

Rockwood Holdings, Inc.
Form 10-Q
October 26, 2011

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, 2011

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

100 Overlook Center, Princeton, New Jersey 08540

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

(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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

As of October 24, 2011, there were 76,914,648 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

TABLE OF CONTENTS

FORM 10-Q

PART I- FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements (Unaudited)</u> <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u> <u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u> <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u> <u>Condensed Consolidated Statements of Equity for the nine months ended September 30, 2011 and 2010</u> <u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4</u>	<u>Controls and Procedures</u>

PART II- OTHER INFORMATION

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 940.9	\$ 801.2	\$ 2,854.9	\$ 2,393.3
Cost of products sold	609.4	535.2	1,856.7	1,601.5
Gross profit	331.5	266.0	998.2	791.8
Selling, general and administrative expenses	176.0	167.7	537.8	501.8
Restructuring and other severance costs	4.5	1.5	9.5	2.8
Asset write-downs and other		0.1	0.3	2.4
Operating income	151.0	96.7	450.6	284.8
Other expenses, net:				
Interest expense, net (a)	(26.3)	(38.6)	(74.0)	(116.7)
Loss on early extinguishment/modification of debt	(0.1)	(1.6)	(16.6)	(1.6)
Foreign exchange (loss) gain on financing activities, net	(2.4)	0.9	1.8	0.8
Other, net			(0.1)	0.5
Other expenses, net	(28.8)	(39.3)	(88.9)	(117.0)
Income from continuing operations before taxes	122.2	57.4	361.7	167.8
Income tax provision	34.4	16.4	101.0	46.4
Income from continuing operations	87.8	41.0	260.7	121.4
Income from discontinued operations, net of tax		2.5	0.9	13.6
Gain on sale of discontinued operations, net of tax			119.4	
Net income	87.8	43.5	381.0	135.0
Net income attributable to noncontrolling interest	(11.9)	(3.0)	(32.6)	(5.2)
Net income attributable to Rockwood Holdings, Inc.	\$ 75.9	\$ 40.5	\$ 348.4	\$ 129.8
Amounts attributable to Rockwood Holdings, Inc.:				
Income from continuing operations	\$ 75.9	\$ 38.0	\$ 228.1	\$ 116.2
Income from discontinued operations		2.5	120.3	13.6
Net income	\$ 75.9	\$ 40.5	\$ 348.4	\$ 129.8
Basic earnings per share attributable to Rockwood Holdings, Inc.:				
Earnings from continuing operations	\$ 0.99	\$ 0.51	\$ 2.98	\$ 1.55
Earnings from discontinued operations		0.03	1.58	0.19
Basic earnings per share	\$ 0.99	\$ 0.54	\$ 4.56	\$ 1.74

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

Diluted earnings per share attributable to Rockwood Holdings, Inc.:					
Earnings from continuing operations	\$	0.95	\$	0.49	\$ 2.85 \$ 1.50
Earnings from discontinued operations				0.03	1.51 0.17
Diluted earnings per share	\$	0.95	\$	0.52	\$ 4.36 \$ 1.67
<hr/>					
Weighted average number of basic shares outstanding		76,703		75,199	76,430 74,735
Weighted average number of diluted shares outstanding		80,030		78,086	79,907 77,671

(a) Interest expense, net includes:

Interest expense on debt, net	\$	(21.2)	\$	(38.4)	\$ (71.3) \$ (121.1)
Mark-to-market (losses) gains on interest rate swaps		(3.9)		1.2	1.0 8.9
Deferred financing costs		(1.2)		(1.4)	(3.7) (4.5)
Total	\$	(26.3)	\$	(38.6)	\$ (74.0) \$ (116.7)

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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 357.9	\$ 324.1
Accounts receivable, net	512.5	436.8
Inventories	608.7	541.8
Deferred income taxes	22.3	82.6
Prepaid expenses and other current assets	60.1	79.2
Assets of discontinued operations		154.1
Total current assets	1,561.5	1,618.6
Property, plant and equipment, net	1,588.1	1,566.9
Goodwill	877.3	877.1
Other intangible assets, net	536.8	587.6
Deferred financing costs, net	15.7	17.2
Deferred income taxes	17.8	18.4
Other assets	42.3	38.5
Total assets	\$ 4,639.5	\$ 4,724.3
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 223.7	\$ 249.6
Income taxes payable	46.3	20.2
Accrued compensation	157.4	165.2
Accrued expenses and other current liabilities	162.0	164.9
Deferred income taxes	2.6	2.6
Long-term debt, current portion	64.8	465.7
Liabilities of discontinued operations		27.6
Total current liabilities	656.8	1,095.8
Long-term debt	1,664.4	1,695.3
Pension and related liabilities	403.7	399.6
Deferred income taxes	110.1	77.9
Other liabilities	102.6	104.3
Total liabilities	2,937.6	3,372.9
Restricted stock units	12.3	10.1
EQUITY		
Rockwood Holdings, Inc. stockholders' equity:		
Common stock (\$0.01 par value, 400,000 shares authorized, 76,905 shares issued and 76,811 shares outstanding at September 30, 2011; 400,000 shares authorized, 75,991 shares issued and 75,897 shares outstanding at December 31, 2010)	0.8	0.8
Paid-in capital	1,219.6	1,202.6
Accumulated other comprehensive income	93.9	132.7
Retained earnings (deficit)	65.6	(282.8)
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	1,378.5	1,051.9
Noncontrolling interest	311.1	289.4

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

Total equity		1,689.6		1,341.3
Total liabilities and equity	\$	4,639.5	\$	4,724.3

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,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 381.0	\$ 135.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(0.9)	(13.6)
Gain on sale of discontinued operations, net of tax	(119.4)	
Depreciation and amortization	200.2	188.4
Deferred financing costs amortization	3.7	4.5
Loss on early extinguishment/modification of debt	16.6	1.6
Foreign exchange gain on financing activities, net	(1.8)	(0.8)
Fair value adjustment of derivatives	(1.0)	(8.9)
Bad debt provision		(0.6)
Stock-based compensation	9.8	9.6
Deferred income taxes	21.3	23.9
Asset write-downs and other	0.3	2.4
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(79.6)	(68.9)
Inventories	(71.4)	(20.4)
Prepaid expenses and other assets	3.5	(3.5)
Accounts payable	(18.8)	(12.1)
Income taxes payable	34.6	0.4
Accrued expenses and other liabilities	(11.4)	110.3
Net cash provided by operating activities of continuing operations	366.7	347.3
Net cash (used in) provided by operating activities of discontinued operations	(1.8)	3.3
Net cash provided by operating activities	364.9	350.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(191.4)	(116.1)
Government grants received	9.8	1.5
Acquisitions, including payments for prior acquisitions	(0.8)	(0.9)
Proceeds on sale of assets	0.7	2.0
Net cash used in investing activities of continuing operations	(181.7)	(113.5)
Net cash provided by (used in) investing activities of discontinued operations, representing net sale proceeds in 2011	300.7	(1.6)
Net cash provided by (used in) investing activities	119.0	(115.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	14.2	19.2
Repayment of Titanium Dioxide Pigments revolving credit facility		(14.3)
Prepayment of senior secured debt	(408.9)	(200.2)
Repayment of senior secured debt	(25.7)	(30.3)
Proceeds from borrowings		19.3
Payments on other long-term debt	(2.9)	(45.2)
Loan repayments to noncontrolling shareholders	(5.0)	
Deferred financing costs	(5.3)	(0.3)
Fees related to early extinguishment/modification of debt	(13.4)	
Distributions to noncontrolling shareholders	(9.8)	

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

Net cash used in financing activities	(456.8)	(251.8)
Effect of exchange rate changes on cash and cash equivalents	(9.9)	(1.1)
Net increase (decrease) in cash and cash equivalents	17.2	(17.4)
Less net (decrease) increase in cash and cash equivalents from discontinued operations	(16.6)	1.7
Increase (decrease) in cash and cash equivalents from continuing operations	33.8	(19.1)
Cash and cash equivalents of continuing operations, beginning of period	324.1	286.2
Cash and cash equivalents of continuing operations, end of period	\$ 357.9	\$ 267.1
Supplemental disclosures of cash flow information:		
Interest paid	\$ 73.1	\$ 112.8
Income taxes paid, net of refunds	45.1	26.3
Non-cash investing activities:		
Acquisition of capital equipment	21.9	12.1

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in millions)

(Unaudited)

