Rockwood Holdings, Inc.
Form 10-Q
August 07, 2009

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 June 30, 2009

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

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

100 Overlook Center, Princeton, New Jersey	**08540**
(Address of principal executive offices)	(Zip Code)

(609) 514-0300

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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). o Yes o No

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

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

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

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

As of August 3, 2009, there were 74,096,119 outstanding shares of common stock, par value $0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net sales	$ 730.4	$ 923.2	$ 1,390.4	$ 1,767.0
Cost of products sold	527.2	639.9	1,005.1	1,211.2
Gross profit	203.2	283.3	385.3	555.8
Selling, general and administrative expenses	151.0	175.8	296.1	342.4
Restructuring and other severance costs	4.0	1.5	11.8	2.3
Loss on sale of assets and other		0.8	0.1	0.9
Operating income	48.2	105.2	77.3	210.2
Other expenses, net:				
Interest expense (a)	(28.9)	(9.7)	(78.6)	(83.4)
Interest income	0.4	1.4	0.8	3.6
Loss on early extinguishment of debt, net	(27.9)		(25.7)	
Foreign exchange gain (loss), net	16.5	(0.8)	10.9	14.3
Other, net	0.3	0.1	0.4	0.5
Other expenses, net	(39.6)	(9.0)	(92.2)	(65.0)
Income (loss) from continuing operations before taxes	8.6	96.2	(14.9)	145.2
Income tax provision (benefit)	10.6	20.6	(6.1)	40.3
(Loss) income from continuing operations	(2.0)	75.6	(8.8)	104.9
Income from discontinued operations, net of tax	1.1	2.4	3.4	1.4
Net (loss) income	(0.9)	78.0	(5.4)	106.3
Net loss (income) attributable to noncontrolling interest	2.6		5.6	(0.6)
Net income attributable to Rockwood Holdings, Inc.	$ 1.7	$ 78.0	$ 0.2	$ 105.7
Amounts attributable to Rockwood Holdings, Inc.:				
Income (loss) from continuing operations	$ 0.6	$ 75.6	$ (3.2)	$ 104.3
Income from discontinued operations	1.1	2.4	3.4	1.4
Net income	$ 1.7	$ 78.0	$ 0.2	$ 105.7
Basic earnings (loss) per share attributable to Rockwood Holdings, Inc.:				
Earnings (loss) from continuing operations	$ 0.01	$ 1.02	$ (0.04)	$ 1.41
Earnings from discontinued operations	0.01	0.04	0.04	0.02
Basic earnings per share	$ 0.02	$ 1.06	$	$ 1.43

Diluted earnings (loss) per share attributable to Rockwood Holdings, Inc.:				
Earnings (loss) from continuing operations	$ 0.01	$ 0.98	$ (0.04)	$ 1.36
Earnings from discontinued operations	0.01	0.03	0.04	0.02
Diluted earnings per share	$ 0.02	$ 1.01	$	$ 1.38
Weighted average number of basic shares outstanding	74,082	73,933	74,073	73,916
Weighted average number of diluted shares outstanding	74,347	77,019	74,073	76,870

(a) Interest expense includes:				
Interest expense on debt	$ (38.9)	$ (41.3)	$ (76.6)	$ (81.9)
Mark-to-market gains on interest rate swaps	12.2	34.0	2.6	3.2
Deferred financing costs	(2.2)	(2.4)	(4.6)	(4.7)
Total	$ (28.9)	$ (9.7)	$ (78.6)	$ (83.4)

