development		2.8					2.8
Foreign exchange loss (gain), net		0.1	(0.1)	(0.9)		13.1	12.2
Other	(0.7)	0.5	(0.1)	(0.1)		1.0	0.6
Total Adjusted EBITDA (b)	$ 241.4	$ 99.5	$ 60.2	$ 121.5	$ 26.7	$ (41.8)	$ 507.5
Nine months ended September 30, 2007							
Income (loss) from continuing operations before taxes and minority interest	$ 125.6	$ 61.5	$ 6.3	$ 35.3	$ 9.0	$ (107.9)	$ 129.8
Interest expense (a)	30.5	11.7	23.9	25.2	7.0	60.3	158.6

Interest income	(2.9)	(0.6)		(0.1)	(0.5)	(6.0)	(10.1)
Depreciation and amortization	39.9	40.4	29.9	29.8	8.4	4.2	152.6
Restructuring charges, net	1.9	1.0		1.4		4.6	8.9
Systems/organization establishment expenses	(0.4)	0.9		0.9	0.4		1.8
Cancelled acquisition and disposal costs			1.1			1.7	2.8
Inventory write-up charges	0.1	2.6		0.1			2.8
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	(0.4)	0.3	0.1			(5.3)	(5.3)
Foreign exchange gain, net	(0.3)	(0.2)	(0.4)	(0.4)		(10.0)	(11.3)
Other	(1.2)	0.5				(0.1)	(0.8)
Total Adjusted EBITDA (b)	$ 192.8	$ 119.5	$ 60.9	$ 92.2	$ 25.4	$ (41.5)	$ 449.3

(a) Includes losses of $10.0 million and $13.4 million for the three months ended September 30, 2008 and 2007, respectively, and losses of $6.8 million and $15.4 million for the nine months ended September 30, 2008 and 2007, respectively, representing the movement in the mark-to-market valuation of the Company s interest rate and cross-currency hedging instruments.

(b) This amount does not include $2.7 million and $5.1 million of Adjusted EBITDA for the three and nine months ended September 30, 2008, respectively, and $2.2 million and $5.9 million of Adjusted EBITDA for the three and nine months ended

September 30, 2007, respectively, from the pool and spa chemicals business sold in October 2008. In addition, this amount does not include $9.6 million and $27.3 million of Adjusted EBITDA for the three and nine months ended September 30, 2007, respectively, from the Electronics business sold on December 31, 2007 and $1.8 million of Adjusted EBITDA for the nine months ended September 30, 2007 from the former Groupe Novasep segment sold on January 9, 2007.

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 and minority interest to derive Adjusted EBITDA, as defined below. These items include the following:

• *Restructuring and related charges*: Restructuring charges of $3.4 million and $2.9 million were recorded in the three months ended September 30, 2008 and 2007, respectively, and $5.7 million and $8.9 million were recorded in the nine months ended September 30, 2008 and 2007, respectively, for miscellaneous restructuring activities, including headcount reductions and facility closures (see Note 13, Restructuring Liability, for further details).

• *Systems/organization establishment expenses*: For the three and nine months ended September 30, 2008, expenses of $3.7 million and $7.1 million, respectively, were recorded related to the integration of businesses acquired, primarily related to the acquisition of the Elementis plc business in the Performance Additives segment in August 2007 and the completion of the Titanium Dioxide Pigments venture on September 1, 2008. For the three and nine months ended September 30, 2007, expenses of $0.6 million and $1.8 million, respectively, were recorded related to the integration of businesses acquired.

• *Cancelled acquisition and disposal costs*: Costs of $0.2 million and $2.0 million were recorded for the three months ended September 30, 2008 and 2007, respectively, and costs of $0.9 million and $2.8 million were recorded for the nine months ended September 30, 2008 and 2007, respectively, in connection with non-consummated acquisitions and dispositions. Approximately $1.6 million of costs were incurred in 2007 related to the expected sale of the electronics business.

• *Inventory write-up charges*: Under SFAS 141, *Business Combinations*, all inventories acquired in an acquisition must be revalued to fair value. In connection with acquisitions, the Company allocates a portion of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisitions. This resulted in a reduction of gross profit of $3.7 million and $4.2 million for the three and nine months ended September 30, 2008, respectively, 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 and $2.7 million and

$2.8 million for the three and nine months ended September 30, 2007, respectively, primarily related to the acquisition of the Elementis plc businesses in the third quarter of 2007.

• *Acquired in-process research and development:* Under SFAS 141, *Business Combinations*, acquired in-process research and development costs are charged to expense as of the acquisition date. For the three and nine months ended September 30, 2008, the Company expensed $2.8 million related to the acquisition of Holliday Pigments in August 2008 in the Performance Additives segment.

• *Loss on early extinguishment of debt*: In the second quarter of 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 on May 15, 2007.