	2011			2010		
	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1	\$ 1,051.9	\$ 289.4	\$ 1,341.3	\$ 850.8	\$ 290.0	\$ 1,140.8
Net income	348.4	32.6	381.0	129.8	5.2	135.0
Other comprehensive (loss) income, net of tax	(38.8)	0.1	(38.7)	(48.2)	0.6	(47.6)
Comprehensive income	309.6	32.7	342.3	81.6	5.8	87.4
Distributions to noncontrolling shareholders		(9.9)	(9.9)			
Foreign currency translation		(1.1)	(1.1)		(5.8)	(5.8)
Issuance of common stock	14.2		14.2	19.2		19.2
Deferred compensation, net of tax	2.8		2.8	4.1		4.1
Balance at September 30	\$ 1,378.5	\$ 311.1	\$ 1,689.6	\$ 955.7	\$ 290.0	\$ 1,245.7

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS:

Basis of Presentation Rockwood Holdings, Inc., which may be referred to as Rockwood or the Company prepared these unaudited condensed consolidated financial statements following the requirements of the Securities Exchange Commission and United States generally accepted accounting principles (U.S. GAAP) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the condensed consolidated financial statements included in this Form 10-Q. These condensed consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position as of September 30, 2011 and December 31, 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 included in the Annual Report on Form 10-K. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited condensed consolidated financial statements may not be indicative of the full year results.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP 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.

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

The Company's condensed consolidated financial statements have been reclassified to reflect discontinued operations for all periods presented as a result of the sale of the plastic compounding business in January 2011. See Note 3, Discontinued Operations, for further details. In addition, certain prior year amounts in the condensed consolidated statements of cash flows have been reclassified to conform to current year presentation in connection with government grants received.

Unless otherwise noted, all balance sheet-related items which are denominated in Euros are translated at the September 30, 2011 exchange rate of 1.00 = \$1.3387.

Recently Issued Accounting Standards:

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

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that substantially converged the requirements for fair value measurement and disclosure between the FASB and the International Accounting Standards Board (IASB). This ASU is largely consistent with existing fair value measurement principles under U.S. GAAP. This ASU is effective for the Company in its first quarter beginning January 1, 2012 and is not expected to have a material impact on the Company s financial statements.

In June 2011, the FASB issued an ASU that addressed the presentation of comprehensive income in the financial statements. This accounting update allows an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, this ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity and does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This ASU is effective for the Company in its first quarter beginning January 1, 2012 and is not expected to have a material impact on the Company s financial statements other than modifying the presentation of comprehensive income.

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

In September 2011, the FASB issued an ASU that requires additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited to the historical contributions made to the multiemployer pension plans. The Company will begin to provide the required additional disclosures for its multiemployer pension plans beginning with its 2011 Annual Report on Form 10-K.

In September 2011, the FASB issued an ASU that allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this new ASU, if a Company chooses the qualitative method, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its financial statements.

2. COMPREHENSIVE INCOME:

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

Comprehensive (loss) income is summarized as follows:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 87.8	\$ 43.5	\$ 381.0	\$ 135.0
Pension related adjustments, net of tax	2.4	(2.4)		1.4
Foreign currency translation (a)	(71.2)	65.7	(29.0)	(11.9)
Intercompany foreign currency loans	(64.8)	81.5	0.4	(39.5)
Net investment hedges, net of tax	1.5	(20.7)	(10.6)	0.8
Foreign exchange contracts, net of tax	(1.4)	1.9	0.5	1.6
Comprehensive (loss) income	(45.7)	169.5	342.3	87.4
Comprehensive income attributable to noncontrolling interest	(11.5)	(3.6)	(32.7)	(5.8)
Comprehensive (loss) income attributable to Rockwood Holdings, Inc.	\$ (57.2)	\$ 165.9	\$ 309.6	\$ 81.6

(a) Includes \$10.1 million reclassified to net income in the nine months ended September 30, 2011 related to the sale of the plastic compounding business in January 2011.

3. DISCONTINUED OPERATIONS:

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

As discussed in the Company's 2010 Annual Report on Form 10-K, the Company completed the sale of its plastic compounding business on January 7, 2011. The Company's financial statements have been reclassified to reflect the plastic compounding business as discontinued operations for all periods presented.

The results of the plastic compounding business are included in income from discontinued operations for the nine months ended September 30, 2011. The sale of this business resulted in a net gain of \$119.4 million (net of taxes of \$77.8 million, a portion of which will be offset through the utilization of net operating losses of \$76.5 million). The valuation allowance related to these net operating losses was reversed in the fourth quarter of 2010 as a benefit to income taxes in continuing operations. Included in the gain is a tax benefit of \$4.0 million associated with a re-filing of the Company's Alternative Minimum Tax position made in connection with the sale of the plastic compounding business.

Operating results of the discontinued operations are as follows:

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Net sales	\$ 59.7	\$ 3.9	\$ 176.0	\$ 142.9
Cost of products sold	49.0	3.4	33.1	12.5
Gross profit	10.7	0.5	20.6	7.0
Selling, general and administrative expenses	3.9	0.3	4.3	(0.7)
Income before taxes	6.8	0.2	2.5	0.9
Income tax provision (benefit)	4.3	(0.7)	7.0	13.6
Net income	\$ 2.5	\$ 0.9	\$ 13.6	

Income from discontinued operations, net of tax, of \$0.9 million for the nine months ended September 30, 2011 includes \$0.7 million related to the reversal of certain tax reserves in connection with the sale of the Electronics business in December 2007 and \$0.2 million from operating the plastic compounding business that was sold on January 7, 2011.

The carrying value of the assets and liabilities of the plastic compounding business included as discontinued operations in the condensed consolidated balance sheets as of December 31, 2010 are as follows:

(\$ in millions)	
ASSETS	
Cash and cash equivalents	\$ 16.6
Accounts receivable, net	32.9
Inventories	18.0
Property, plant and equipment, net	63.0
Other intangible assets, net	16.2
Other assets	7.4
Total assets	\$ 154.1
LIABILITIES	
Accounts payable	\$ 25.1
Accrued compensation	1.8
Accrued expenses and other current liabilities	0.7
Total liabilities	\$ 27.6

4. SEGMENT INFORMATION:

Rockwood operates in four 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 four 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; and (4) Advanced Ceramics.

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

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, 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. 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 the Dynamit Nobel businesses that were acquired in 2004, the wafer reclaim business and the rubber/thermoplastics compounding business.

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

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net Sales:				
Specialty Chemicals	\$ 333.0	\$ 283.6	\$ 1,025.0	\$ 860.5
Performance Additives	200.7	187.8	614.7	564.4
Titanium Dioxide Pigments	252.6	192.7	735.4	564.1
Advanced Ceramics	146.2	131.0	455.3	385.3
Corporate and other	8.4	6.1	24.5	19.0
Total	\$ 940.9	\$ 801.2	\$ 2,854.9	\$ 2,393.3

The Company uses Adjusted EBITDA on a segment basis to assess 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 U.S. GAAP measure. The summary of segment information below 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. See Note 3, Segment Information, in the Company's 2010 Annual Report on Form 10-K for a discussion of the use of Adjusted EBITDA as a non-GAAP financial measure.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Adjusted EBITDA:				
Specialty Chemicals	\$ 86.5	\$ 70.8	\$ 265.8	\$ 218.0
Performance Additives	36.5	34.1	117.4	100.6
Titanium Dioxide Pigments	74.9	34.2	193.1	94.5
Advanced Ceramics	47.5	40.3	146.4	117.9
Corporate and other	(18.5)	(18.8)	(55.6)	(50.3)
Total (a)	\$ 226.9	\$ 160.6	\$ 667.1	\$ 480.7

(a) This amount does not include \$8.5 million for the three months ended September 30, 2010 and \$0.2 million and \$25.6 million for the nine months ended September 30, 2011 and 2010, respectively, of Adjusted EBITDA from the former plastic compounding business which was sold on January 7, 2011.

(\$ in millions)	Identifiable Assets as of	
	September 30, 2011	December 31, 2010
Specialty Chemicals	\$ 2,228.0	\$ 2,107.7
Performance Additives	753.9	759.4
Titanium Dioxide Pigments	962.6	897.4
Advanced Ceramics	842.5	828.8
Corporate and other (a)	333.4	397.2
Eliminations (b)	(480.9)	(420.3)
Total (c)	\$ 4,639.5	\$ 4,570.2

(a) 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.

