Rockwood Holdings, Inc.
Form 10-Q
May 11, 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 March 31, 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 (State or other jurisdiction of incorporation or organization)	**52-2277366** (I.R.S. Employer Identification No.)
100 Overlook Center, Princeton, New Jersey (Address of principal executive offices)	**08540** (Zip Code)

(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 May 4, 2009, there were 74,080,651 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 March 31, 2009		Three months ended March 31, 2008	
Net sales	$	660.0	$	843.8
Cost of products sold		477.9		571.3
Gross profit		182.1		272.5
Selling, general and administrative expenses		145.1		166.6
Restructuring and other severance costs		7.8		0.8
Loss on sale of assets and other		0.1		0.1
Operating income		29.1		105.0
Other expenses, net:				
Interest expense (a)		(49.7)		(73.7)
Interest income		0.4		2.2
Gain on early extinguishment of debt		2.2		
Foreign exchange (loss) gain, net		(5.6)		15.1
Other, net		0.1		0.4
Other expenses, net		(52.6)		(56.0)
(Loss) income from continuing operations before taxes		(23.5)		49.0
Income tax (benefit) provision		(16.7)		19.7
(Loss) income from continuing operations		(6.8)		29.3
Income (loss) from discontinued operations, net of tax		2.3		(1.0)
Net (loss) income		(4.5)		28.3
Net loss (income) attributable to noncontrolling interest		3.0		(0.6)
Net (loss) income attributable to Rockwood Holdings, Inc.	$	(1.5)	$	27.7
Amounts attributable to Rockwood Holdings, Inc.:				
(Loss) earnings from continuing operations	$	(3.8)	$	28.7
Earnings (loss) from discontinued operations		2.3		(1.0)
Net (loss) income	$	(1.5)	$	27.7
Basic (loss) earnings per share attributable to Rockwood Holdings, Inc.:				
(Loss) earnings from continuing operations	$	(0.05)	$	0.39
Earnings (loss) from discontinued operations		0.03		(0.02)
Basic (loss) earnings per share	$	(0.02)	$	0.37
Diluted (loss) earnings per share:				
(Loss) earnings from continuing operations	$	(0.05)	$	0.37

Earnings (loss) from discontinued operations		0.03		(0.01)
Basic (loss) earnings per share	$	(0.02)	$	0.36
Weighted average number of basic shares outstanding		74,064		73,898
Weighted average number of diluted shares outstanding		74,064		76,609

(a) Interest expense includes:

Interest expense on debt	$	(37.7)	$	(40.6)
Mark-to-market losses on interest rate swaps		(9.6)		(30.8)
Deferred financing costs		(2.4)		(2.3)
Total	$	(49.7)	$	(73.7)

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)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 327.1	$ 468.7
Accounts receivable, net	425.5	464.6
Inventories	603.2	641.0
Deferred income taxes	22.4	22.1
Prepaid expenses and other current assets	53.1	65.9
Total current assets	1,431.3	1,662.3
Property, plant and equipment, net	1,645.6	1,752.2
Goodwill	871.1	917.8
Other intangible assets, net	708.4	754.8
Deferred debt issuance costs, net of accumulated amortization of $38.0 and $39.2, respectively	33.5	39.1
Deferred income taxes	19.7	11.6
Other assets	35.8	39.5
Total assets	$ 4,745.4	$ 5,177.3
LIABILITIES		
Current liabilities:		
Accounts payable	$ 201.9	$ 260.8
Income taxes payable	3.3	4.1
Accrued compensation	77.7	92.6
Restructuring liability	13.4	18.9
Accrued expenses and other current liabilities	175.9	198.5
Deferred income taxes	8.9	9.0
Long-term debt, current portion	26.5	90.9
Total current liabilities	507.6	674.8
Long-term debt	2,559.5	2,720.3
Pension and related liabilities	337.4	352.0
Deferred income taxes	82.7	97.6
Other liabilities	196.2	191.6
Total liabilities	3,683.4	4,036.3
Restricted stock units	1.6	2.1
EQUITY		
Rockwood Holdings, Inc. stockholders equity:		
Common stock ($0.01 par value, 400,000 shares authorized, 74,175 shares issued and 74,081 shares outstanding at March 31, 2009; 400,000 shares authorized, 74,155 shares issued and 74,061 shares outstanding at December 31, 2008)	0.7	0.7
Paid-in capital	1,164.5	1,163.5
Accumulated other comprehensive income	157.4	204.0
Accumulated deficit	(544.8)	(543.3)
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders equity	776.4	823.5
Noncontrolling interest	284.0	315.4

Total equity		1,060.4		1,138.9
Total liabilities and equity	$	4,745.4	$	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)

