

Rockwood Holdings, Inc.
Form 10-Q
October 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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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. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

As of October 24, 2012, there were 77,652,708 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 862.8	\$ 940.9	\$ 2,677.9	\$ 2,854.9
Cost of products sold	595.2	609.4	1,747.2	1,856.7
Gross profit	267.6	331.5	930.7	998.2
Selling, general and administrative expenses	156.3	176.0	500.9	538.1
Restructuring and other severance costs	6.0	4.5	23.9	9.5
Operating income	105.3	151.0	405.9	450.6
Other expenses, net:				
Interest expense, net (a)	(21.1)	(26.3)	(56.5)	(74.0)
Loss on early extinguishment/modification of debt	(0.1)	(0.1)	(12.5)	(16.6)
Foreign exchange gain (loss) on financing activities, net	0.4	(2.4)	(7.3)	1.8
Other, net	(0.2)		(0.1)	(0.1)
Other expenses, net	(21.0)	(28.8)	(76.4)	(88.9)
Income from continuing operations before taxes	84.3	122.2	329.5	361.7
Income tax provision (benefit)	23.3	34.4	(54.9)	101.0
Income from continuing operations	61.0	87.8	384.4	260.7
Income from discontinued operations, net of tax (b)				120.3
Net income	61.0	87.8	384.4	381.0
Net loss (income) attributable to noncontrolling interest	0.6	(11.9)	(22.1)	(32.6)
Net income attributable to Rockwood Holdings, Inc. shareholders	\$ 61.6	\$ 75.9	\$ 362.3	\$ 348.4
Amounts attributable to Rockwood Holdings, Inc. shareholders:				
Income from continuing operations	\$ 61.6	\$ 75.9	\$ 362.3	\$ 228.1
Income from discontinued operations				120.3
Net income	\$ 61.6	\$ 75.9	\$ 362.3	\$ 348.4
Basic earnings per share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	\$ 0.79	\$ 0.99	\$ 4.67	\$ 2.98
Earnings from discontinued operations				1.58

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Basic earnings per share	\$	0.79	\$	0.99	\$	4.67	\$	4.56
Diluted earnings per share attributable to Rockwood Holdings, Inc. shareholders:								
Earnings from continuing operations	\$	0.77	\$	0.95	\$	4.53	\$	2.85
Earnings from discontinued operations								1.51
Diluted earnings per share	\$	0.77	\$	0.95	\$	4.53	\$	4.36
Dividends declared per share of common stock								
	\$	0.35	\$		\$	0.70	\$	
Weighted average number of basic shares outstanding								
		77,639		76,703		77,542		76,430
Weighted average number of diluted shares outstanding								
		79,963		80,030		79,914		79,907

(a) Interest expense includes:

Interest expense on debt	\$	(16.5)	\$	(21.2)	\$	(48.8)	\$	(71.3)
Mark-to-market (losses) gains on interest rate swaps		(2.3)		(3.9)		(2.5)		1.0
Deferred financing costs		(2.3)		(1.2)		(5.2)		(3.7)
Total	\$	(21.1)	\$	(26.3)	\$	(56.5)	\$	(74.0)

(b) Primarily relates to the gain on sale of the plastic compounding business in January 2011.

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(Unaudited)

	Three months ended September 30,				Nine months ended September 30,			
	2012		2011		2012		2011	
Net income	\$	61.0	\$	87.8	\$	384.4	\$	381.0
Other comprehensive income, net of tax:								
Pension related adjustments		(2.5)		3.1		(1.4)		
Foreign currency translation (a)		21.8		(84.3)		2.9		(30.1)
Intercompany foreign currency loans		11.4		(64.8)		(5.5)		0.4
Net investment hedges				1.5		(0.3)		(10.6)
Foreign exchange contracts		0.2		(1.4)		(0.1)		0.5
Other comprehensive income (loss)		30.9		(145.9)		(4.4)		(39.8)
Comprehensive income (loss)		91.9		(58.1)		380.0		341.2
Comprehensive (income) loss attributable to noncontrolling interest		(1.2)		0.9		(19.6)		(31.6)
Comprehensive income (loss) attributable to Rockwood Holdings, Inc shareholders	\$	90.7	\$	(57.2)	\$	360.4	\$	309.6