(b) Amounts contained in the Eliminations line 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.

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

(c) This amount does not include \$154.1 million of identifiable assets as of December 31, 2010 from the plastic compounding business sold on January 7, 2011. Total identifiable assets including these amounts were \$4,724.3 million as of December 31, 2010.

Geographic information regarding net sales based on seller's location and long-lived assets are described in Note 3, Segment Information, in the Company's 2010 Annual Report on Form 10-K.

Major components within the reconciliation of income (loss) from continuing operations before taxes to Adjusted EBITDA (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.

(\$ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Corporate and other	Consolidated
Three months ended September 30, 2011						
Income (loss) from continuing operations before taxes	\$ 54.7	\$ 18.3	\$ 47.2	\$ 27.4	\$ (25.4)	\$ 122.2
Interest expense, net (a)	8.5	2.2	6.1	5.2	4.3	26.3
Depreciation and amortization	19.6	14.6	18.2	13.3	1.3	67.0
Restructuring and other severance costs (b)	2.9	1.1		0.4	0.1	4.5
Systems/organization establishment expenses (c)	0.1	0.2				0.3
Acquisition and disposal costs				0.1	0.1	0.2
Loss on early extinguishment/modification of debt	0.1					0.1
Asset write-downs and other	(0.1)			0.1		
Foreign exchange loss on financing activities, net	0.5	0.2		1.0	0.7	2.4
Other (d)	0.2	(0.1)	3.4		0.4	3.9
Total Adjusted EBITDA	\$ 86.5	\$ 36.5	\$ 74.9	\$ 47.5	\$ (18.5)	\$ 226.9
Three months ended September 30, 2010						
Income (loss) from continuing operations before taxes	\$ 37.6	\$ 11.8	\$ 14.0	\$ 20.8	\$ (26.8)	\$ 57.4
Interest expense, net (a)	15.1	7.6	4.2	6.8	4.9	38.6
Depreciation and amortization	18.4	14.0	16.2	12.0	1.2	61.8
Restructuring and other severance costs (b)	0.1	0.3		0.7	0.4	1.5
Systems/organization establishment expenses (c)	0.1					0.1
Acquisition and disposal costs	(0.1)	0.1			0.4	0.4
Loss on early extinguishment/modification of debt (e)	0.7	0.3		0.4	0.2	1.6
Asset write-downs and other	0.1					0.1
Foreign exchange (gain) loss on financing activities, net	(1.2)	(0.1)		(0.4)	0.8	(0.9)
Other		0.1	(0.2)		0.1	
Total Adjusted EBITDA (f)	\$ 70.8	\$ 34.1	\$ 34.2	\$ 40.3	\$ (18.8)	\$ 160.6
Nine months ended September 30, 2011						
Income (loss) from continuing operations before taxes	\$ 165.0	\$ 61.8	\$ 126.6	\$ 83.6	\$ (75.3)	\$ 361.7
Interest expense, net (a)	26.5	6.9	9.2	16.8	14.6	74.0
Depreciation and amortization	58.8	43.3	53.6	40.4	4.1	200.2
Restructuring and other severance costs (b)	7.0	1.9		0.5	0.1	9.5

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

Systems/organization establishment expenses (c)	0.4	0.6	0.3						1.3
Acquisition and disposal costs	0.1			0.1	0.2				0.4
Loss on early extinguishment/modification of debt (g)	7.8	1.7		4.0	3.1				16.6
Asset write-downs and other	0.1			0.2					0.3
Foreign exchange (gain) loss on financing activities, net	(0.5)	1.2		0.8	(3.3)				(1.8)
Other (d)	0.6		3.4		0.9				4.9
Total Adjusted EBITDA (f)	\$ 265.8	\$ 117.4	\$ 193.1	\$ 146.4	\$ (55.6)	\$			667.1
Nine months ended September 30, 2010									
Income (loss) from continuing operations before taxes	\$ 115.8	\$ 30.6	\$ 32.3	\$ 58.4	\$ (69.3)	\$			167.8
Interest expense, net (a)	46.4	22.9	12.1	22.2	13.1				116.7
Depreciation and amortization	54.9	42.9	50.0	36.5	4.1				188.4
Restructuring and other severance costs (b)	0.7	0.8		0.8	0.5				2.8
Systems/organization establishment expenses (h)	0.8	0.3	0.3	0.1					1.5
Acquisition and disposal costs	0.4	0.1			0.5				1.0
Loss on early extinguishment/modification of debt (e)	0.7	0.3		0.4	0.2				1.6
Asset write-downs and other (i)	0.2	2.1			0.1				2.4
Foreign exchange (gain) loss on financing activities, net	(1.3)			(0.5)	1.0				(0.8)
Other (j)	(0.6)	0.6	(0.2)		(0.5)				(0.7)
Total Adjusted EBITDA (f)	\$ 218.0	\$ 100.6	\$ 94.5	\$ 117.9	\$ (50.3)	\$			480.7

-
- (a) Includes losses of \$3.9 million for the three months ended September 30, 2011 and gains of \$1.2 million for the three months ended September 30, 2010, and gains of \$1.0 million and \$8.9 million for the nine months ended September 30, 2011 and 2010, respectively, representing the movement in the mark-to-market valuation of the Company's interest rate and cross-currency swaps.
- (b) See Note 15, Restructuring and Other Severance Costs, for further details.
- (c) Primarily relates to costs incurred in conjunction with the integration of businesses acquired.
- (d) Primarily relates to professional fees incurred in connection with exploring strategic options.
- (e) Represents the write-off of deferred financing costs associated with the voluntary prepayment of \$200.2 million of senior secured term loans in July 2010.
- (f) This amount does not include \$8.5 million for the three months ended September 30, 2010, respectively, and \$0.2 million and \$25.6 million for the nine months ended September 30, 2011 and 2010, respectively, of Adjusted EBITDA from the former plastic compounding business which was sold on January 7, 2011.
- (g) Represents fees of \$13.5 million and the write-off of deferred financing costs of \$3.1 million in connection with the refinancing of the senior secured credit facility and the repayment of the senior secured term loans in February 2011.
- (h) Primarily related to costs incurred in conjunction with reorganizing certain business functions within the Specialty Chemicals segment and the integration of the Titanium Dioxide Pigments venture.
- (i) Primarily relates to the elimination of a duplicate manufacturing facility in the Performance Additives segment.
- (j) The Company recorded income of \$0.7 million primarily related to a gain recorded on the sale of an investment previously accounted for under the equity method in the Specialty Chemicals segment and the reversal of a reserve covering legacy obligations assumed in connection with the acquisition of the Dynamit Nobel businesses in 2004.

5. VARIABLE INTEREST ENTITIES:

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

See Note 4, Variable Interest Entities, in the Company's 2010 Annual Report Form 10-K for a detailed discussion of each of the following entities:

Viance LLC Joint Venture

At September 30, 2011 and December 31, 2010, no consolidated assets of the Company were pledged as collateral for any obligations of Viance and the general creditors of Viance had no recourse against the Company. All intercompany accounts, balances and transactions have been eliminated. Viance's assets can only be used to settle direct obligations of Viance.

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

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

	September 30, 2011		December 31, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8.6	\$	6.6
Accounts receivable, net	8.4		7.1
Inventories	1.8		0.8
Prepaid expenses and other current assets	0.5		9.8
Total current assets	19.3		24.3
Property, plant and equipment, net	1.6		1.9
Other intangible assets, net	66.7		71.6
Other assets	1.6		1.7
Total assets	\$ 89.2	\$	99.5
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1.0	\$	0.9
Income taxes payable	0.1		0.1
Accrued compensation	1.0		1.1
Accrued expenses and other current liabilities	2.4		6.1
Long-term debt, current portion			2.0
Total current liabilities	4.5		10.2
Deferred income taxes	0.1		0.1
Other liabilities	0.9		0.9
Total liabilities	\$ 5.5	\$	11.2

Titanium Dioxide Pigments Venture

In conjunction with this venture, there is a power plant that is legally owned and operated by a Finnish power cooperative. Kemira is a cooperative participant and has an interest in the power plant via ownership of a special share class. The venture purchased \$11.3 million and \$8.6 million of energy from Kemira Oyj (Kemira) in the three months ended September 30, 2011 and 2010, respectively, and \$32.8 million and \$26.9 million of energy from Kemira in the nine months ended September 30, 2011 and 2010, respectively. Minimum annual payments under the energy agreement are approximately \$16.1 million. In connection with this energy arrangement, the venture has approximately \$28.7 million (including a contractual advance of \$16.0 million made in 2009) of non-interest bearing notes receivable from Kemira that are due in August 2028. The carrying value of the notes receivable were \$5.9 million at September 30, 2011. Interest is imputed at an effective rate of 8.96%. The fair value of the note receivable is approximately \$9.9 million at September 30, 2011. Apart from routine payables to Kemira or PVO in connection with this agreement, no results or balances of the power plant are reflected in the Company's condensed consolidated financial statements.