	Three months ended March 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (4.5)	$ 28.3
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(2.3)	1.0
Depreciation and amortization	68.1	61.5
Deferred financing costs amortization	2.4	2.3
Gain on early extinguishment of debt (including $1.4 of noncash write-offs on deferred financing costs for the three months ended March 31, 2009)	(2.2)	
Foreign exchange loss (gain)	5.6	(15.1)
Fair value adjustment of derivatives	9.6	30.8
Bad debt provision		0.3
Stock-based compensation	0.8	1.8
Deferred income taxes	(22.5)	7.3
Loss (gain) 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	22.2	(41.6)
Inventories	15.7	(9.8)
Prepaid expenses and other assets	9.7	3.2
Accounts payable	(37.2)	(39.1)
Income taxes payable	(0.5)	1.4
Accrued expenses and other liabilities	(15.2)	4.8
Net cash provided by operating activities of continuing operations	49.8	36.7
Net cash used in operating activities of discontinued operations		(9.5)
Net cash provided by operating activities	49.8	27.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees paid, net of cash acquired	(0.7)	(10.9)
Post closing purchase price consideration		29.1
Capital expenditures, excluding capital leases	(44.3)	(55.6)
Proceeds on sale of assets	2.1	2.4
Net cash used in investing activities of continuing operations	(42.9)	(35.0)
Net cash used in investing activities of discontinued operations	(0.4)	(5.1)
Net cash used in investing activities	(43.3)	(40.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees		0.1
Repayment of 2014 Notes	(11.9)	
Repayment of senior secured credit facilities	(29.8)	(33.5)
Payments on other long-term debt	(2.6)	(3.0)
Payments related to early extinguishment of senior secured debt	(102.3)	
Loan from Viance joint venture noncontrolling shareholder	2.0	
Contractual advance to Titanium Dioxide Pigments venture noncontrolling shareholder	(1.3)	
Distribution to noncontrolling shareholder		(2.2)
Net cash used in financing activities of continuing operations	(145.9)	(38.6)
Net cash used in financing activities of discontinued operations		
Net cash used in financing activities	(145.9)	(38.6)

Effect of exchange rate changes on cash and cash equivalents		(2.2)		(0.5)
Net decrease in cash and cash equivalents		(141.6)		(52.0)
Cash and cash equivalents of continuing operations, beginning of period		468.7		350.1
Cash and cash equivalents of continuing operations, end of period	$	327.1	$	298.1
Supplemental disclosures of cash flow information:				
Interest paid	$	25.9	$	25.9
Income taxes paid, net of refunds	$	6.0	$	10.9
Non-cash investing activities:				
Acquisition of capital equipment	$	8.1	$	7.4

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	Noncontrolling Interest	Total Equity	Rockwood Holdings, Inc. Stockholders	Noncontrolling Interest	Total Equity
Balance at beginning of period	$ 823.5	$ 315.4	$ 1,138.9	$ 1,571.6	$ 175.3	$ 1,746.9
Net (loss) income	(1.5)	(3.0)	(4.5)	27.7	0.6	28.3
Other comprehensive (loss) income	(46.6)	(3.9)	(50.5)	83.3		83.3
Comprehensive (loss) income	(48.1)	(6.9)	(55.0)	111.0	0.6	111.6
Change in estimate of fair value of assets contributed to the Titanium Dioxide Pigments venture		(16.5)	(16.5)			
Distribution to noncontrolling shareholder					(2.2)	(2.2)
Foreign currency translation		(8.0)	(8.0)			
Issuance of common stock				0.1		0.1
Deferred compensation	0.5		0.5	1.9		1.9
Restricted stock units	0.5		0.5	(0.9)		(0.9)
Balance at end of period	$ 776.4	$ 284.0	$ 1,060.4	$ 1,683.7	$ 173.7	$ 1,857.4

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.

On September 1, 2008, the Company completed the formation of a venture with Kemira Oyj (Kemira) that focuses on specialty titanium dioxide pigments (See Note 6, Acquisitions, for further details).

Basis of Presentation The accompanying condensed financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts related to reporting the sale of the pool and spa chemicals business in October 2008 as discontinued operations and the adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51,* have been reclassified to conform to 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) in continuing operations represents the total of the noncontrolling party s interest in certain investments (principally the Viance, LLC joint venture and the Titanium Dioxide Pigments venture) that are consolidated but less than 100% owned.

On January 2, 2007, Chemical Specialties, Inc. (CSI), a wholly-owned subsidiary of the Company within the Timber Treatment Chemicals business of the Performance Additives segment, and Rohm and Haas Company completed the formation of Viance, LLC, a joint venture company that provides an extensive range of advanced wood treatment technologies and services to the global wood treatment industry. In accordance with the consolidation principles of Financial Accounting Standards Board (FASB) Interpretation (FIN) 46(R), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*, the Company has concluded that Rockwood is the primary beneficiary of the joint venture and as such has consolidated the joint venture. At March 31, 2009 and December 31, 2008, the Viance, LLC joint venture had no third party debt outstanding, no consolidated assets of the Company were pledged as collateral for any joint venture obligations and the general creditors of the joint venture had no recourse to the general credit of the Company. The net assets of the Viance, LLC joint venture included in the Condensed Consolidated Balance Sheets of the Company were $85.8 million and $87.5 million at March 31, 2009 and December 31, 2008, respectively, and were primarily related to identifiable intangible assets. All intercompany accounts, balances and transactions have been eliminated.

As noted above, the Company completed a Titanium Dioxide Pigments venture with Kemira in September 2008. The Company has consolidated this venture and has reported Kemira s interest as a noncontrolling interest in the condensed consolidated financial statements. This entity did not meet the definition of a variable interest entity under FIN 46(R) and was thus consolidated in accordance with ARB No. 51, *Consolidated Financial Statements*. The water treatment business formerly within the Titanium Dioxide Pigments segment was not part of the transaction and is now being reported within the Clay-based Additives business in the Performance Additives segment. As a result, the Company s financial statements have been reclassified to reflect the water treatment business as part of the Performance Additives segment for the periods presented. See Note 6, Acquisitions, for further details.

Unless otherwise noted, all balance sheet related items which are denominated in euros are converted at the March 31, 2009 exchange rate of 1.00 = $1.325.