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

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in millions, except per share amounts;****shares in thousands)****(Unaudited)**

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,489.9	\$ 321.5
Accounts receivable, net	521.2	454.1
Inventories	854.2	674.3
Deferred income taxes	13.7	10.2
Prepaid expenses and other current assets	67.2	75.1
Total current assets	2,946.2	1,535.2
Property, plant and equipment, net	1,674.3	1,618.5
Goodwill	843.2	849.6
Other intangible assets, net	452.7	509.7
Deferred financing costs, net	55.1	14.3
Deferred income taxes	153.2	19.3
Other assets	55.0	41.0
Total assets	\$ 6,179.7	\$ 4,587.6
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 205.3	\$ 249.1
Income taxes payable	65.2	45.8
Accrued compensation	114.8	161.4
Accrued expenses and other current liabilities	145.7	129.6
Deferred income taxes	4.7	3.8
Long-term debt, current portion	327.7	250.5
Total current liabilities	863.4	840.2
Long-term debt	2,673.1	1,437.2
Pension and related liabilities	460.7	450.7
Deferred income taxes	96.8	86.5
Other liabilities	116.4	100.6
Total liabilities	4,210.4	2,915.2
Restricted stock units	22.7	14.0
EQUITY		
Rockwood Holdings, Inc. stockholders' equity:		
Common stock (\$0.01 par value, 400,000 shares authorized, 77,742 shares issued and 77,648 shares outstanding at September 30, 2012; 400,000 shares authorized, 77,030 shares issued and 76,936 shares outstanding at December 31, 2011)	0.8	0.8
Paid-in capital	1,231.2	1,222.2
Accumulated other comprehensive income	8.2	10.1
Retained earnings	435.0	128.5
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	1,673.8	1,360.2
Noncontrolling interest	272.8	298.2
Total equity	1,946.6	1,658.4
Total liabilities and equity	\$ 6,179.7	\$ 4,587.6

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See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 384.4	\$ 381.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax (a)		(120.3)
Depreciation and amortization	196.4	200.2
Deferred financing costs amortization	5.2	3.7
Loss on early extinguishment/modification of debt	12.5	16.6
Foreign exchange loss (gain) on financing activities, net	7.3	(1.8)
Fair value adjustment of derivatives	2.5	(1.0)
Bad debt provision	0.2	
Stock-based compensation	8.7	9.8
Deferred income taxes	(125.0)	21.3
Restructuring and other	11.9	0.3
Excess tax benefits from stock-based payment arrangements	(1.4)	
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(69.3)	(79.6)
Inventories	(112.5)	(71.4)
Prepaid expenses and other assets	(6.2)	3.5
Accounts payable	(19.8)	(18.8)
Income taxes payable	20.6	34.6
Accrued expenses and other liabilities	(23.9)	(11.4)
Net cash provided by operating activities of continuing operations	291.6	366.7
Net cash used in operating activities of discontinued operations	(2.7)	(1.8)
Net cash provided by operating activities	288.9	364.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (b)	(215.3)	(181.6)
Acquisitions	(69.2)	(0.8)
Proceeds on sale of assets	1.7	0.7
Net cash used in investing activities of continuing operations	(282.8)	(181.7)
Net cash provided by investing activities of discontinued operations, representing net sale proceeds in 2011		300.7
Net cash (used in) provided by investing activities	(282.8)	119.0
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	6.0	14.2
Excess tax benefits from stock-based payment arrangements	1.4	
Payments of long-term debt	(689.4)	(437.5)
Proceeds from long term debt	1,987.4	
Loan repayments to noncontrolling shareholders		(5.0)
Deferred financing costs	(47.5)	(5.3)
Fees related to early extinguishment/modification of debt	(9.2)	(13.4)
Dividend paid to shareholders	(54.3)	
Dividend distributions to noncontrolling shareholders	(45.3)	(9.8)
Net cash provided by (used in) financing activities	1,149.1	(456.8)
Effect of exchange rate changes on cash and cash equivalents	13.2	(9.9)