Other

Rockwood's Specialty Chemicals segment has several unconsolidated ventures. Two of these ventures do not fit the criteria for classification as a VIE as they are financially self-sustaining, 50/50 ventures both as to control and economics. Other ventures manufacture and market products in China and an additional venture is a service provider at a key manufacturing facility. As the parties share risks and benefits disproportionate to their voting interests, the Company has concluded that these ventures are VIEs. However, the Company has also concluded that it should not consolidate these VIEs as it is not the primary beneficiary. The Company does not have the power and/or ability to direct the activities most affecting venture performance due to governance structure and significant expertise provided and/or functions performed by its venture partners.

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

As of September 30, 2011 and December 31, 2010, Rockwood's aggregate net investment in ventures that are considered variable interest entities but are not consolidated as Rockwood is not the primary beneficiary was \$18.9 million and \$14.1 million, respectively. These investments are classified as "Other assets" in the condensed consolidated balance sheet and represents Rockwood's approximate exposure to losses on these investments. Rockwood does not guarantee debt for or have other financial support obligations to these ventures.

6. FINANCIAL INSTRUMENTS:

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt instruments and derivatives. Due to their short term maturity, the carrying amount of receivables and payables approximate carrying value. Cash equivalents primarily consist of highly liquid investments with original maturities of three months or less at the time of purchase and are recorded at cost, which approximates fair value. The Company has exposure to market risk from changes in interest rates and foreign currency exchange rates. As a result, certain derivative financial instruments may be used when available on a cost-effective basis to hedge the underlying economic exposure. These instruments qualify as cash flow and net investment hedges upon meeting certain criteria, including effectiveness of offsetting hedged exposures. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in earnings as they occur. Derivative financial instruments are not used for trading purposes.

All financial instruments including, derivatives, are subject to counterparty credit risk which is considered as part of the overall fair value measurement. Counterparty credit risk is mitigated by entering into derivative contracts with only major financial institutions of investment grade quality and by limiting the amount of exposure to each financial institution. The Company has considered credit adjustments in its determination of the fair value of its derivative assets and liabilities as of September 30, 2011 and December 31, 2010 based on market participant assumptions. In addition, based on the credit evaluation of each counter-party institution as of September 30, 2011 and December 31, 2010, the Company believes the carrying values to be fully realizable. No counterparty has experienced a significant downgrade since January 1, 2011 and the condensed consolidated financial statements would not be materially impacted if any counterparties failed to perform according to the terms of its agreement. Under the terms of the agreements, posting of collateral is not required by any party whether derivatives are in an asset or liability position.

Interest Rate Swaps Not Designated as Hedging Instruments

Borrowings under the senior secured revolving credit facility and the Titanium Dioxide Pigments venture revolving credit facility are at a variable rate. As of September 30, 2011, there were no outstanding borrowings under the senior secured revolving credit facility or the Titanium Dioxide Pigments venture revolving credit facility. Although we are not required under the terms of any of our long-term debt facilities to hedge, or otherwise protect against interest rate fluctuations in our variable-rate debt, we have entered into interest rate swaps to manage our exposure to changes in interest rates related to certain variable-rate debt. As of September 30, 2011, these contracts cover notional amounts of 210.0 million (at interest rates of 1.40%) and were originally entered into to effectively convert all of the obligations under the Titanium Dioxide Pigments term loan facility to fixed rate obligations. These contracts will mature in June 2013. As of December 31, 2010, these contracts covered notional amounts of 488.8 million (at interest rates ranging from 1.40% to 4.416%) and were originally entered into to effectively convert a portion of the senior secured credit obligations and all of the obligations under the Titanium Dioxide Pigments term loan facility to fixed rate obligations. The Company has not applied hedge accounting for these interest rate swaps and has recorded the mark-to-market of these derivatives as a component of interest expense in its condensed consolidated statements of operations. The Company may in the future consider adjusting the amounts covered by these derivative contracts to better suit its capital structure. The Company may allow all or a portion of these swaps to lapse, enter into replacement swaps or settle these swaps prior to expiration. After entering into interest rates swaps, the Company had \$854.8 million (the majority of which was subject to a Libor floor of 1.00%) and \$908.9 million of variable rate debt outstanding as of September 30, 2011 and December 31, 2010, respectively.

In February 2011, in connection with the refinancing of the senior secured credit facility, an interest rate swap with a notional amount of 262.9 million (\$354.6 million based on the exchange rate in effect on the date of the payment) was terminated resulting in a payment of 10.8 million (\$14.6 million based on the exchange rate in effect on the date of the payment).

Cash Flow Hedges

In October 2010 and January 2011, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on cash flows on certain forecasted sales denominated in currencies other than the functional currency of legal entities in its Specialty Chemicals segment and Titanium Dioxide Pigments segment, respectively. These foreign currency forward contracts hedge the exposure to movements in foreign exchange rates for forecasted transactions that expire in December 2011. As of September 30, 2011 and December 31, 2010, the Company had notional amounts outstanding for foreign currency forward contracts of \$3.2 million and \$12.5 million, respectively, for its Specialty Chemicals segment. As of September 30, 2011, the Company had notional amounts outstanding for foreign currency forward contracts of \$9.0 million for its Titanium Dioxide Pigments segment. The instruments are designated as foreign exchange cash flow hedges and are effective at generating offsetting changes in the cash flows of the hedged item or transaction.

Net Investment Hedges

The Company 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 14.1 million at September 30, 2011; \$18.9 million). As a result, any foreign currency

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

gains and losses resulting from the Euro-denominated debt discussed above are accounted for as a component of accumulated other comprehensive income.

The following table provides the fair value and balance sheet location of the Company's derivative instruments as of September 30, 2011 and December 31, 2010:

(\$ in millions)	Balance Sheet Location	Asset Derivatives Fair Value as of		Liability Derivatives Fair Value as of	
		September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Derivatives Designated as Hedging Instruments:					
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 0.3	\$	\$	\$
	Accrued expenses and other current liabilities			0.1	0.5
Total derivatives designated as hedging instruments		\$ 0.3	\$	\$ 0.1	\$ 0.5
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps	Accrued expenses and other current liabilities	\$	\$	\$ 1.0	\$ 18.6
	Other liabilities			0.7	0.9
Total derivatives not designated as hedging instruments		\$	\$	\$ 1.7	\$ 19.5
Total derivatives		\$ 0.3	\$	\$ 1.8	\$ 20.0

The following table provides the gains and losses reported in Accumulated Other Comprehensive Income (AOCI) within Equity for the three and nine months ended September 30, 2011 and 2010:

(\$ in millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives and Other Financial Instruments (Effective Portion)			
	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange contracts	\$ (1.4)	\$ 2.9	\$ 0.6	\$ 2.5
Net Investment Hedging Relationships:				
Euro-denominated debt	\$ 1.6	\$ (20.7)	\$ (10.5)	\$ 0.8

For the three and nine months ended September 30, 2011, gains of \$0.9 million and \$2.3 million, respectively, were reclassified from accumulated other comprehensive income into income. There were no gains or losses reclassified from accumulated other comprehensive income into income for the three and nine months ended September 30, 2010.

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

The following table provides the (losses) gains reported in the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010:

(\$ in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives				Location of Gain or (Loss) Recognized in Income on Derivatives	
	Three months ended September 30, 2011		2010			
Derivatives Not Designated as Hedging Instruments:						
Interest rate swaps	\$	(3.9)	\$	1.2	\$ 1.0 \$ 7.3	Interest expense
Cross-currency interest rate swaps					1.6	Interest expense
Foreign exchange contracts			(0.1)		1.0	Selling, general and administrative expenses
Total derivatives	\$	(3.9)	\$	1.1	\$ 1.0 \$ 9.9	

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

The Company follows a fair value measurement hierarchy to measure assets and liabilities. As of September 30, 2011 and December 31, 2010, the assets and liabilities measured at fair value on a recurring basis are derivatives and money market funds. In addition, the Company measures its pension plan assets at fair value (see Note 15, "Employee Benefit Plans" in the Company's 2010 Annual Report on Form 10-K for further details). The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy 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. The fair values of money market funds are based on unadjusted quoted market prices from various financial information service providers and securities exchanges.
- 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. 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.
- Level 3** Inputs are unobservable inputs that are used to measure fair value to the extent observable inputs are not available. The Company does not have any financial assets or liabilities that are classified as Level 3 inputs as of September 30, 2011 and December 31, 2010.