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 203.0	$ 468.7
Accounts receivable, net	476.0	464.6
Inventories	543.6	641.0
Deferred income taxes	26.7	22.1
Prepaid expenses and other current assets	70.9	65.9
Total current assets	1,320.2	1,662.3
Property, plant and equipment, net	1,715.7	1,752.2
Goodwill	919.5	917.8
Other intangible assets, net	720.2	754.8
Deferred debt issuance costs, net of accumulated amortization of $7.5 and $39.2, respectively	28.2	39.1
Deferred income taxes	22.6	11.6
Other assets	37.3	39.5
Total assets	$ 4,763.7	$ 5,177.3
LIABILITIES		
Current liabilities:		
Accounts payable	$ 211.5	$ 260.8
Income taxes payable	1.1	4.1
Accrued compensation	61.4	92.6
Restructuring liability	11.9	18.9
Accrued expenses and other current liabilities	199.6	198.5
Deferred income taxes	8.6	9.0
Long-term debt, current portion	58.9	90.9
Total current liabilities	553.0	674.8
Long-term debt	2,450.8	2,720.3
Pension and related liabilities	358.2	352.0
Deferred income taxes	84.8	97.6
Other liabilities	186.1	191.6
Total liabilities	3,632.9	4,036.3
Restricted stock units	0.9	2.1
EQUITY		
Rockwood Holdings, Inc. stockholders equity:		
Common stock ($0.01 par value, 400,000 shares authorized, 74,182 shares issued and 74,088 shares outstanding at June 30, 2009; 400,000 shares authorized, 74,155 shares issued and 74,061 shares outstanding at December 31, 2008)	0.7	0.7
Paid-in capital	1,165.9	1,163.5
Accumulated other comprehensive income	219.4	204.0
Accumulated deficit	(543.1)	(543.3)
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders equity	841.5	823.5
Noncontrolling interest	288.4	315.4
Total equity	1,129.9	1,138.9

Total liabilities and equity	$	4,763.7	$	5,177.3

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Six months ended June 30, 2009	Six months ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (5.4)	$ 106.3
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(3.4)	(1.4)
Depreciation and amortization	137.0	125.0
Deferred financing costs amortization	4.6	4.7
Loss on early extinguishment of debt, net (a)	25.7	
Foreign exchange gain, net	(10.9)	(14.3)
Fair value adjustment of derivatives	(2.6)	(3.2)
Bad debt provision	0.4	1.0
Stock-based compensation	1.5	4.1
Deferred income taxes	(16.4)	16.7
Loss on sale of assets and other	0.1	0.4
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(6.5)	(90.0)
Inventories	100.4	(14.7)
Prepaid expenses and other assets	(3.2)	7.8
Accounts payable	(40.7)	(13.1)
Income taxes payable	(3.6)	(0.1)
Accrued expenses and other liabilities	(41.1)	(8.8)
Net cash provided by operating activities of continuing operations	135.9	120.4
Net cash provided by operating activities of discontinued operations		3.3
Net cash provided by operating activities	135.9	123.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees paid, net of cash acquired	(0.3)	(11.4)
Post closing purchase price consideration		29.1
Capital expenditures, excluding capital leases	(81.2)	(104.2)
Proceeds on sale of assets	6.8	2.9
Net cash used in investing activities of continuing operations	(74.7)	(83.6)
Net cash used in investing activities of discontinued operations	(0.4)	(4.9)
Net cash used in investing activities	(75.1)	(88.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees		1.4
Prepayment of 2014 Notes	(146.8)	
Prepayment of senior secured debt	(102.3)	
Repayment of senior secured debt	(36.8)	(33.5)
Payments on other long-term debt	(5.4)	(5.6)
Deferred financing costs	(13.7)	(3.0)
Fees related to early extinguishment of debt	(8.3)	
Loan from Viance noncontrolling shareholder	2.0	
Contractual advance to Titanium Dioxide Pigments noncontrolling shareholder	(1.3)	
Distribution to noncontrolling shareholder		(2.9)
Net cash used in financing activities of continuing operations	(312.6)	(43.6)
Net cash used in financing activities of discontinued operations		

Net cash used in financing activities		(312.6)		(43.6)
Effect of exchange rate changes on cash and cash equivalents		(13.9)		(0.2)
Net decrease in cash and cash equivalents		(265.7)		(8.6)
Cash and cash equivalents of continuing operations, beginning of period		468.7		350.1
Cash and cash equivalents of continuing operations, end of period	$	203.0	$	341.5

(a) Includes the write-off of deferred financing costs of $20.9 and lender fees related to the early extinguishment of debt of $11.1, partially offset by a discount on the prepayment of the 2014 Notes of $6.3.