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Net increase in cash and cash equivalents	1,168.4	17.2
Less net decrease in cash and cash equivalents from discontinued operations		(16.6)
Increase in cash and cash equivalents from continuing operations	1,168.4	33.8
Cash and cash equivalents of continuing operations, beginning of period	321.5	324.1
Cash and cash equivalents of continuing operations, end of period	\$ 1,489.9	\$ 357.9
Supplemental disclosures of cash flow information:		
Interest paid	\$ 54.7	\$ 73.1
Income taxes paid, net of refunds	49.5	45.1
Non-cash investing activities:		
Acquisition of capital equipment	13.2	21.9

(a) Primarily relates to the gain on sale of the plastic compounding business in January 2011.

(b) Net of government grants of \$8.9 million and \$9.8 million for the nine months ended September 30, 2012 and 2011, respectively.

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF changes in stockholders equity

(Dollars in millions)

(Unaudited)

	Rockwood Holdings, Inc. Stockholders Equity									
	Total	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interest	
Balance, January 1, 2012	\$ 1,658.4	76,936	\$ 0.8	\$ 1,222.2	\$ 10.1	\$ 128.5	94	\$ (1.4)	\$	298.2
Issuance of common stock	6.0	712		6.0						
Deferred compensation	1.5			1.5						
Dividend paid to shareholders (\$0.70 per share)	(54.3)			1.5		(55.8)				
Dividend distributions to noncontrolling shareholders	(45.0)									(45.0)
Other comprehensive loss, net of tax	(4.4)				(1.9)					(2.5)
Net income	384.4					362.3				22.1
Balance, September 30, 2012	\$ 1,946.6	77,648	\$ 0.8	\$ 1,231.2	\$ 8.2	\$ 435.0	94	\$ (1.4)	\$	272.8
Balance, January 1, 2011	\$ 1,341.3	75,897	\$ 0.8	\$ 1,202.6	\$ 132.7	\$ (282.8)	94	\$ (1.4)	\$	289.4
Issuance of common stock	14.2	914		14.2						
Deferred compensation	2.8			2.8						
Dividend distributions to noncontrolling shareholders	(9.9)									(9.9)
Other comprehensive loss, net of tax	(39.8)				(38.8)					(1.0)
Net income	381.0					348.4				32.6
Balance, September 30, 2011	\$ 1,689.6	76,811	\$ 0.8	\$ 1,219.6	\$ 93.9	\$ 65.6	94	\$ (1.4)	\$	311.1

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS:

Basis of Presentation Rockwood Holdings, Inc., which may be referred to as Rockwood or the Company prepared these unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the condensed consolidated financial statements included in this Form 10-Q. These condensed consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position as of September 30, 2012 and December 31, 2011, the results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011, and cash flows and equity for the nine months ended September 30, 2012 and 2011. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the current report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2012 (the Form 8-K) and the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011. The audited consolidated financial statements included in the Form 8-K update the following information in the Company s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011: the presentation of segment specific disclosures on a basis consistent with the Company s realigned segment reporting structure; the addition of certain guarantor information; and the addition of consolidated statements of comprehensive income. The changes included in the Form 8-K had no effect on previously reported results of operations, financial condition or cash flows. All other matters in the Annual Report on Form 10-K for the year ended December 31, 2011 remain unchanged.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited condensed consolidated financial statements may not be indicative of the full year results.