In accordance with the fair value hierarchy, the following table provides the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of September 30, 2011 and December 31, 2010:

(\$ in millions)	As of		Fair Value Measurements		
	September 30, 2011	Level 1	Level 2	Level 3	
Assets					
Money market funds	\$ 8.1	\$ 8.1	\$	\$	
Foreign exchange contracts	0.3			0.3	
Total assets at fair value	\$ 8.4	\$ 8.1	\$ 0.3	\$	
Liabilities					
Interest rate swaps	\$ 1.7	\$	\$ 1.7	\$	
Foreign exchange contracts	0.1			0.1	
Total liabilities at fair value	\$ 1.8	\$	\$ 1.8	\$	

(\$ in millions)	As of		Fair Value Measurements		
	December 31, 2010	Level 1	Level 2	Level 3	
Assets					
Money market funds	\$ 154.5	\$ 154.5	\$	\$	
Total assets at fair value	\$ 154.5	\$ 154.5	\$	\$	
Liabilities					
Interest rate swaps	\$ 19.5	\$	\$ 19.5	\$	
Foreign exchange contracts	0.5			0.5	
Total liabilities at fair value	\$ 20.0	\$	\$ 20.0	\$	

Debt

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

The Company estimates the fair value of its debt under the senior secured credit facilities and Titanium Dioxide Pigments venture facility agreement, based on current interest rates and terms, approximates carrying value. Based on quoted market values at September 30, 2011 and December 31, 2010, the Company estimates the fair value of its 2014 Notes approximated \$534.7 million and \$547.6 million, respectively. As of September 30, 2011 and December 31, 2010, the principal carrying amount of the 2014 Notes was \$534.8 million and \$534.7 million, respectively.

7. INVENTORIES:

Inventories are comprised of the following:

(\$ in millions)	September 30, 2011		December 31, 2010	
Raw materials	\$	198.7	\$	181.6
Work-in-process		87.0		79.9
Finished goods		315.3		272.6
Packaging materials		7.7		7.7
Total	\$	608.7	\$	541.8

8. GOODWILL:

Below are goodwill balances and activity by segment:

(\$ in millions)	Specialty Chemicals		Advanced Ceramics		Total	
Balance, December 31, 2010	\$	618.5	\$	258.6	\$	877.1
Foreign exchange		0.9		(0.7)		0.2
Balance, September 30, 2011	\$	619.4	\$	257.9	\$	877.3

9. OTHER INTANGIBLE ASSETS, NET:

Other intangible assets, net consist of:

(\$ in millions)	As of September 30, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 371.0	\$ (175.5)	\$ 195.5	\$ 369.5	\$ (154.2)	\$ 215.3
Trade names and trademarks	131.4	(41.8)	89.6	131.4	(37.2)	94.2
Customer relationships	344.3	(146.4)	197.9	360.4	(140.4)	220.0
Supply agreements	60.4	(21.9)	38.5	60.4	(17.6)	42.8
Other	51.0	(35.7)	15.3	45.8	(30.5)	15.3
Total	\$ 958.1	\$ (421.3)	\$ 536.8	\$ 967.5	\$ (379.9)	\$ 587.6

Amortization of other intangible assets was \$19.5 million and \$19.1 million for the three months ended September 30, 2011 and 2010, respectively, and \$58.9 million and \$57.9 million for the nine months ended September 30, 2011 and 2010, respectively.

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

(\$ in millions) Year ending	Amortization Expense
2011	\$ 77.1
2012	72.5
2013	68.7
2014	60.3
2015	54.9

10. LONG-TERM DEBT:

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

(\$ and in millions)	September 30, 2011	December 31, 2010
Senior secured credit facilities - term loans	\$ 845.8	\$ 1,260.0
2014 Notes (250.1 and \$200.0)	534.8	534.7
Titanium Dioxide Pigments venture term loans (210.0 and 220.0, respectively)	281.1	294.4
Capitalized lease obligations	37.2	39.4
Other loans	30.3	32.5
	1,729.2	2,161.0
Less current maturities	(64.8)	(465.7)
	\$ 1,664.4	\$ 1,695.3

On February 10, 2011, the Company completed a refinancing of its senior secured credit facility and entered into a new senior secured credit agreement comprised of an \$850.0 million term loan and a \$180.0 million revolving credit facility, and repaid \$408.9 million of existing term loans. In connection with this transaction, the Company recorded a charge of \$16.6 million in the nine months ended September 30, 2011 comprised of related fees of \$13.5 million and the write-off of deferred financing costs of \$3.1 million.

11. INCOME TAXES:

The effective tax rate for the nine months ended September 30, 2011 and 2010 was 27.9% and 27.7%, respectively. The income tax rate for the nine months ended September 30, 2011 was favorably impacted by a beneficial foreign earnings mix and certain domestic income that was not tax effected due to a valuation allowance. For the nine months ended September 30, 2010, the income tax provision was favorably impacted by a beneficial foreign earnings mix and the favorable settlement of certain tax positions.

For the nine months ended September 30, 2011, the Company decreased its worldwide valuation allowances by \$2.4 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, 2010	\$ 81.1
Decrease as reflected in income tax expense	(1.4)
Other	(1.0)
Balance as of September 30, 2011	\$ 78.7

In the nine months ended September 30, 2011, 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, 2011, 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.

Unrecognized tax benefits at September 30, 2011 were \$29.0 million, all of which if recognized, would impact the effective tax rate. The Company had accrued \$8.3 million for interest and penalties as of September 30, 2011. The Company recognizes interest and penalties related to unrecognized tax benefits in its income tax provision.

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 \$2.6 million or a cost of up to \$3.2 million. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

12. STOCK-BASED COMPENSATION:

Under the 2008 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan), the Company granted stock options, restricted stock and other stock-based awards to the Company's employees and directors and allowed employees and directors to purchase shares of its common stock. However, the Company no longer issues equity awards

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

under this Plan. In April 2009, the Company adopted the 2009 Stock Incentive Plan (the "New Plan"; together with the Plan, the "Plans"), which has 11,000,000 authorized shares. All equity awards granted after this date have been or will be awarded under the New Plan. See Note 14, "Stock-Based Compensation," in the Company's 2010 Annual Report on Form 10-K for further details of the Company's Plans.

In December 2010, the Company approved 263,055 market-based restricted stock unit awards to its management and key employees which will vest on January 1, 2014 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. In January 2011, the performance targets that formed the basis for vesting of these restricted stock units were set. As a result, the Company recognized compensation cost beginning in January 2011. A portion of the share units vest based on the percentage change in the price of the Company's common stock over the award period January 1, 2011 to December 31, 2013. The remaining portion vest based upon the Company's total shareholder return as compared to the total shareholder return for the Dow Jones U.S. Chemical Index for the period January 1, 2011 to December 31, 2013.

All restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment after a change in control as defined in the award agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of September 30, 2011 and December 31, 2010 have been recorded as mezzanine equity (outside of permanent equity) in the condensed consolidated balance sheets.

The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plans caused income from continuing operations before taxes to decrease by \$3.4 million and \$3.8 million for the three months ended September 30, 2011 and 2010, respectively, and \$9.8 million and \$9.6 million for the nine months ended September 30, 2011 and 2010, respectively. The total tax benefit recognized related to stock options was \$0.4 million and \$0.4 million for the three months ended September 30, 2011 and 2010, respectively, and \$0.9 million and \$0.9 million for the nine months ended September 30, 2011 and 2010, respectively.