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

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

Use of Estimates The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. These estimates include, among other things, assessing the collectability of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, the measurement of the accrual for uncertain tax benefits, impairment of goodwill as well as property, plant and equipment and other intangible assets, the accrual of environmental and legal reserves and the useful lives of tangible and intangible assets, among others. Actual results could differ from those estimates. Such estimates also include the fair value of assets acquired and liabilities assumed allocated to the purchase price of business combinations consummated.

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

Related Party Transactions Rockwood has engaged in transactions with certain related parties including KKR and DLJMB and affiliates of each. Information concerning certain transactions is included in Note 1, Description of Business and Summary of Significant Accounting Policies, and Item 13. Certain Relationships and Related Transactions, and Director Independence, in the Company s 2008 Form 10-K.

As part of the Titanium Dioxide Pigments venture with Kemira that was completed in September 2008, the venture has a long-term agreement expiring in August 2018 to purchase steam and electricity (energy) from Kemira. The venture purchased $8.0 million of energy from Kemira during the first quarter of 2009. As of March 31, 2009, $6.3 million was due to Kemira, as well an additional one-time payment of $13.9 million in connection with the energy supply agreement. Minimum annual payments under the energy agreement are approximately $17.0 million. In connection with this energy supply arrangement, the venture has approximately $28.6 million of non-interest bearing notes receivable from

Kemira that are due in August 2028. The carrying value of the notes receivable was $4.6 million at March 31, 2009. Interest is imputed at an effective rate of 8.96%.

As part of the Titanium Dioxide Pigments venture with Kemira, the venture has a supply agreement for the sale of certain raw materials to Kemira that are manufactured by the venture. The term of this contract expires in December 2015. Transactions between the Titanium Dioxide Pigments venture and Kemira amounted to: sales to Kemira of $0.6 million in the three months ended March 31, 2009 and amounts due from Kemira of $0.7 million at March 31, 2009. In addition, there were sales from the Titanium Dioxide Pigments venture to companies owned by Kemira of $3.6 million during the three months ended March 31, 2009, of which $2.2 million was due to the venture at March 31, 2009.

As part of the Viance, LLC joint venture formed in January 2007 between a subsidiary within the Timber Treatment Chemicals business and Rohm and Haas, the joint venture entered into certain related party transactions with Rohm and Haas. Viance, LLC does not own manufacturing facilities, and as a result, relies on the members of the joint venture to provide substantially all product and distribution requirements. In addition, the members sell products to Viance, LLC. Transactions between Viance, LLC and Rohm and Haas amounted to: purchases from Rohm and Haas of $1.2 million and $1.2 million for the three months ended March 31, 2009 and 2008, respectively, and sales to Rohm and Haas of $0.1 million and $0.1 million for the three months ended March 31, 2009 and 2008, respectively. Amounts due to Rohm and Haas totaled $1.2 million and $3.0 million at March 31, 2009 and December 31, 2008, respectively. In addition, a short-term note payable of $2.0 million as of March 31, 2009 was due to Rohm and Haas.

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

Foreign Currency Translation The functional currency of each of the Company s foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity s functional currency), including intercompany financing arrangements for which settlement is planned or anticipated, are included in determining net income for the period in which exchange rates change. Gains or losses on certain intercompany loans that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future and gains or losses on euro-denominated debt that is designated as a net investment hedge of the Company s euro-denominated investments are reported and accumulated in the same manner as translation adjustments. These loans are all related to intercompany debt arrangements. As of March 31, 2009, intercompany debt arrangements deemed to be of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future is predominantly related to 519.4 million ($688.2 million) of intercompany loans.

Derivatives The Company accounts for derivatives based on Statement of Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings while changes in the fair value of derivatives that are designated as hedging instruments are recognized as a component of comprehensive income. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. See Comprehensive Income section of Note 1 for the impact of the Company s net investment and foreign exchange cash flow hedges. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

On January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*. This statement changes the disclosure requirements for derivative instruments and hedging activities, including enhanced disclosures about (a) how and why the Company 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. See Note 4, Derivatives, for the disclosure requirements of this new standard.

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

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

Income Taxes Income taxes are determined in accordance with SFAS 109, *Accounting for Income Taxes* and FIN No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*. The Company s U.S. operations are included in a consolidated federal income tax return. The amount of current and deferred tax expense is computed on a separate entity basis for each member of the group based on applying the principles of SFAS No. 109. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes,* and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to not be sustained upon audit by the relevant authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with FIN 48, the Company records liabilities for uncertain tax benefits net of deferred tax assets associated with tax loss carryforwards for liabilities arising in the same year as the asset and for liabilities arising in different years from the asset, provided that the related tax loss can be carried back or forward to offset the liability.

In accordance with SFAS No. 109, Paragraph 140, the Company has allocated a tax benefit to the extent of its U.S. loss from continuing operations, offset by a tax provision charged to other comprehensive income. When a tax jurisdiction has a loss from continuing operations and income from other items on a net basis, the Company s policy is to allocate a tax benefit to continuing operations from the other items of income on a pro-rata basis.

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

- Future reversals of existing taxable temporary differences.

- Future taxable income exclusive of reversing temporary differences and carryforwards.

- Taxable income in prior carry back year (s) if carry back is permitted under the tax law.

- Tax planning strategies that would, if necessary, be implemented to:

(1) Accelerate taxable amounts to utilize expiring carryforwards.