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

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

In the first quarter of 2012, the Company reorganized its Specialty Chemicals segment into two reportable segments: Lithium and Surface Treatment. The metal sulfides business that was previously reported in the Specialty Chemicals segment is now included in the Corporate and other category. All prior-period amounts related to the segment change have been retrospectively reclassified throughout these condensed consolidated financial statements. See Note 2, Segment Information, for further details.

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Unless otherwise noted, all balance sheet-related items which are denominated in Euros are translated at the September 30, 2012 exchange rate of 1.00 = \$1.286. For the three months ended September 30, 2012 and 2011 and the nine months ended September 30, 2012 and 2011, the average rate of exchange of the Euro to the U.S. dollar is \$1.25 and \$1.41, respectively, and \$1.28 and \$1.41, respectively.

Recently Issued Accounting Standards:

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that substantially converged the requirements for fair value measurement and disclosure between the FASB and the International Accounting Standards Board (IASB). This ASU is largely consistent with existing fair value measurement principles under U.S. GAAP. The Company began providing the required additional disclosures from this ASU beginning with its Form 10-Q for the period ended March 31, 2012 for items that are not measured at fair value in the condensed consolidated balance sheets but for which fair value is required to be disclosed in the footnotes (see Note 4, Financial Instruments and Fair Value Measurements).

In June 2011, the FASB issued an ASU that addressed the presentation of comprehensive income in the financial statements. This

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accounting update allows an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, this ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity and does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company began providing the required additional disclosures from this ASU beginning with its Form 10-Q for the period ended March 31, 2012 by adding a condensed consolidated statement of comprehensive income.

2. 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) Lithium; (2) Surface Treatment; (3) Performance Additives, which consists of Color Pigments and Services, Timber Treatment Chemicals and Clay-based Additives; (4) Titanium Dioxide Pigments; and (5) Advanced Ceramics.

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 Corporate and other classification also includes the results of operations of the metal sulfides business, rubber/thermoplastics compounding business and the wafer reclaim business.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net Sales:				
Lithium	\$ 116.0	\$ 114.3	\$ 355.3	\$ 351.9
Surface Treatment	175.3	185.8	547.7	562.5
Performance Additives	178.1	200.7	580.1	614.7
Titanium Dioxide Pigments	229.6	252.6	666.4	735.4
Advanced Ceramics	130.3	146.2	417.7	455.3
Corporate and other	33.5	41.3	110.7	135.1
Total	\$ 862.8	\$ 940.9	\$ 2,677.9	\$ 2,854.9

The Company uses Adjusted EBITDA on a segment basis to assess the ongoing performance of the Company's business segments and reporting units. Because the Company views Adjusted EBITDA on a segment basis as an operating performance measure, the Company uses income (loss) from continuing operations before taxes as the most comparable U.S. GAAP measure. The summary of segment information below includes Adjusted EBITDA, a non-GAAP financial measure used by the Company's chief decision maker and senior management to evaluate the operating performance of each segment. See Note 3, Segment Information, in the Company's 2011 Annual Report on Form 10-K for a discussion of the use of Adjusted EBITDA as a non-GAAP financial measure.

Three months ended September 30,	Nine months ended September 30,
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(\$ in millions)	2012		2011		2012		2011	
Adjusted EBITDA:								
Lithium	\$	45.4	\$	42.7	\$	137.9	\$	129.9
Surface Treatment		37.9		37.9		116.6		115.0
Performance Additives		29.9		36.5		107.0		117.4
Titanium Dioxide Pigments		27.6		74.9		158.0		193.1
Advanced Ceramics		42.1		47.5		136.1		146.4
Corporate and other		(1.0)		(12.6)		(17.7)		(34.7)
Total	\$	181.9	\$	226.9	\$	637.9	\$	667.1