13. EMPLOYEE BENEFIT PLANS:

The Company's overall unfunded position in its defined benefit plans as of September 30, 2011 is \$420.3 million and the funded status of our plans is 38%. However, 82% of the Company's unfunded position is concentrated in plans mostly in Germany, where funding is neither legally required nor customary. When only the plans that have funding requirements are considered, the unfunded portion is \$76.2 million, and the funded status is 76%. The funding of the Company's pension plans was in compliance with local requirements as of September 30, 2011. Almost all of the Company's pension obligations are long-term in nature. The Company's annual cash outflows to meet funding requirements and benefit obligations historically have not significantly exceeded its pension expense. Such cash outflows were less than pension expense in 2010 and the nine months ended September 30, 2011. The measurement of our pension obligations and plan assets is dependent on a variety of actuarial assumptions and is performed annually. Therefore, the funded status as of December 31, 2011 could differ significantly.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Service cost	\$ 2.3	\$ 1.9	\$ 6.8	\$ 5.7
Interest cost	8.5	8.2	25.5	24.9
Expected return on assets	(4.3)	(3.7)	(12.8)	(11.0)

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

Amortization of actuarial losses	0.7	0.6	2.0	1.7
Amortization of prior service cost	0.2	0.2	0.5	0.5
Other				0.3
Total pension cost	\$ 7.4	\$ 7.2	\$ 22.0	\$ 22.1

14. EARNINGS PER COMMON SHARE:

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

(\$ in millions, except per share amounts; shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
EPS Numerator:				
Amounts attributable to Rockwood Holdings, Inc.:				
Income from continuing operations	\$ 75.9	\$ 38.0	\$ 228.1	\$ 116.2
Income from discontinued operations		2.5	0.9	13.6
Gain on sale of discontinued operations, net of tax			119.4	
Net income	\$ 75.9	\$ 40.5	\$ 348.4	\$ 129.8
EPS Denominator:				
Basic weighted average number of common shares outstanding	76,703	75,199	76,430	74,735
Effect of dilutive stock options and other incentives	3,327	2,887	3,477	2,936
Diluted weighted average number of common shares outstanding and common stock equivalents	80,030	78,086	79,907	77,671
Basic earnings per common share attributable to Rockwood Holdings, Inc.:				
Earnings from continuing operations	\$ 0.99	\$ 0.51	\$ 2.98	\$ 1.55
Earnings from discontinued operations, net of tax		0.03	1.58	0.19
Basic earnings per common share	\$ 0.99	\$ 0.54	\$ 4.56	\$ 1.74
Diluted earnings per common share attributable to Rockwood Holdings, Inc.:				
Earnings from continuing operations	\$ 0.95	\$ 0.49	\$ 2.85	\$ 1.50
Earnings from discontinued operations, net of tax		0.03	1.51	0.17
Diluted earnings per common share	\$ 0.95	\$ 0.52	\$ 4.36	\$ 1.67

Stock-based awards under employee compensation plans representing common stock of 1,269,540 and 1,275,548 shares were outstanding during the three and nine months ended September 30, 2010, respectively, but were not included in the computation of diluted earnings per common share because their inclusion would have had an anti-dilutive effect. For the three and nine months ended September 30, 2011, there were no outstanding shares that would have had an anti-dilutive effect.

15. 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.

The following table provides the restructuring and other severance costs for the three and nine months ended September 30, 2011 and 2010:

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

(\$ in millions)	Three months ended September 30,				Nine months ended September 30,			
	2011	2010	2011	2010	2011	2010	2011	2010
Severance/Relocation	\$ 1.9	\$ 0.1	\$ 5.0	\$ 0.5				
Facility closure and other	1.3	1.0	2.5	1.4				
Restructuring charge	3.2	1.1	7.5	1.9				
Other severance costs	1.3	0.4	2.0	0.9				
Total	\$ 4.5	\$ 1.5	\$ 9.5	\$ 2.8				

For the three and nine months ended September 30, 2011, the restructuring charges primarily relate to severance and facility closure costs in connection with organizational changes in the Specialty Chemicals and Performance Additives segments.

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

All restructuring actions still in progress as of September 30, 2011 are expected to be substantially complete within the next twelve months, except for severance and facility closure costs in connection with the future consolidation of the North American Surface Treatment business. However, payouts of certain liabilities resulting from these actions will take place over several years. The majority of the liability balance at September 30, 2011 will be utilized within the next twelve months. Selected information for outstanding liabilities from recent restructuring actions is as follows:

(\$ in millions)	Severance/ Relocation	Facility Closure and Other	Total
Liability balance, December 31, 2010	\$ 2.7	\$ 2.1	\$ 4.8
Restructuring charge in 2011	5.0	2.5	7.5
Restructuring charge in 2011 - Discontinued operations	0.6		0.6
Utilized	(2.5)	(1.7)	(4.2)
Foreign exchange and other	0.2		0.2
Liability balance, September 30, 2011	\$ 6.0	\$ 2.9	\$ 8.9

Restructuring reserves by segment are as follows:

(\$ in millions)	September 30, 2011	December 31, 2010
Specialty Chemicals	\$ 5.5	\$ 2.2
Performance Additives	1.0	0.2
Advanced Ceramics	0.3	0.5
Corporate and other	2.1	1.9
	\$ 8.9	\$ 4.8

16. COMMITMENTS AND CONTINGENCIES:

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

Advertising Matter

As discussed in previous filings, on March 3, 2009, Osmose, Inc. ("OI") filed an action against Viance, the joint venture in the Timber Treatment Chemicals business, Rockwood Holdings, Inc., and certain individuals, in the U.S. District Court, Northern District of Georgia, claiming that recent advertisements by Viance comparing its ACQ product and OI's MCQ product were false and misleading in violation of the Lanham Act, constituted unfair competition, violated the Georgia Deceptive Trade Practices Act, were defamatory and that Viance tortiously interfered with OI's business relationships. OI sought damages, including their attorney's fees and costs and punitive damages. OI also sought a temporary restraining order ("TRO") and a preliminary injunction prohibiting Viance from continuing to make certain claims in advertisements related to their MCQ product. In April 2011, the parties executed a settlement agreement and the resolution of this matter did not have a material effect on the Company's business or financial condition.

Lanxess Matter

On January 18, 2010, Lanxess Deutschland GmbH filed suit in the District Court of Satakunta, Finland against Sachtleben Pigments Oy (Sachtleben), a subsidiary of the Company's Titanium Dioxide Pigments venture, claiming breach of contract in connection with Sachtleben's termination of a supply agreement with plaintiff. In October 2010, the Court held a hearing to determine the proper jurisdiction for this matter and later issued its decision in favor of the plaintiff ruling that the case will be heard in the District Court of Satakunta and not in arbitration. In January 2011, Lanxess filed its statement specifying its claims for damages in the amount of 3.2 million (\$4.3 million) plus accrued interest and legal fees. In late September 2011, the Court held a hearing on the merits of the case and is expected to render its decision in the fourth quarter of 2011. The Company will continue to vigorously defend this matter. The Company believes Sachtleben has meritorious defenses against the plaintiff's claims. Although the Company does not believe that resolution of this matter will have a material 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 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 formerly manufactured sealants for insulating glass. This subsidiary has been named as a defendant in several lawsuits relating to alleged defective sealants that were raised prior to and after the sale of this business in 2003. This subsidiary may be required to pay damage claims asserted by the various plaintiffs. 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. The Company estimates that the possible range of loss from these claims as of September 30, 2011 is from 1.0 million (\$1.3 million) to 4.0 million (\$5.4 million). Although the Company does not believe that resolution of these matters will have a material 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 effect on its results of operations or cash flows in any quarterly or annual reporting period.

Inspector General Subpoena

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

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 effect on the financial condition, results of operations or liquidity of the Company.

Reserves in connection with product liability matters do not individually exceed \$1.9 million and in the aggregate \$4.1 million as of September 30, 2011. 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 is 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.

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

The Company may be subject to indemnity claims relating to properties or businesses it divested. For example, the Company has agreed to indemnify the buyer of its former plastic compounding business for certain known and unknown environmental actions which may arise in the future that relate to the period prior to the closing.

Rockwood's pension liability includes defined benefit obligations to employees of a previously divested company which cannot legally be transferred to the owners under local law. The owner of the business had agreed to indemnify the Company for these obligations, however, such company has filed for bankruptcy. Accordingly, as of September 30, 2011, the Company has recorded a reserve of \$4.9 million (\$6.6 million) against our related receivable of \$5.4 million (\$7.2 million) due from the current owner. The Company cannot predict the ultimate outcome of this matter. The Company does not believe this matter will have a material effect on its results of operations or cash flows in any quarterly or annual reporting period.

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 effect on the Company's financial condition, results of operations or cash flows, but may have a material effect on the Company's results of operations or cash flows in any quarterly or annual reporting period.