(2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.

(3) Switch from tax-exempt to taxable investments.

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

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

- Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

- An excess of appreciated asset value over the tax basis of the entity s net assets in an amount sufficient to realize the deferred tax asset.

Comprehensive Income Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany transactions that are of a long-term investment nature, pension-related adjustments that are recorded directly into a separate section of 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:

	Three months ended March 31,	
($ in millions)	**2009**	**2008**
Net (loss) income	$ (4.5)	$ 28.3
Pension related adjustments, net of tax	0.1	0.5
Foreign currency translation	(62.0)	116.8
Intercompany foreign currency loans	(37.6)	62.8
Net investment hedges, net of tax	49.3	(96.8)
Foreign exchange contracts, net of tax	(0.3)	
Comprehensive (loss) income	(55.0)	111.6
Comprehensive loss (income) attributable to noncontrolling interest	6.9	(0.6)
Comprehensive (loss) income attributable to Rockwood Holdings, Inc.	$ (48.1)	$ 111.0

Accounting for Environmental Liabilities In the ordinary course of business, Rockwood is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. Rockwood s policy has been to accrue costs of a non-capital nature related to environmental clean-up when those costs are believed to be probable and can be reasonably estimated. If the aggregate amount of the obligation and the amount and timing of the cash payments for a site are fixed or reliably determinable, the liability is discounted. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized and expenditures related to existing conditions resulting from past or present operations and from which no current or future benefit is discernible are immediately expensed. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation and the length of time involved in remediation or settlement. In some matters, Rockwood may share costs with other parties. Rockwood does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

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

Stock-Based Compensation The Company has 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. 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. No shares have been awarded under the New Plan. Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, and related interpretations and began expensing the grant-date fair value of stock options.

The 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 $0.8 million and $1.9 million for the three months ended March 31, 2009 and 2008, respectively. The total tax benefit recognized related to stock options was less than $0.1 million and $0.2 million for the three months ended March 31, 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 in 2008 and 2007 to certain employees of Rockwood

Corporate Headquarters and its business units. The restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment 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 March 31, 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 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, as discussed above.

In February 2008, the Financial Accounting Standards Board (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 4, 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 to be made about the fair value of its debt instruments.

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 is not expected to have a material impact on its financial statements.

2. DISCONTINUED OPERATIONS:

On October 10, 2008, the Company completed the sale of its pool and spa chemicals business and received net proceeds of $122.0 million in cash. 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 first quarter of 2009, income from discontinued operations net of tax was $2.3 million and was primarily due to the favorable resolution of a claim against the Company s former Group Novasep business. Operating results of the discontinued operations of the pool and spa chemicals business for the three months ended March 31, 2008 were as follows:

($ in millions)		**Three months ended March 31, 2008**
Net sales	$	10.2
Cost of products sold		7.8
Gross profit		2.4
Selling, general and administrative expenses		3.5
Loss before taxes		(1.1)
Income tax benefit		(0.1)
Net loss	$	(1.0)

3. SEGMENT INFORMATION:

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

Items that cannot be readily attributed to individual segments have been classified as Corporate and other. Corporate and other operating loss primarily represents payroll, professional fees and other operating expenses of centralized functions such as treasury, tax, legal, internal audit and consolidation accounting as well as the cost of operating the Company s central offices (including some costs maintained based on legal or tax considerations). The primary components of Corporate and other loss, in addition to operating loss, are interest expense on external debt (including the amortization of deferred financing costs), foreign exchange losses or gains, and mark-to-market gains or losses on derivatives. Major components within the reconciliation of income before taxes (described more fully below) include systems/organization establishment expenses, interest expense on external debt, foreign exchange losses or gains, and refinancing expenses related to external debt. Corporate and other identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing, deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The Corporate and other classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel and the wafer reclaim business. The European 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 March 31, 2009							
Net sales	$ 225.3	$ 155.3	$ 139.0	$ 87.9	$ 51.1	$ 1.4	$ 660.0
Total Adjusted EBITDA	50.3	20.6	21.5	17.8	7.8	(8.8)	109.2
Three months ended March 31, 2008							
Net sales	$ 311.7	$ 211.3	$ 115.9	$ 133.2	$ 69.0	$ 2.7	$ 843.8
Total Adjusted EBITDA	80.5	33.7	22.2	38.5	8.7	(14.4)	169.2

	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Corporate and other (b)	Eliminations (c)	Consolidated
Identifiable assets as of:								
March 31, 2009	$ 1,948.9	$ 794.3	$ 889.1	$ 826.1	$ 126.5	$ 397.0	$ (236.5)	$ 4,745.4
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 $(0.8) million of Adjusted EBITDA for the three months ended March 31, 2008 from the pool and spa chemicals business sold in October 2008.