• *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.

• *(Gain) loss on sale of assets and other*: The Company recorded a gain on the sale of assets and other of $2.7 million for the three months ended September 30, 2008 primarily related to the sale of land that was acquired as part of the acquisition of Dynamit Nobel in 2004. For the nine months ended September 30, 2008, a gain of $1.8 million was recorded related to the sale of land discussed above, partially offset by the liquidation of a joint venture in the Titanium Dioxide Pigments segment. The Company recorded a gain of $5.3 million for the nine months ended September 30, 2007 primarily related to the sale of the U.S. wafer reclaim business.

• *Foreign exchange (gain) loss, net*: For the three and nine months ended September 30, 2008, the Company recorded losses of $26.5 million and $12.2 million, respectively, due to the impact of a weaker euro related to non-operating euro-denominated transactions and intercompany financing arrangements. For the three and nine months ended September 30, 2007, gains of $7.8 million and $11.3 million, respectively, were recorded due to the impact of the stronger euro related to non-operating euro-denominated transactions and intercompany financing arrangements.

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. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* any goodwill resulting from acquisitions is tested for impairment at least annually.

On August 31, 2007, the Company completed the acquisition of the global color pigments business of Elementis plc for a purchase price of approximately $140.0 million. This acquisition includes facilities in North America, Europe and China and is included in the Color Pigments and Services business, which is part of the Performance Additives segment. The allocation of the purchase price to the identifiable assets acquired and the liabilities assumed is complete.

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. The allocation of the purchase price to the identifiable assets acquired is preliminary and is subject to change, with estimated completion during the first half of 2009.

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 minority interest in the condensed 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 minority shareholder. In addition, the venture obtained a 30.0 million ($42.3 million) revolving credit facility to finance its operations and the venture has assumed debt of 25.2 million ($35.5 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 $14.1 million to $25.3 million. At September 30, 2008, $14.1 million of related reserves are recorded. The purchase accounting allocation is preliminary and is subject to change, with estimated completion during 2009.

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. The allocation of the purchase price to the identifiable assets acquired is preliminary and is subject to change, with estimated completion during the first half of 2009.

In addition to the acquisitions described above, the Company has completed other smaller acquisitions in 2007 and in the first nine months of 2008. Depending on the timing and complexity involved, the purchase price allocation to the net assets acquired for certain acquisitions completed within the last year was preliminary as of September 30, 2008.

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

5. INVENTORIES:

Inventories are comprised of the following:

($ in millions)		September 30, 2008 (a)		December 31, 2007
Raw materials	$	211.7	$	184.6
Work-in-process		73.0		60.7
Finished goods		336.9		275.5
Packaging materials		7.8		6.1
Total	$	629.4	$	526.9

(a) The increase from December 31, 2007 is primarily related to the Titanium Dioxide Pigment venture and other acquisitions, net of the impact of currency changes.

6. GOODWILL:

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)	(18.2)		(6.0)	(4.9)		(29.1)
Acquisitions (b)	11.0	31.1	53.8			95.9
Foreign exchange and other (c)	(21.2)	(17.4)	(6.3)	(8.5)	(6.5)	(59.9)
Balance, September 30, 2008	$ 655.7	$ 507.6	$ 213.8	$ 245.1	$ 114.7	$ 1,736.9

(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. See Note 15, Commitments and Contingencies, for further details.

(b) Primarily related to goodwill from the Titanium Dioxide Pigments venture, the Holliday Pigments acquisition in the Performance Additives segment and the acquisition of Nalco s Finishing Technologies business in the Specialty Chemicals segment.

(c) Consists primarily of foreign currency changes.

7. OTHER INTANGIBLE ASSETS:

Other intangible assets, net consist of:

	As of September 30, 2008			As of December 31, 2007		
($ in millions)	Gross Carrying Amount (a)	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	$ 408.6	$ (136.0)	$ 272.6	$ 395.6	$ (116.7)	$ 278.9

Trade names and trademarks	139.7	(25.9)	113.8	146.6	(23.0)	123.6
Customer relationships	331.8	(72.6)	259.2	273.0	(57.3)	215.7
Supply agreements	59.7	(5.2)	54.5	29.6	(2.9)	26.7
Other	58.3	(33.3)	25.0	57.7	(26.7)	31.0
Total	$ 998.1	$ (273.0)	$ 725.1	$ 902.5	$ (226.6)	$ 675.9

(a) The increase from December 31, 2007 is primarily related to the impact of acquisitions, net of the impact of currency changes.

Amortization of other intangible assets was $20.2 million and $16.5 million for the three months ended September 30, 2008 and 2007, respectively and $58.8 million and $47.8 million for the nine months ended September 30, 2008 and 2007, respectively.