Safety, Health and Environmental Matters

General

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

Safety, Health and Environmental Management Systems

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

SHE Capital Expenditures

The Company will incur future costs for capital improvements and general compliance under SHE laws. For the year ended December 31, 2010, the capital expenditures for SHE matters totaled \$19.2 million, excluding costs to maintain and repair pollution control equipment. For 2011, 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 required certain facilities in the U.S. to record their greenhouse gases beginning January 1, 2010 and begin reporting these measurements on September 30, 2011. Currently, no facilities are required to report under this program; however, two facilities may be subject to these rules as production demand increases. 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. and other jurisdictions. Certain

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

European facilities are subject to different carbon emission trading schemes imposed by local governments, e.g. U.K. and Germany. Any such laws may directly and indirectly have a material 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.

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

Environmental Liabilities

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

In addition, Superfund statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability

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

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.

The following table provides a list of the Company's present and former facilities with environmental contamination or reclamation obligations for which the Company has reserved for at September 30, 2011:

Country	Location	(a)	(b)	(c)	(d)	(e)
Brazil	Diadema			X		
Chile	Salar de Atacama				X	
China	Shenzhen			X		
Finland	Kipsikorpi				X	
	Pori				X	
France	Clichy					X
	Sens	X				
Germany	Duisburg	X			X	
	Empelde	X				X
	Hainhausen	X				
	Liebenau			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	X	
	Kidsgrove			X		
United States	Beltsville, MD	X		X		
	East St. Louis, IL			X		
	Easton, PA			X		
	Harrisburg, NC	X		X		
	Kings Mountain, NC				X	
	Laurens, SC		X			
	Middletown, NY	X		X		X
	New Johnsonville, TN		X			
	Pineville, NC					X
	Silver Peak, NV	X			X	
	Sunbright, VA	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 manufacturing, landfill activities or surface mining at these locations.
- (e) The Company is responsible for liabilities related to environmental matters at these closed, currently planned for closure, or formerly-owned 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: Augusta, GA, Niagara Falls, NY and South Gate, CA and has reserves for these matters totaling \$0.1 million at September 30, 2011.

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

Environmental Reserves

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

The Company's liability estimates are based upon available facts, existing technology, indemnities from third parties, past experience and, in some instances, insurance recoveries where the remediation costs are being paid by its insurers, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company has accrued \$48.9 million and \$49.8 million for environmental liabilities as of September 30, 2011 and December 31, 2010, respectively, most of which were classified as other non-current liabilities in the condensed consolidated balance sheets. Of these accruals, \$28.2 million and \$27.5 million as of September 30, 2011 and December 31, 2010, respectively, represent liabilities discounted using discount rates ranging from 4.2% to 7.5%.

Included in the environmental liabilities are reclamation obligations of \$20.8 million and \$21.7 million as of September 30, 2011 and December 31, 2010, respectively. These obligations primarily relate to post-closure reclamation of landfills in the Titanium Dioxide Pigments segment and surface mining sites within the Fine Chemicals business in the Specialty Chemicals segment.

The Company's remediation liabilities are payable over periods of up to 30 years. At a number of the sites described above, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable and could potentially affect the range. The Company estimates that the potential range for such environmental matters as of September 30, 2011 is from \$48.9 million to \$76.6 million. For the nine months ended September 30, 2011, the Company recorded charges of \$2.3 million to increase its environmental liabilities and made payments of \$3.1 million for reclamation and remediation costs, which reduced its environmental liabilities. For the nine months ended September 30, 2011, the recurring cost of managing hazardous substances for ongoing operations is \$38.9 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 business or financial condition, but may have a material effect on the results of operations or cash flows in any given quarterly or annual reporting period. The Company does not believe that any known individual environmental matter would have a material effect on its results of operations or financial condition. The Company is unable to estimate the amount or range of any potential incremental

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

charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available.

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

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

In January 2011, we completed the sale of our plastic compounding business. As a result, our consolidated financial statements have been reclassified to reflect these businesses as discontinued operations for all periods presented. See Note 3, 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 in Forward-Looking Statements at the end of this Management Discussion and Analysis (MD&A) section and the risk factors section of the Company's 2010 Annual Report on Form 10-K. You should read the following discussion and analysis together with our condensed consolidated financial statements and the notes to those statements that appear elsewhere in this Quarterly Report.

Unless otherwise noted, all balance sheet items as of September 30, 2011 which are denominated in Euros are translated at the September 30, 2011 exchange rate of 1.00 = \$1.3387.

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 four business segments: (1) Specialty Chemicals; (2) Performance Additives; (3) Titanium Dioxide Pigments; and (4) Advanced Ceramics.

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, divestment of non-core businesses, debt reduction and bolt-on acquisitions. In connection with this focus, among other things:

- In January 2011, we completed the sale of our plastic compounding business; and
- In February 2011, we refinanced \$850.0 million and repaid \$408.9 million of our senior secured term loans.

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. In 2010, net sales were up from higher volumes in all markets. In the first nine months of 2011, net sales were up from higher volumes in all markets, particularly automotive and general industrial, as well as increased selling prices. Net sales growth is expected to continue throughout the remainder of the year primarily from higher volumes across most markets, as well as higher selling prices.

- 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, the battery industry, 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 and agrochemicals markets, as well as generic competition. Results in 2010 were higher primarily from increased volumes of lithium products and metal sulfide applications, partially offset by lower selling prices of potash and lithium carbonate. In the first nine months of 2011, results were up primarily from increased volumes of lithium products, as well as higher selling prices, partially offset by higher raw material costs of metal sulfides. Net sales growth is expected to continue throughout the remainder of the year primarily from higher volumes in lithium and special metals applications, as well as higher selling prices.

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 construction volumes were lower in 2010 and continued to be lower in the first nine months of 2011. A further slowdown in the North American construction industry could continue to have a negative impact on our results throughout the remainder of the year. European construction volumes in 2010 and the first nine months of 2011 were comparable to the same periods in the prior years. Volumes of coatings and specialties products were up in 2010, but were down in the first nine months of 2011.

- 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 2010 by a general slowdown in the construction market. In the first nine months of 2011, results were up due to slightly higher volumes of ACQ, as well as higher selling prices, partially offset by higher copper and monoethanolamine (MEA) costs. Higher copper and MEA raw material costs are expected to have a negative impact on our results throughout the remainder of the year.

- In the Clay-based Additives business, higher volumes in most markets, particularly oilfield, had a favorable impact on results in 2010. In the first nine months of 2011, higher volumes continued in most markets, particularly oilfield and composites. We expect net sales growth to continue throughout the remainder of the year.

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 business are driven by demand in the coatings, printing inks, construction, cosmetics, pharmaceutical, food, paper and plastics industries. Market conditions, including pricing pressure and industry overcapacity, have negatively impacted this segment in the past. However, this trend has changed as prices are increasing as a result of current undercapacity in this industry. In 2010, higher volumes, as well as selling price increases, of both rutile and anatase applications had a favorable impact on results. Higher selling prices, as well as a favorable product mix, had a favorable impact on results in the first nine months of 2011. We expect sales to continue to be higher throughout the remainder of the year primarily from higher selling prices.

- Our functional additives sales were up in 2010 and the first nine months of 2011 as higher selling prices had a favorable impact on results. Net sales of functional additives applications are expected to continue to be higher throughout the remainder of the year from higher

selling prices.

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 2010 and the first nine months of 2011 on higher volumes. We expect this growth to continue throughout the remainder of the year.

- Sales of most product applications, including cutting tools, mechanical applications and electronic applications were up in 2010 and the first nine months of 2011 on higher volumes. We expect sales for cutting tools and mechanical applications to be higher throughout the remainder of the year on higher volumes. We expect a slow down in demand for ceramics for electronic applications for the remainder of the year.

Global Exposure

We operate a geographically diverse business, with 54% of our net sales in 2010 generated from shipments to customers in Europe, 24% to North America (predominantly the United States) and 22% to the rest of the world. For a geographic description of the origin of our net sales and location of our long-lived assets, see Note 3, Segment Information in our 2010 Annual Report on Form 10-K.

We have sold to customers in more than 60 countries during this period. Currently, we serve our diverse and extensive customer base with 81 manufacturing facilities in 23 countries. Consequently, we are exposed to global economic and political changes, particularly currency fluctuations that could impact our profitability and demand for our products.