(b) This amount includes $46.3 million and $50.7 million of assets from legacy businesses at March 31, 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 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 March 31, 2009							
Income (loss) from continuing operations before taxes	$ 13.2	$ (5.4)	$ (7.4)	$ (6.8)	$ 2.8	$ (19.9)	$ (23.5)
Interest expense (a)	15.0	7.1	10.0	8.0	2.3	7.3	49.7
Interest income	(0.2)	0.1	(0.2)			(0.1)	(0.4)
Depreciation and amortization	18.8	15.1	17.9	11.9	2.7	1.7	68.1
Restructuring and other severance costs	1.6	2.9	0.1	3.1		0.1	7.8
Systems/organization establishment expenses	0.3	0.5	1.1	0.1		0.1	2.1
Loss (gain) on early extinguishment of debt	0.4			0.3		(2.9)	(2.2)
Loss on sale of assets and other	0.1						0.1
Foreign exchange loss, net	0.7			1.2		3.7	5.6
Other	0.4	0.3				1.2	1.9
Total Adjusted EBITDA	$ 50.3	$ 20.6	$ 21.5	$ 17.8	$ 7.8	$ (8.8)	$ 109.2
Three months ended March 31, 2008							
Income (loss) from continuing operations before taxes	$ 52.7	$ 8.0	$ 1.0	$ 18.1	$ 3.6	$ (34.4)	$ 49.0
Interest expense (a)	12.8	7.4	9.0	8.7	2.3	33.5	73.7
Interest income	(0.7)			(0.1)	(0.2)	(1.2)	(2.2)
Depreciation and amortization	16.1	16.9	12.2	11.9	2.9	1.5	61.5
Restructuring and other severance costs		0.6		0.2			0.8
Systems/organization establishment expenses	0.3	0.7		0.1	0.1		1.2
Inventory write-up charges	0.4						0.4
Loss on sale of assets and other				0.1			0.1
Foreign exchange gain, net	(0.6)			(0.5)		(14.0)	(15.1)
Other	(0.5)	0.1				0.2	(0.2)
Total Adjusted EBITDA (b)	$ 80.5	$ 33.7	$ 22.2	$ 38.5	$ 8.7	$ (14.4)	$ 169.2

(a) Includes losses of $9.6 million and $30.8 million for the three months ended March 31, 2009 and 2008, respectively, representing the movement in the mark-to-market valuation of the Company s interest rate and cross-currency hedging instruments.

(b) This amount does not include $(0.8) million of Adjusted EBITDA for the three months ended March 31, 2008 from the pool and spa chemicals business sold in October 2008.

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

Items excluded from Adjusted EBITDA

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

- *Restructuring and related charges*: Restructuring charges of $7.8 million and $0.8 million were recorded in the three months ended March 31, 2009 and 2008, respectively, for miscellaneous restructuring activities, including headcount reductions and facility closures (see Note 14, Restructuring and Other Severance Costs, for further details).

- *Systems/organization establishment expenses*: For the three months ended March 31, 2009, expenses of $2.1 million were recorded related to the integration of businesses acquired, primarily related to the completion of the Titanium Dioxide Pigments venture on September 1, 2008 and the acquisition of the Elementis plc business in the Performance Additives segment in August 2007. For the three months ended March 31, 2008, expenses of $1.2 million were recorded related to the integration of businesses acquired, primarily related to the acquisition of the Elementis plc business in the Performance Additives segment.

- *Inventory write-up charges*: Under SFAS 141, *Business Combinations*, all inventories acquired in an acquisition must be revalued to fair value. In connection with acquisitions, the Company allocates a portion of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisitions. This resulted in a reduction of gross profit of $0.4 million for the three months ended March 31, 2008 in the Specialty Chemicals segment as the inventory was sold in the normal course of business.

- *Loss (gain) on early extinguishment of debt*: In the first quarter of 2009, the Company recorded a net gain of $2.2 million related to the repurchase of 12.2 million ($15.5 million based on the exchange rate in effect on the date of repurchase) of its senior subordinated notes due in 2014, and the prepayment of 63.2 million ($85.1 million based on the exchange rate in effect on the date of payment) and $17.2 million of its senior secured term loans related to amortization payments due between 2009 - 2011.

- *Foreign exchange (gain) loss, net*: For the three months ended March 31, 2009, foreign exchange losses of $5.6 million were recorded due to the impact of the weaker euro as of March 31, 2009 versus December 31, 2008, in connection with non-operating euro-denominated transactions. For the three months ended March 31, 2008, gains of $15.1 million were recorded due to the impact of the stronger euro as of March 31, 2008 versus December 31, 2007, related to non-operating euro-denominated transactions.

- *Other*: In the first quarter of 2009, the Company recorded an expense of $1.9 million primarily related to an increase in reserves covering two legacy obligations assumed in connection with the acquisition of the Dynamit Nobel businesses in 2004.

4. DERIVATIVES:

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

Interest Rate Risk

The Company had $1,830.4 million and $2,007.9 million of variable rate debt outstanding as of March 31, 2009 and December 31, 2008, respectively. Any borrowings under our revolving credit facility will also be at a variable rate. Historically, the Company has entered into interest rate swaps to manage its exposure to changes in interest rates related to variable-rate debt. As of March 31, 2009, these contracts cover notional amounts of $610.0 million (at interest rates ranging from 4.864% to 5.038%) and 495.3 million (at interest rates ranging from 2.995% to 4.416%). These derivative contracts effectively convert a majority of the senior secured credit obligations and the obligations under the Titanium Dioxide Pigments term loan facility to fixed rate obligations. These swaps will mature between November 2009 and July 2012. The Company has elected not to apply hedge accounting for these interest rate swaps and has recorded the mark-to-market of these derivatives as a component of interest expense in the Condensed Consolidated Statements of Operations.

In connection with the July 2003 refinancing, the Company entered into a cross-currency interest rate swap with a notional amount of $20.3 million that effectively converted $20.3 million U.S. dollar borrowings into euro-based obligations at an effective interest rate of Euribor plus 4%. As of March 31, 2009, the notional amounts of this cross-currency interest rate hedge were $19.2 million and 16.9 million. This contract has a final maturity date of July 2010. The Company has elected not to apply hedge accounting for this cross-currency interest rate swap and has recorded the mark-to-market of this derivative as a component of interest expense in the Condensed Consolidated Statements of Operations.