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

($ in millions) **Year ended**	**Amortization Expense**
2008	$ 79.1
2009	73.7
2010	71.2
2011	67.8
2012	66.4

8. LONG-TERM DEBT

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

($, and £ in millions)		September 30, 2008		December 31, 2007
Senior secured credit facilities:				
Tranche A-1 term loans (22.8 and 29.3, respectively)	$	32.2	$	42.8
Tranche A-2 term loans (99.4 and 127.8, respectively)		140.1		186.5
Tranche E term loans		1,104.9		1,116.4
Tranche G term loans (265.2 and 267.9, respectively)		373.7		390.9
2014 Notes (375.0 and $200.0 as of September 30, 2008 and December 31, 2007)		728.5		747.1
Titanium Dioxide Pigments venture term loans (250.0 as of September 30, 2008)		352.3		
Capitalized lease obligations (32.4 and 34.1, respectively)		45.7		49.7
Other loans		56.5		24.2
Preferred stock of subsidiary (£12.0 as of December 31, 2007)				23.8
		2,833.9		2,581.4
Less current maturities		(81.4)		(107.4)
	$	2,752.5	$	2,474.0

The Titanium Dioxide Pigments venture entered into a facility agreement that provides for a term loan facility in an aggregate amount of 250.0 million and a revolving credit facility in an aggregate amount of 30.0 million ($42.3 million), both maturing on June 17, 2013. On September 3, 2008, the Titanium Dioxide Pigments venture borrowed 250.0 million ($352.3 million) under the term loan facility. As of September 30, 2008, there were no outstanding borrowings under this revolving credit facility. The interest rate on the loans is EURIBOR (or LIBOR if the currency is not EURO) plus 3%, subject to a step down determined by reference to a leverage ratio test. The term loan shall be repaid in installments over a five-year period from the date of the facility agreement, with payments commencing twelve months from such date; both loans may be repaid in advance without penalty. In addition, the Titanium Dioxide Pigments venture has assumed debt of 25.2 million ($35.5 million) from Kemira at interest rates ranging from 3.75% to 5.00%.

9. INCOME TAXES:

Income tax expense has been computed based on the projected effective tax rate for the year. The effective tax rate for the nine months ended September 30, 2008 and 2007 was 33.8% and 43.8%, respectively. The effective tax rate is lower in 2008 compared to 2007 primarily as a result of lower statutory rates in various European countries, geographic mix, the 2008 allocation of tax benefits to continuing operations primarily related to other comprehensive income, partially offset by increased domestic losses which are not tax effected as a result of a full valuation allowance for federal and certain state taxes. The difference between the effective tax rate and the U.S. federal statutory rate of 35.0% is primarily a function of favorable foreign rate differentials, the impact of the valuation allowance on domestic losses and the allocation of benefits to continuing operations.

In the nine months ended September 30, 2008, the Company decreased its worldwide valuation allowances by $4.0 million. The decrease in the valuation allowance was primarily due to a reduction of domestic losses in other comprehensive income, the offset of net operating losses against uncertain tax benefit liabilities, reduced by an increase in deferred tax assets generally associated with the Company s domestic earnings. The change in the valuation allowance for the nine months ended September 30, 2008 increased the tax provision by $16.3 million. The following table reflects the activity in the valuation allowance for worldwide net operating losses and other deferred income tax assets:

($ in millions)		Valuation Allowance
Balance as of December 31, 2007	$	100.1
Increase as reflected in income tax expense		16.3
Decrease as reflected in other comprehensive income (a)		(16.1)
Decrease due to the offset of net operating losses against uncertain tax position liabilities		(4.2)
Balance as of September 30, 2008	$	96.1

(a) Primarily related to net investment hedges, as well as the mark-to-market of the Company s Euro-denominated debt.

In the nine months ended September 30, 2008, based on the Company s policy and review of available information, including the Company s steady-state analysis, it was determined that there was not sufficient positive evidence of future taxable income to release the U.S. Federal valuation allowance that has been recorded. During the nine months ended September 30, 2008, the Company s net U.S. Federal deferred tax assets and liabilities were maintained at a zero level, other than a noncurrent deferred tax liability relating to goodwill with an indefinite reversal period and a noncurrent deferred tax asset relating to a Federal AMT Credit. It is the Company s policy that the valuation allowance is reversed in the year management determines it is more likely than not that the deferred tax assets will be realized.

In the second quarter of 2008, the Company determined that it was necessary to establish a valuation allowance for certain state deferred tax assets. This resulted in a $0.4 million increase in the tax provision related to the beginning of period deferred tax balance.

Unrecognized tax benefits at September 30, 2008 were $27.9 million. This includes $25.2 million of tax benefits that, if recognized, would affect the effective tax rate, $2.3 million of tax benefits that if recognized, would result in a decrease to goodwill recorded in purchase business combinations and $0.4 million of tax benefits 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 $4.3 million for interest and penalties at December 31, 2007. During the nine months ended September 30, 2008, the accrual for interest and penalties was increased by $2.3 million to $6.6 million.