Our sales and production costs are mainly denominated in U.S. dollars or Euros. Our results of operations and financial condition have been historically impacted by the fluctuation of the Euro against our reporting currency, the U.S. dollar. For the three and nine months ended September 30, 2011, the average exchange rate of the Euro against the U.S. dollar was higher compared to the same period in 2010. As a result, our net sales, gross profit and operating income were favorably 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 46% of our 2010 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 2010. Nonetheless, 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. In 2010 and the first nine months of 2011, higher raw material costs were reported in a number of businesses. For example, in the first nine months of 2011, we experienced higher prices for tin used in the Metal Sulfides business of our Specialty Chemicals segment, ilmenite used in our Titanium Dioxide Pigments segment and copper used in the Timber Treatment Chemicals business. We cannot accurately predict the impact of any future price increases for raw materials or any raw material shortages on our business as a whole or in specific geographic regions. In addition, we may not be able to pass on raw material price increases to our customers. See details of our ten most significant raw materials (in terms of dollars) in Item 1, Business Raw Materials in our 2010 Annual Report on Form 10-K.

Energy Costs

In 2010, energy purchases represented approximately 9% 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. Energy costs in 2010 were basically flat versus the prior year, but were up in the first nine months of 2011. 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, natural gas prices in North America declined in 2010 and the first nine months of 2011. Natural gas prices in Europe, where our Titanium Dioxide Pigments segment is located, were up in 2010 and in the first nine months of 2011.

Income Taxes

We recorded an income tax provision of \$34.4 million in the third quarter of 2011 on income from continuing operations before taxes of \$122.2 million. The income tax provision in the third quarter of 2011 was favorably impacted by a beneficial foreign earnings mix and certain domestic income that was not tax effected due to a valuation allowance.

In the third quarter of 2011, the worldwide valuation allowance increased by \$3.2 million to \$78.7 million. This was due to an increase of \$3.7 million primarily related to other deferred tax assets, offset by a \$0.5 million decrease that impacted the tax provision.

Special Charges and Credits

During the periods presented, we incurred certain special charges and credits that included systems/organization establishment expenses, restructuring and other severance costs, foreign exchange gains and losses, asset write-downs and other and a loss on early extinguishment/modification of debt. See Items excluded from Adjusted EBITDA section in Note 4, Segment Information, for a discussion of special charges and credits recorded in the three and nine months ended September 30, 2011 and 2010.

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. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2010 Annual Report on Form 10-K for a definition of Adjusted EBITDA, management's uses of Adjusted EBITDA and its limitations.

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 income is set forth in Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. to Adjusted EBITDA for the three and nine months ended September 30, 2011 and 2010 within this MD&A section), including as a percentage of net sales, for the periods presented. See Note 4, Segment Information, for segment information and a reconciliation from income (loss) from continuing operations before taxes to Adjusted EBITDA on a segment basis.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Statement of operations data:				
Net sales:				
Specialty Chemicals	\$ 333.0	\$ 283.6	\$ 1,025.0	\$ 860.5
Performance Additives	200.7	187.8	614.7	564.4
Titanium Dioxide Pigments	252.6	192.7	735.4	564.1
Advanced Ceramics	146.2	131.0	455.3	385.3
Corporate and other	8.4	6.1	24.5	19.0
Total net sales	940.9	801.2	2,854.9	2,393.3
Gross profit	331.5	266.0	998.2	791.8
	35.2%	33.2%	35.0%	33.1%
Selling, general and administrative expenses	176.0	167.7	537.8	501.8
	18.7%	20.9%	18.8%	21.0%
Restructuring and other severance costs	4.5	1.5	9.5	2.8
Asset write-downs and other		0.1	0.3	2.4
Operating income (loss):				
Specialty Chemicals	63.8	52.2	198.9	161.6
	19.2%	18.4%	19.4%	18.8%
Performance Additives	20.8	19.7	71.6	53.8
	10.4%	10.5%	11.6%	9.5%
Titanium Dioxide Pigments	53.2	18.2	135.7	44.5
	21.1%	9.4%	18.5%	7.9%
Advanced Ceramics	33.5	27.6	105.2	80.5
	22.9%	21.1%	23.1%	20.9%
Corporate and other	(20.3)	(21.0)	(60.8)	(55.6)
Total operating income	151.0	96.7	450.6	284.8
Other expenses, net:				
Interest expense, net	(26.3)	(38.6)	(74.0)	(116.7)
Loss on early extinguishment/modification of debt	(0.1)	(1.6)	(16.6)	(1.6)
Foreign exchange (loss) gain on financing activities, net	(2.4)	0.9	1.8	0.8
Other, net			(0.1)	0.5
Other expenses, net	(28.8)	(39.3)	(88.9)	(117.0)
Income from continuing operations before taxes	122.2	57.4	361.7	167.8
Income tax provision	34.4	16.4	101.0	46.4
Income from continuing operations	87.8	41.0	260.7	121.4
Income from discontinued operations, net of tax		2.5	0.9	13.6
Gain on sale of discontinued operations, net of tax			119.4	
Net income	87.8	43.5	381.0	135.0
Net income attributable to noncontrolling interest	(11.9)	(3.0)	(32.6)	(5.2)
Net income attributable to Rockwood Holdings, Inc.	\$ 75.9	\$ 40.5	\$ 348.4	\$ 129.8
Adjusted EBITDA:				
Specialty Chemicals	\$ 86.5	\$ 70.8	\$ 265.8	\$ 218.0
	26.0%	25.0%	25.9%	25.3%
Performance Additives	36.5	34.1	117.4	100.6
	18.2%	18.2%	19.1%	17.8%
Titanium Dioxide Pigments	74.9	34.2	193.1	94.5
	29.7%	17.7%	26.3%	16.8%
Advanced Ceramics	47.5	40.3	146.4	117.9
	32.5%	30.8%	32.2%	30.6%
Corporate and other	(18.5)	(18.8)	(55.6)	(50.3)
Total Adjusted EBITDA	\$ 226.9	\$ 160.6	\$ 667.1	\$ 480.7

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

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

(\$ in millions)	Change: Three months ended September 30, 2011 versus 2010				Change: Nine months ended September 30, 2011 versus 2010			
	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	\$ 49.4	17.4%	\$ 17.3	\$ 32.1	\$ 164.5	19.1%	\$ 49.5	\$ 115.0
Performance Additives	12.9	6.9	5.9	7.0	50.3	8.9	17.4	32.9
Titanium Dioxide Pigments	59.9	31.1	21.4	38.5	171.3	30.4	48.9	122.4
Advanced Ceramics	15.2	11.6	11.1	4.1	70.0	18.2	26.7	43.3
Corporate and other	2.3	37.7	0.7	1.6	5.5	28.9	1.7	3.8
Total net sales	139.7	17.4	56.4	83.3	461.6	19.3	144.2	317.4
Gross profit	65.5	24.6	20.3	45.2	206.4	26.1	50.4	156.0
Selling, general and administrative expenses	8.3	4.9	9.7	(1.4)	36.0	7.2	23.8	12.2
Restructuring and other severance costs	3.0			3.0	6.7			6.7
Asset write-downs and other	(0.1)			(0.1)	(2.1)			(2.1)
Total operating expenses	11.2	6.6	9.7	1.5	40.6	8.0	23.8	16.8
Operating income (loss):								
Specialty Chemicals	11.6	22.2	2.7	8.9	37.3	23.1	8.4	28.9
Performance Additives	1.1	5.6	0.7	0.4	17.8	33.1	2.4	15.4
Titanium Dioxide Pigments	35.0	192.3	4.8	30.2	91.2	204.9	9.8	81.4
Advanced Ceramics	5.9	21.4	2.7	3.2	24.7	30.7	6.6	18.1
Corporate and other	0.7	3.3	(0.3)	1.0	(5.2)	(9.4)	(0.6)	(4.6)
Total	54.3	56.2	10.6	43.7	165.8	58.2	26.6	139.2
Other expenses, net:								
Interest expense, net	12.3	(31.9)	1.3	11.0	42.7	(36.6)	2.5	40.2
Loss on early extinguishment/ modification of debt	1.5				(15.0)			
Foreign exchange (loss) gain on financing activities, net	(3.3)				1.0			
Other, net					(0.6)			
Other expenses, net	10.5				28.1			
Income from continuing operations before taxes								
Specialty Chemicals	17.1				49.2			
Performance Additives	6.5				31.2			
Titanium Dioxide Pigments	33.2				94.3			
Advanced Ceramics	6.6				25.2			