Supplemental disclosures of cash flow information:				
Interest paid	$	78.5	$	82.8
Income taxes paid, net of refunds	$	14.8	$	23.6
Non-cash investing activities:				
Acquisition of capital equipment	$	12.3	$	8.4
Fees related to early extinguishment of debt	$	3.7	$	

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Dollars in millions)

(Unaudited)

	2009			2008		
	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1	$ 823.5	$ 315.4	$ 1,138.9	$ 1,571.6	$ 175.3	$ 1,746.9
Net income (loss)	0.2	(5.6)	(5.4)	105.7	0.6	106.3
Other comprehensive income (loss)	15.4	(4.2)	11.2	87.6		87.6
Comprehensive income (loss)	15.6	(9.8)	5.8	193.3	0.6	193.9
Change in estimate of fair value of assets contributed to the Titanium Dioxide Pigments venture		(16.5)	(16.5)			
Distribution to noncontrolling shareholder					(2.9)	(2.9)
Foreign currency translation		(0.7)	(0.7)			
Issuance of common stock				1.4		1.4
Deferred compensation	2.4		2.4	2.0		2.0
Balance at June 30	$ 841.5	$ 288.4	$ 1,129.9	$ 1,768.3	$ 173.0	$ 1,941.3

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

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

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

Rockwood was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition) by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR). The businesses acquired focus on specialty compounds, iron-oxide pigments, timber-treatment chemicals and clay-based additives. Effective November 2007, affiliates of KKR control less than a majority of the voting power of the Company s outstanding common stock.

On July 31, 2004, the Company completed the acquisition of certain businesses of Dynamit Nobel from mg technologies ag, now known as GEA Group Aktiengesellschaft (GEA Group). The remaining businesses acquired are focused on highly specialized markets and consist of: surface treatment and lithium chemicals; advanced ceramics and titanium dioxide pigments.

Basis of Presentation The accompanying condensed financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior-period amounts related to reporting the sale of the pool and spa chemicals business in October 2008 as discontinued operations and the adoption of Statement of Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, have been reclassified to conform to the current-year classification.

The interim financial statements included herein are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America (U.S. GAAP), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company s 2008 Form 10-K. In the opinion of management, this information contains all adjustments necessary, consisting of normal and recurring accruals, for a fair presentation of the results for the periods presented.

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

Unless otherwise noted, all balance sheet related items which are denominated in euros are converted at the June 30, 2009 exchange rate of 1.00 = $1.4033.

Stock-Based Compensation The Company has previously granted awards under the 2008 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan). Under the Plan, the Company granted stock options, restricted stock and other stock-based awards to the Company s employees and directors and allowed employees and directors to purchase shares of its common stock. There were 10,000,000 authorized shares available for grant under the Plan. However, the Company will no longer issue equity awards under this Plan. In April 2009, the Company adopted the 2009 Stock Incentive Plan (the New Plan), which has 11,000,000 authorized shares. Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, and related interpretations and began expensing the grant-date fair value of stock options.

The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plan caused income from continuing operations before taxes to decrease by $0.7 million and $2.2 million for the three months ended June 30, 2009 and 2008, respectively and $1.5 million and $4.1 million for the six months ended June 30, 2009 and 2008, respectively. The total tax benefit recognized related to stock options was $0.1 million and $0.2 million for the three months ended June 30, 2009 and 2008, respectively and $0.1 million and $0.4 million for the six months ended June 30, 2009 and 2008, respectively.

In December 2008, the Company approved an award of 606,256 performance restricted stock units to management and key employees which will vest on December 31, 2011 as long as the employee continues to be employed by the Company on this date and upon the achievement of certain performance targets approved by the Compensation Committee. The number of shares of the Company s common stock ultimately awarded upon vesting is determined based on the achievement of specified performance criteria over the period January 1, 2009 through December 31, 2009. However, in accordance with SFAS No. 123R, the Company did not recognize any compensation cost in 2008 for this issuance because the performance targets that form the basis for vesting of these restricted stock units were not known as of December 31, 2008. These performance targets were established on February 20, 2009, when such performance targets were approved by the Compensation Committee, and as a result, the Company began recording compensation cost on a ratable basis over the vesting period. The grant date fair value of these restricted stock units was $7.59 per stock unit.

The Company granted additional stock options and restricted stock units to certain employees of Rockwood Corporate Headquarters and its business units. The restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment on the vesting date upon a change in control as defined in the equity agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of June 30, 2009 and December 31, 2008 have been recorded as mezzanine equity (outside of permanent equity) in the Condensed Consolidated Balance Sheets.

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

In December 2007, SFAS No. 141 (revised 2007), *Business Combinations* (FAS 141R) was issued, which replaces Financial Accounting Standards Board (FASB) Statement No. 141, *Business Combinations*. FAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This statement also establishes disclosure requirements to enable users of financial statements to evaluate the nature and financial effects of the business combination. This statement was adopted as of January 1, 2009 and is effective for acquisitions completed on or after January 1, 2009.