During the next twelve months, it is reasonably possible that resolution of uncertain tax liabilities could result in a benefit of up to $3.0 million or a cost of up to $22.0 million. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

The Company is subject to taxation in the U.S., various states, and foreign jurisdictions. The Company s tax filings in major jurisdictions are open to investigation by tax authorities; in the U.S. from 2000, in the U.K. from 2003, and in Germany from 2000.

10. STOCK-BASED COMPENSATION:

The Company has in place the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan). Under the Plan, the Company may grant stock options, restricted stock and other stock-based awards to the Company s employees and directors and allow employees and directors to purchase shares of its common stock. There are 10,000,000 authorized shares available for grant under the Plan.

In December 2007, the Company awarded 167,951 performance restricted stock units to management and key employees which will vest on December 31, 2010 as long as the employee continues to be employed by the Company on this date and upon the achievement of certain performance targets. 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, 2008 through December 31, 2010. However, in accordance with SFAS No. 123R, the Company did not recognize any compensation cost in 2007 for this issuance because the performance measures that form the basis for vesting of these restricted stock units were not known as of December 31, 2007. These performance measures were established on February 29, 2008, when the Company s financial statements for 2007 were filed with the Securities and Exchange Commission. The weighted average grant date fair value of these restricted stock units was $30.69 per stock unit.

The compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plan resulted in a decrease to income from continuing operations before taxes and minority interest of $2.2 million and $1.5 million for the three months ended September 30, 2008 and 2007, respectively, and $6.3 million and $2.2 million for the nine months ended September 30, 2008 and 2007, respectively. The total tax benefit recognized related to stock options was $0.3 million and $0.2 million for the three months ended September 30, 2008 and 2007, respectively, and $0.7 million and $0.3 million for the nine months ended September 30, 2008 and 2007, respectively.

11. EMPLOYEE BENEFIT PLANS:

The following table represents the net periodic benefit costs and related components in accordance with SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)*:

($ in millions)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Service cost	$ 2.0	$ 1.9	$ 5.7	$ 5.7
Interest cost	7.7	5.8	22.0	17.3
Expected return on assets	(3.4)	(2.1)	(8.9)	(6.3)
Net amortization of actuarial losses (gains)		0.1	(0.1)	0.3
Total pension cost	$ 6.3	$ 5.7	$ 18.7	$ 17.0

As part of the Titanium Dioxide Pigments venture, the Company assumed responsibility for two defined benefit plans. Summary information as of the formation of the venture (September 1, 2008) is as follows:

($ in millions)	
Fair value of plan assets	$ 169.5
Benefit obligation	158.5
Funded status	$ 11.0
Discount rate assumption	5.75%
Expected return on plan assets	5.00%

12. EARNINGS PER COMMON SHARE:

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

($ in millions, except per share amounts; shares in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended Setember 30, 2008	Nine months ended Setember 30, 2007
EPS Numerator - Basic:				
Net (loss) income from continuing operations	$ (4.8)	$ 19.2	$ 99.5	$ 66.8
Income from discontinued operations, net of tax	1.5	5.5	2.9	15.6
Gain on sale of discontinued operations, net of tax				115.7
Minority interest in discontinued operations, net of tax				(0.1)
Net (loss) income	$ (3.3)	$ 24.7	$ 102.4	$ 198.0
EPS Denominator - Basic:				
Weighted average number of common shares outstanding	74,039	73,820	73,957	73,801
Basic (loss) earnings per common share:				
(Loss) earnings from continuing operations	$ (0.06)	$ 0.26	$ 1.35	$ 0.91
Earnings from discontinued operations, net of tax	0.02	0.07	0.03	1.77
Basic (loss) earnings per common share	$ (0.04)	$ 0.33	$ 1.38	$ 2.68
EPS Numerator - Diluted:				
Net (loss) income from continuing operations	$ (4.8)	$ 19.2	$ 99.5	$ 66.8
Income from discontinued operations, net of tax	1.5	5.5	2.9	15.6
Gain on sale of discontinued operations, net of tax				115.7
Minority interest in discontinued operations, net of tax				(0.1)
Net (loss) income	$ (3.3)	$ 24.7	$ 102.4	$ 198.0
EPS Denominator - Diluted:				
Weighted average number of common shares outstanding	74,039	73,820	73,957	73,801
Effect of dilutive stock options and other incentives		2,563	2,838	2,354
Weighted average number of common shares outstanding and common stock equivalents	74,039	76,383	76,795	76,155
Diluted (loss) earnings per common share:				
(Loss) earnings from continuing operations	$ (0.06)	$ 0.25	$ 1.30	$ 0.88
Earnings from discontinued operations, net of tax	0.02	0.07	0.03	1.72