Foreign Currency Risk

In December 2008, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on forecasted sales denominated in a currency other than the functional currency of the legal entity. The instruments were designated as foreign exchange cash flow hedges and are effective at generating offsetting changes in the fair value or cash flows of the hedged item or transaction. As of March 31, 2009, the Company had notional amounts outstanding for these foreign currency forward contracts of $9.0 million. It is expected that cumulative losses of $(0.5) million as of March 31, 2009 will be reclassified into earnings within the next nine months. There was no gain or loss reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of cash flow hedges due to the probability of the original forecasted transaction not occurring. As of March 31, 2009, the maximum length of time over which the Company has hedged its exposure to movements in foreign exchange rates for forecasted transactions is nine months.

In March 2009, the Company entered into foreign currency forward contracts to manage its exposure to fluctuations in currency rates on forecasted sales denominated in a currency other than the functional currency of the legal entity. As of March 31, 2009, the Company had notional amounts outstanding for these foreign currency contracts of $3.5 million. The Company has elected not to apply hedge accounting for these foreign currency forward contracts.

In connection with the offering of the 2014 Notes, the Company entered into a cross-currency interest rate swap with a five-year term expiring in November 2009 and a notional amount of 155.6 million that effectively converts the U.S. dollar fixed rate debt in respect of the 2014 dollar-denominated notes sold into euro fixed rate debt. The Company designated this contract as a hedge of the foreign currency exposure of its net investment in its euro-denominated operations. There was no ineffective portion of the net investment hedge as of March 31, 2009. In addition, the Company has designated the remaining 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 617.5 million at March 31, 2009; $818.2 million). As a result, any foreign currency gains and losses resulting from the euro-denominated debt discussed above is accounted for as a component of accumulated other comprehensive income for as long as the hedge remains effective. There was no ineffective portion of the net investment hedge as of March 31, 2009.

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

		Asset Derivatives Fair Value as of		**Liability Derivatives Fair Value as of**	
(in millions)	**Balance Sheet Location**	**March 31, 2009**	**December 31, 2008**	**March 31, 2009**	**December 31, 2008**
Derivatives designated as hedging instruments under SFAS No. 133:					
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.4	$ 1.1	$	$
Cross-currency interest rate swaps - net investment hedge	Accrued expenses and other current liabilities			6.2	16.4
Total derivatives designated as hedging instruments under SFAS No.133		$ 0.4	$ 1.1	$ 6.2	$ 16.4
Derivatives not designated as hedging instruments under SFAS No. 133:					
Foreign exchange contracts	Prepaid expenses and other current assets	$ 0.1	$	$	$
Interest rate swaps	Accrued expenses and other current liabilities			5.9	6.5
	Other liabilities			74.4	58.9
Cross-currency interest rate swaps	Accrued expenses and other current liabilities			0.1	0.1
	Other liabilities			3.4	4.7
Total derivatives not designated as hedging instruments under SFAS No. 133		$ 0.1	$	$ 83.8	$ 70.2
Total derivatives		$ 0.5	$ 1.1	$ 90.0	$ 86.6

The following table provides the gains and losses reported in the Condensed Consolidated Balance Sheets as of March 31, 2009 and the Condensed Consolidated Statements of Operations for the three months ended March 31, 2009 and 2008:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives and Other Financial Instruments (Effective Portion) Three months ended March 31,	
(in millions)	**2009**	**2008**

Derivatives in SFAS No. 133				
Cash Flow Hedging Relationships:				
Foreign exchange contracts	$	(0.5)	$	
Derivatives and Other Financial Instruments in SFAS No. 133				
Net Investment Hedging Relationships:				
Cross-currency interest rate swaps net investment hedge	$	10.1	$	(16.7)
Euro-denominated debt		47.4		(80.1)
	$	57.5	$	(96.8)

In the first quarter of 2009 and 2008, no gains or losses were reclassified from accumulated other comprehensive income into income.

The following table provides the gains and losses reported in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2009 and 2008:

(in millions)	Amount of Gain or (Loss) Recognized in Income on Derivative Three months ended March 31, 2009	2008	Location of Gain or (Loss) Recognized in Income on Derivative
Derivatives Not Designated as Hedging Instruments under SFAS No. 133			
Interest rate contracts	$ (10.8)	$ (28.8)	Interest expense
Cross-currency interest rate swaps	1.2	(2.0)	Interest expense
	$ (9.6)	$ (30.8)	

5. FAIR VALUE MEASUREMENTS:

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements. The FASB had deferred the implementation of SFAS No. 157 by one year for non-financial assets and liabilities, which the Company adopted on January 1, 2009. Under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,* entities are permitted to choose to measure many financial instruments and certain other items at fair value. The Company has elected not to measure any instruments at fair value under SFAS No. 159.

As of March 31, 2009, the only assets and liabilities that the Company currently measures at fair value on a recurring basis are derivatives and marketable securities. The Company s financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

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

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

Level 3 Inputs are unobservable inputs that are used to measure fair value to the extent observable inputs are not available. The Company does not have any financial assets or liabilities that are classified as Level 3 inputs as of March 31, 2009 or December 31, 2008.