(\$ in millions)	Identifiable Assets as of	
	September 30, 2012	December 31, 2011
Lithium	\$ 1,261.7	\$ 1,189.5
Surface Treatment	996.0	947.5
Performance Additives	727.7	745.7
Titanium Dioxide Pigments	1,151.5	929.6
Advanced Ceramics	799.3	810.9
Corporate and other (a)	1,743.8	409.6
Eliminations (b)	(500.3)	(445.2)
Total	\$ 6,179.7	\$ 4,587.6

(a) Corporate and other identifiable assets primarily represent the operating assets of the businesses included herein described above, assets (primarily real estate) of legacy businesses formerly belonging to the Dynamit Nobel businesses acquired in 2004, deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques.

(b) 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 2011 Annual Report on Form 10-K.

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Major components within the reconciliation of income (loss) from continuing operations before taxes to Adjusted EBITDA are described more fully below:

(\$ in millions)	Lithium	Surface Treatment	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Corporate and other	Consolidated
Three months ended September 30, 2012							
Income (loss) from continuing operations before taxes	\$ 32.2	\$ 23.1	\$ 12.3	\$ (0.8)	\$ 26.0	\$ (8.5)	\$ 84.3
Interest expense, net	0.7	3.0	1.2	9.9	2.8	3.5	21.1
Depreciation and amortization	11.1	7.8	14.9	17.1	12.4	2.2	65.5
Restructuring and other severance costs (a)	1.3	2.4	1.3		0.9	0.1	6.0
Systems/organization establishment expenses (b)	0.1	0.6		0.4			1.1
Acquisition and disposal costs (c)				0.4		1.6	2.0
Loss on early extinguishment/modification of debt (d)				0.1			0.1
Foreign exchange loss (gain) on financing activities, net		1.0			(0.2)	(1.2)	(0.4)
Other			0.2	0.5	0.2	1.3	2.2
Total Adjusted EBITDA	\$ 45.4	\$ 37.9	\$ 29.9	\$ 27.6	\$ 42.1	\$ (1.0)	\$ 181.9
Three months ended September 30, 2011							
Income (loss) from continuing operations before taxes	\$ 33.3	\$ 17.8	\$ 18.3	\$ 47.2	\$ 27.4	\$ (21.8)	\$ 122.2
Interest expense, net	1.9	5.2	2.2	6.1	5.2	5.7	26.3
Depreciation and amortization	10.6	8.1	14.6	18.2	13.3	2.2	67.0
Restructuring and other severance costs (a)	0.5	2.4	1.1		0.4	0.1	4.5
Systems/organization establishment expenses (b)		0.1	0.2				0.3
Acquisition and disposal costs					0.1	0.1	0.2
Loss on early extinguishment/modification of debt (d)	0.1						0.1
Foreign exchange (gain) loss on financing activities, net	(3.7)	4.2	0.2		1.0	0.7	2.4
Other (e)		0.1	(0.1)	3.4	0.1	0.4	3.9
Total Adjusted EBITDA	\$ 42.7	\$ 37.9	\$ 36.5	\$ 74.9	\$ 47.5	\$ (12.6)	\$ 226.9
Nine months ended September 30, 2012							
Income (loss) from continuing operations before taxes	\$ 84.6	\$ 69.5	\$ 50.8	\$ 82.4	\$ 85.9	\$ (43.7)	\$ 329.5
Interest expense, net	2.6	11.8	5.2	15.4	11.0	10.5	56.5
Depreciation and amortization	32.6	23.6	44.7	51.4	37.8	6.3	196.4
Restructuring and other severance costs (a)	13.4	4.4	4.9		1.0	0.2	23.9
Systems/organization establishment expenses (f)	0.4	0.6	0.2	1.9			3.1
Acquisition and disposal costs (c)		0.1		2.1		1.8	4.0
Loss on early extinguishment/modification of debt (d)	2.2	3.0	0.9	2.8	0.7	2.9	12.5
Foreign exchange loss (gain) on financing activities, net	2.0	3.1	(0.1)		(0.5)	2.8	7.3
Other (e)	0.1	0.5	0.4	2.0	0.2	1.5	4.7
Total Adjusted EBITDA	\$ 137.9	\$ 116.6	\$ 107.0	\$ 158.0	\$ 136.1	\$ (17.7)	\$ 637.9
Nine months ended September 30, 2011							
Income (loss) from continuing operations before taxes	\$ 90.9	\$ 60.2	\$ 61.8	\$ 126.6	\$ 83.6	\$ (61.4)	\$ 361.7
Interest expense, net	6.1	16.0	6.9	9.2	16.8	19.0	74.0
Depreciation and amortization	30.7	25.6	43.3	53.6	40.4	6.6	200.2
Restructuring and other severance costs (a)	2.4	4.6	1.9		0.5	0.1	9.5
Systems/organization establishment expenses (b)		0.4	0.6	0.3			1.3
Acquisition and disposal costs		0.1			0.1	0.2	0.4
	3.0	4.7	1.7		4.0	3.2	16.6