In December 2007, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, was issued. Per this statement, the accounting and reporting for minority interests was recharacterized as noncontrolling interests and classified as a component of equity (but separate from parent s equity). This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement was adopted as of January 1, 2009 and primarily relates to the Company s Viance, LLC joint venture and Titanium Dioxide Pigments venture.

In February 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company applied the provisions of FSP 157-2 on January 1, 2009 and this FSP did not have a material impact on its financial statements.

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*, was issued. This statement changes the disclosure requirements for derivative instruments and hedging activities, including enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company adopted SFAS No. 161 on January 1, 2009. This standard did not have a material impact on the Company s financial statements. See Note 5, Derivatives, for the disclosure requirements of this new standard.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations*, and other U.S. GAAP. This FSP is effective for recognized intangible assets acquired after January 1, 2009 and did not have a material impact on the Company s financial statements.

In December 2008, the FASB issued FSP No. 132 (R) 1, *Employers Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FASB Statement No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This includes disclosing objectives about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets, and significant concentrations of risk within plan assets. The disclosures about plan assets required by this FSP are effective for the Company for the 2009 fiscal year end.

In April 2009, the FASB issued FSP No. 141 (R) 1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. This FSP amends and clarifies FASB Statement No. 141 (revised 2007), Business

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

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Statements*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosures in summarized financial information at interim reporting periods. This FSP is effective for the Company beginning with its Form 10-Q for the period ended June 30, 2009 and relates to disclosures made about the fair value of its debt instruments and cash and cash equivalents.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for the Company beginning with its Form 10-Q for the period ended June 30, 2009 and did not have a material impact on its financial statements.

In May 2009, SFAS No. 165, *Subsequent Events*, was issued. This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This Statement applies to both interim and annual financial statements and is effective for the Company beginning with its Form 10-Q for the period ended June 30, 2009. The Company has performed an evaluation of subsequent events through August 7, 2009, which is the date these financial statements were filed with the Securities and Exchange Commission (SEC).

In June 2009, SFAS No. 166, *Accounting for Transfers and Servicing of Financial Assets,* was issued. This Statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and will require additional disclosures. This Statement is effective for financial asset transfers occurring after January 1, 2010 for the Company. The Company does not expect this statement to have a material impact on its financial statements.

In June 2009, SFAS No. 167, *Amendments to FASB Interpretation No. 46 (R),* was issued. This Statement amends FASB Interpretation 46 (R), *Consolidation of Variable Interest Entities,* and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest entity or interests give it a controlling financial interest in a variable interest entity. It also will require additional disclosures about involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This Statement is effective for the Company as of January 1, 2010. The Company is currently evaluating the impact this statement will have on its financial statements primarily relating to its Viance LLC joint venture and its Titanium Dioxide Pigments venture with Kemira.

In June 2009, SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162,* was issued. This Statement establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP. The Codification does not change current GAAP. Instead, it introduces a new structure that reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics. The Codification supersedes all accounting standards in existing FASB, Emerging Issues Task Force (EITF), American Institute of Certified Public Accountants (AICPA), and related standards. This Codification is effective for the Company s financial statements beginning with its Form 10-Q for the period ended September 30, 2009. As a result, the Company began to follow the guidelines in the Codification beginning with its third quarter commencing on July 1, 2009.

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 are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries and certain intercompany debt.

Comprehensive income (loss) is summarized as follows:

($ in millions)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net (loss) income	$ (0.9)	$ 78.0	$ (5.4)	$ 106.3
Pension related adjustments, net of tax	(0.2)	(0.1)	(0.1)	0.4
Foreign currency translation	69.4	2.7	7.4	119.5
Intercompany foreign currency loans	41.0	(1.3)	3.4	61.5
Net investment hedges, net of tax	(48.7)	3.0	0.6	(93.8)
Foreign exchange contracts, net of tax	0.2		(0.1)	
Comprehensive income	60.8	82.3	5.8	193.9
Comprehensive loss (income) attributable to noncontrolling interest	2.9		9.8	(0.6)
Comprehensive income attributable to Rockwood Holdings, Inc.	$ 63.7	$ 82.3	$ 15.6	$ 193.3

3. DISCONTINUED OPERATIONS:

On October 10, 2008, the Company completed the sale of its pool and spa chemicals business and received net proceeds of $122.0 million in cash. The net gain on the pool and spa chemicals business sale recorded in the fourth quarter of 2008 was $40.5 million (net of $25.7 million of taxes). In connection with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company s financial statements have been reclassified to reflect this business as a discontinued operation for all periods presented.