In accordance with the fair value hierarchy, the following table provides the fair value of the Company s financial assets and liabilities that are required to be measured at fair value as of March 31, 2009 and December 31, 2008:

(in millions)	As of March 31, 2009	Fair Value Measurements Level 1	Level 2	Level 3
Assets				

Marketable securities (a)	$ 265.4	$ 265.4	$	$
Foreign exchange contracts (b)	0.5		0.5	
Total assets at fair value	$ 265.9	$ 265.4	$ 0.5	$
Liabilities				
Interest rate swaps (b)	$ 80.3	$	$ 80.3	$
Cross-currency interest rate swaps (b)	3.5		3.5	
Cross-currency interest rate swaps - net investment hedge (b)	6.2		6.2	
Total liabilities at fair value	$ 90.0	$	$ 90.0	$

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

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

(b) See Note 4, Derivatives, for further details of the Company s derivative instruments.

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

Counter-party risk

The Company manages counter-party risk by entering into derivative contracts with only major financial institutions of investment grade quality and by limiting the amount of exposure to each financial institution. The Company has considered credit adjustments in its determination of the fair value of its derivative assets and liabilities as of March 31, 2009 and December 31, 2008 based on market participant assumptions. In addition, based on the credit evaluation of each institution comprising its derivative assets as of March 31, 2009 and December 31, 2008, the Company believes the carrying values of these assets as of March 31, 2009 and December 31, 2008 to be fully realizable.

6. ACQUISITIONS:

Pursuant to the Company s business strategy of achieving profitable growth through selective acquisitions, the Company has acquired several businesses in recent years. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, any goodwill resulting from acquisitions is tested for impairment at least annually.

On August 11, 2008, the Company completed the acquisition of Holliday Pigments, the leading global manufacturer of technical grade ultramarine blue and manganese violet pigments, from Yule Catto & Co. plc for a purchase price of approximately 46.0 million ($68.6 million using an August 11, 2008 exchange rate of $1.4909). Holliday Pigments manufactures inorganic ultramarine pigments for a wide range of applications, including plastics, cosmetics, coatings and inks. Holliday Pigments was incorporated into the Color Pigments and Services business, which is part of the Performance Additives segment. The allocation of the purchase price to the identifiable assets acquired is preliminary and is subject to change, with expected completion during the first half of 2009.

On September 1, 2008, the Company completed the formation of a venture with Kemira that focuses on specialty titanium dioxide pigments. The venture combines the Company s titanium dioxide pigments and functional additives businesses, which are part of the Titanium Dioxide Pigments segment, including its production facility in Duisburg, Germany, and Kemira s titanium dioxide business, including Kemira s titanium dioxide plant in Pori, Finland. The Company has consolidated this venture and has reported Kemira s interest as noncontrolling interest in the condensed consolidated financial statements. The Company owns 61% of the venture with Kemira owning the remaining portion. The venture s acquisition of the shares of the Rockwood and Kemira entities was facilitated by the borrowings under a term loan of 250.0 million on September 3, 2008 ($362.5 million using a September 3, 2008 exchange rate of 1.4498). The venture made a payment of 97.5 million ($141.4 million using a September 3, 2008 exchange rate) to the venture s noncontrolling shareholder. In addition, the venture obtained a 30.0 million ($42.3 million) revolving credit facility to finance its operations and the venture has assumed debt of 24.1 million ($31.9 million) from Kemira, primarily due to a defined benefit pension plan. The Company estimates that the potential exposure range for assumed environmental liabilities is from $13.3 million to $25.3 million. At March 31, 2009, $13.3 million of related reserves were recorded. The allocation of purchase price to the identifiable assets acquired is preliminary and is subject to change, with expected completion during 2009.

On September 4, 2008, the Company completed the acquisition of Nalco Holdings, Inc. s (Nalco) Finishing Technologies business for a purchase price of approximately $75.0 million. Nalco s Finishing Technologies business provides chemicals and services for pre-treating of metal and is part of the Surface Treatment business within the Specialty Chemicals segment. The allocation of the purchase price to the identifiable assets acquired is preliminary and is subject to change, with expected completion during the first half of 2009.

In addition to the acquisitions described above, the Company had completed other smaller acquisitions in 2008. Depending on the timing and complexity involved, the purchase price allocation to the net assets acquired for certain acquisitions completed within the last year was preliminary as of March 31, 2009.

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

7. INVENTORIES:

Inventories are comprised of the following:

($ in millions)	**March 31, 2009 (a)**	**December 31, 2008**
Raw materials	$ 182.4	$ 203.8
Work-in-process	73.1	74.2
Finished goods	340.3	355.3
Packaging materials	7.4	7.7
Total	$ 603.2	$ 641.0

(a) The decrease from December 31, 2008 is primarily related to the impact of currency changes.

8. GOODWILL:

Below are goodwill balances and activity by segment:

($ in millions)	**Specialty Chemicals**	**Advanced Ceramics**	**Total**
Balance, December 31, 2008	$ 648.0	$ 269.8	$ 917.8
Acquisitions		0.6	0.6
Foreign exchange	(32.4)	(14.9)	(47.3)
Balance, March 31, 2009	$ 615.6	$ 255.5	$ 871.1

9. OTHER INTANGIBLE ASSETS:

Other intangible assets, net consist of:

	As of March 31, 2009			As of December 31, 2008		
($ in millions)	**Gross Carrying Amount (a)**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Patents and other intellectual property	$ 396.3	$ (142.3)	$ 254.0	$ 411.9	$ (142.0)	$ 269.9
Trade names and trademarks	135.1	(27.6)	107.5	141.5	(27.1)	114.4
Customer relationships	358.3	(83.8)	274.5	372.2	(79.1)	293.1
Supply agreements	56.4	(7.6)	48.8	57.3	(6.3)	51.0
Other	59.7	(36.1)	23.6	61.7	(35.3)	26.4
Total	$ 1,005.8	$ (297.4)	$ 708.4	$ 1,044.6	$ (289.8)	$ 754.8

(a) The decrease from December 31, 2008 is primarily related to the impact of currency changes.