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Loss on early extinguishment/modification of debt (d)								
Foreign exchange (gain) loss on financing activities, net		(3.3)	2.8	1.2		0.8	(3.3)	(1.8)
Other (e)		0.1	0.6		3.4	0.2	0.9	5.2
Total Adjusted EBITDA	\$	129.9	\$ 115.0	\$ 117.4	\$ 193.1	\$ 146.4	\$ (34.7)	667.1

(a) See Note 13, Restructuring and Other Severance Costs, for further details.

(b) Primarily relates to costs incurred in conjunction with the integration of businesses acquired.

(c) Primarily relates to fees incurred in connection with the acquisition of certain business assets, including production assets and inventory, of crenox GmbH, a German titanium dioxide producer, and the acquisition of Talison Lithium Limited (Talison) which is expected to be completed in the fourth quarter of 2012.

(d) See Note 8, Long-Term Debt, for further details.

(e) Primarily relates to professional fees incurred in connection with exploring strategic options in the Company's Titanium Dioxide Pigments segment.

(f) Primarily relates to settlement costs associated with the termination of a supply agreement related to the formation of the Company's Titanium Dioxide Pigments venture and costs incurred in conjunction with the integration of businesses acquired.

3. VARIABLE INTEREST ENTITIES:

See Note 4, Variable Interest Entities, in the Company's 2011 Annual Report on Form 10-K for a detailed discussion of the Company's evaluation of variable interest entities.

Viance LLC Joint Venture

At September 30, 2012 and December 31, 2011, no consolidated assets of the Company were pledged as collateral for any obligations of Viance and the general creditors of Viance had no recourse against the Company. All intercompany accounts, balances and transactions have been eliminated. Viance's assets can only be used to settle direct obligations of Viance.

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

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5.2	\$ 2.9
Other current assets	10.6	10.8
Total current assets	15.8	13.7
Other intangible assets, net	60.2	65.1
Other assets	2.8	3.1
Total assets	\$ 78.8	\$ 81.9
Total liabilities	\$ 4.9	\$ 4.8

Titanium Dioxide Pigments Venture

In conjunction with this venture, there is a power plant that is legally owned and operated by a Finnish power cooperative (PVO). Kemira Oyj (Kemira), the noncontrolling shareholder in the venture, is a cooperative participant and has an interest in the power plant via ownership of a special share class. The venture purchased energy from Kemira of \$8.1 million and \$11.3 million in the three months ended September 30, 2012 and 2011, respectively, and \$27.7 million and \$32.8 million in the nine months ended September 30, 2012 and 2011, respectively. Apart from routine payables to Kemira or PVO in connection with this agreement, no results or balances of the power plant are reflected in the condensed consolidated financial statements.