For the three months ended June 30, 2009, income from discontinued operations, net of tax, was $1.1 million and was related to the reversal of certain reserves in connection with the sale of the Electronics business in December 2007. For the six months ended June 30, 2009, income from discontinued operations, net of tax, was $3.4 million and was comprised of income of $2.3 million due to the favorable resolution of a claim against the Company s former Group Novasep business and the Electronics business reserve reversal of $1.1 million. For the three and six months ended June 30, 2008, income from discontinued operations, net of tax, of $2.4 million and $1.4 million, respectively, related to operating the pool and spa chemicals business.

4. SEGMENT INFORMATION:

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

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

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

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

($ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated (a)
Three months ended June 30, 2009							
Net sales	$ 236.2	$ 180.1	$ 164.3	$ 97.1	$ 51.6	$ 1.1	$ 730.4
Total Adjusted EBITDA	57.5	22.3	19.5	26.1	8.9	(9.0)	125.3
Three months ended June 30, 2008							
Net sales	$ 335.5	$ 242.3	$ 124.3	$ 145.3	$ 73.2	$ 2.6	$ 923.2
Total Adjusted EBITDA	82.1	37.2	14.1	44.9	10.1	(13.3)	175.1
Six months ended June 30, 2009							
Net sales	$ 461.5	$ 335.4	$ 303.3	$ 185.0	$ 102.7	$ 2.5	$ 1,390.4
Total Adjusted EBITDA	107.8	42.9	41.0	43.9	16.7	(17.8)	234.5
Six months ended June 30, 2008							
Net sales	$ 647.2	$ 453.6	$ 240.2	$ 278.5	$ 142.2	$ 5.3	$ 1,767.0
Total Adjusted EBITDA	162.6	70.9	36.3	83.4	18.8	(27.7)	344.3

	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other (b)	Eliminations (c)	Consolidated
Identifiable assets as of:								
June 30, 2009	$ 2,032.0	$ 817.5	$ 921.1	$ 872.5	$ 137.6	$ 264.2	$ (281.2)	$ 4,763.7
December 31, 2008	2,030.9	829.8	990.0	879.9	130.2	541.4	(224.9)	5,177.3

(a) This amount does not include $3.2 million and $2.4 million of Adjusted EBITDA for the three and six months ended June 30, 2008, respectively, from the pool and spa chemicals business sold in October 2008.

(b) The decrease is primarily related to lower cash balances as a result of debt payments in the first half of 2009. This amount includes $47.5 million and $50.7 million of assets from legacy businesses at June 30, 2009 and December 31, 2008, respectively. These businesses were formerly owned primarily by Dynamit Nobel.

(c) Amounts contained in the Eliminations column represent the individual subsidiaries retained interest in their cumulative net cash balance (deposits less withdrawals) included in the corporate centralized cash system and within the identifiable assets of the respective segment. These amounts are eliminated as the corporate centralized cash system is included in the Corporate and other segment s identifiable assets.

Geographic information regarding net sales based on seller s location and long-lived assets are described in Note 3, Segment Information, in the Company s 2008 Form 10-K.

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

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

($ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other	Consolidated
Three months ended June 30, 2009							
Income (loss) from continuing operations before taxes	$ 13.1	$ (5.2)	$ (4.3)	$ (2.7)	$ 3.2	$ 4.5	$ 8.6
Interest expense (a)	15.6	7.2	4.9	8.3	2.3	(9.4)	28.9
Interest income	(0.5)	0.1	(0.1)	(0.1)		0.2	(0.4)
Depreciation and amortization	17.8	15.4	18.8	12.8	2.6	1.5	68.9
Restructuring and other severance costs	0.5	1.7	(0.1)	1.7	0.1	0.1	4.0
Systems/organization establishment expenses	0.1	0.6	0.3	0.1		(0.1)	1.0
Loss on early extinguishment of debt, net	10.1	2.2		6.6	0.7		