Amortization of other intangible assets was $19.5 million and $18.7 million for the three months ended March 31, 2009 and 2008, respectively.

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

($ in millions) Year ended		Amortization Expense
2009	$	79.0
2010		75.6
2011		72.4
2012		68.9
2013		67.4

10. LONG-TERM DEBT

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

($ and in millions)		March 31, 2009		December 31, 2008
Senior secured credit facilities:				
Tranche A-1 term loans (4.6 and 22.8, respectively)	$	6.1	$	31.9
Tranche A-2 term loans (39.8 and 99.4, respectively)		52.7		138.9
Tranche E term loans		1,082.0		1,104.9
Tranche G term loans (261.1 and 265.2, respectively)		346.0		370.5
2014 Notes (351.8 and $200.0 and 364.0 and $200.0, respectively)		666.1		708.5
Titanium Dioxide Pigments venture term loans (250.0)		331.3		349.3
Capitalized lease obligations (33.7 and 34.3, respectively)		44.6		47.9
Other loans		57.2		59.3
		2,586.0		2,811.2
Less current maturities		(26.5)		(90.9)
	$	2,559.5	$	2,720.3

In the first quarter of 2009, the Company repurchased   12.2 million ($15.5 million based on the exchange rate in effect on the date of repurchase) of its senior subordinated notes due in 2014, and voluntarily prepaid   63.2 million ($85.1 million based on the exchange rate in effect on the date of payment) and $17.2 million of its senior secured term loans related to amortization payments due between 2009 - 2011.

11. INCOME TAXES:

The effective tax rate for the three months ended March 31, 2009 and 2008 was 71.1% and 40.2%, respectively. The difference between the effective rate and the U.S. statutory rate of 35.0% in the three months ended March 31, 2009 primarily relates to a nonrecurring tax benefit related to foreign currency changes as well as domestic tax benefits allocated from other comprehensive income. The difference between the effective tax rate and the U.S. statutory rate of 35.0% for the three months ended March 31, 2008 is primarily a function of favorable foreign rate differentials and the impact of the valuation allowance on domestic losses.

In the three months ended March 31, 2009, the Company decreased its worldwide valuation allowances by $10.0 million. The decrease in the valuation allowance was due to domestic income reported in other comprehensive income, reduced by an increase in the offset of net operating losses against uncertain tax benefit liabilities and deferred tax assets generally associated with the Company s domestic earnings. The change in the valuation allowance for the three months ended March 31, 2009 increased the tax provision by $13.2 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, 2008	$	84.7
Increase as reflected in income tax expense		13.2
Decrease as reflected in other comprehensive income (a)		(23.3)
Increase due to the offset of net operating losses against uncertain tax position liabilities		0.1
Balance as of March 31, 2009	$	74.7

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

In the three months ended March 31, 2009, 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 three months ended March 31, 2009, the Company s net U.S. Federal deferred tax assets and liabilities were maintained at a zero level, other than a noncurrent deferred tax liability relating to goodwill with an indefinite reversal period and a noncurrent deferred tax asset relating to a Federal AMT Credit. It is the Company s policy that the valuation allowance is reversed in the year management determines it is more likely than not that the deferred tax assets will be realized.

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

Unrecognized tax benefits at March 31, 2009 were $28.0 million. This includes $27.6 million of tax benefits that, if recognized, would affect the effective tax rate, and $0.4 million of tax benefits that, if recognized, would result in an adjustment to other tax accounts.

The Company recognizes interest and penalties related to unrecognized tax benefits in its income tax provision. The Company had accrued $7.1 million for interest and penalties at December 31, 2008. During the three months ended March 31, 2009, the accrual for interest and penalties was increased by $0.4 million to $7.5 million.

During the next twelve months, it is reasonably possible that resolution of uncertain tax liabilities could result in a benefit of up to $1.3 million or a cost of up to $26.1 million. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

The Company is subject to taxation in the U.S., various states, and foreign jurisdictions. The Company s tax filings in major jurisdictions are open to investigation by tax authorities; in the U.S. from 2000, in the U.K. from 2006, and in Germany from 2000.

12. EMPLOYEE BENEFIT PLANS:

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

	Three months ended March 31,	
($ in millions)	**2009**	**2008**
Service cost	$ 2.0	$ 1.8
Interest cost	8.4	7.0
Expected return on assets	(3.6)	(2.7)

Net amortization of actuarial losses		0.2		
Total pension cost	$	7.0	$	6.1

13. EARNINGS PER COMMON SHARE:

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

($ in millions, except per share amounts; shares in thousands)	Three months ended March 31, 2009		2008	
EPS Numerator - Basic:				
Amounts attributable to Rockwood Holdings, Inc.:				
(Loss) earnings from continuing operations	$	(3.8)	$	28.7
Earnings (loss) from discontinued operations		2.3		(1.0)
Net (loss) income	$			