Other

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As of September 30, 2012 and December 31, 2011, Rockwood's aggregate net investment in ventures, particularly in the Surface Treatment segment, that are considered variable interest entities but are not consolidated as Rockwood is not the primary beneficiary, was \$23.9 million and \$18.6 million, respectively. These investments are classified as Other assets in the condensed consolidated balance sheets and represent Rockwood's approximate exposure to losses on these investments. Rockwood does not guarantee debt for or have other financial support obligations to these ventures.

4. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS:

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

Qualifying Hedges

Cash Flow Hedges

Foreign currency forward contracts are utilized to hedge forecasted transactions for certain foreign currencies in the Company's Surface Treatment segment. These contracts are designated as foreign currency cash flow hedges. The effective portion of changes in fair value for the designated foreign currency hedges is temporarily reported in accumulated other comprehensive income and recognized in earnings when the hedged item affects earnings. The net deferred losses on foreign currency contracts for cash flow hedge accounting are expected to be reclassified into earnings by the end of December 2012.

Effectiveness is assessed at inception of the hedge and on a quarterly basis. These assessments determine whether derivatives designated as qualifying hedges continue to be highly effective in offsetting changes in the cash flows of hedged items. Any ineffective portion of change in fair value is included in current period earnings. There was no impact of ineffectiveness on earnings during the three and nine months ended September 30, 2012.

Net Investment Hedges

In prior periods, the Company designated a portion of its Euro-denominated debt that is recorded on its U.S. books as a net investment hedge of its Euro-denominated investments (Euro debt of \$14.1 million at December 31, 2011). In March 2012, the Company dedesignated this net investment hedge. Prior to the dedesignation, foreign currency gains and losses resulting from the Euro-denominated debt discussed above were accounted for as a component of accumulated other comprehensive income. After the dedesignation, such foreign currency gains and losses resulting from the Euro-denominated debt have been recorded in the consolidated statements of operations.

Interest Rate Swaps Not Designated as Hedging Instruments

The Company is not required under the terms of its senior credit facility to hedge, or otherwise protect against interest rate fluctuations in its variable-rate debt. However, in June 2012, the Company's Titanium Dioxide Pigments venture entered into a new facility agreement (See Note 8, Long-Term Debt) which requires the venture to convert 50% of the term loan balances from variable to fixed interest rates for a period of two years.

To comply with the requirement to convert 50% of the term loan balances from variable to fixed interest rates under the new facility agreement, the venture entered into interest rate swaps in July 2012 with an aggregate notional amount of \$400.0 million. The new swaps mature in September 2014. The Company has not applied hedge accounting for these interest rate swaps and has recorded the mark-to-market adjustment of these derivatives as a component of interest expense in its condensed consolidated statements of operations. Including the effect of the interest rate swaps, the Company had \$1,174.1 million (\$837.3 million of which was subject to a Libor floor of 1.00%) and \$855.0 million (the majority of which was subject to a Libor floor of 1.00%) of variable-rate debt outstanding as of September 30, 2012 and December 31, 2011, respectively. The Company may in the future consider adjusting the amounts covered by these derivative contracts to better suit its capital structure and may allow all or a portion of these swaps to lapse, enter into replacement swaps or settle these swaps prior to expiration.

Prior to executing the new facility agreement, the venture had entered into interest rate swaps to manage its exposure to changes in interest rates related to certain variable-rate debt. These contracts effectively converted all of the obligations under the titanium dioxide pigments venture's term loan facility to fixed rate obligations. These interest rate swaps were rolled into the new swaps entered into in July 2012.

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The following table provides the fair value and balance sheet location of the Company's derivative instruments as of September 30, 2012 and December 31, 2011:

(\$ in millions)	Balance Sheet Location	September 30, 2012		December 31, 2011	
		Notional	Fair Value	Notional	Fair Value
Derivatives Designated as Hedging Instruments:					
Foreign exchange contracts	Accrued expenses and other current liabilities	\$ 3.6	\$ 0.1		\$
Total derivatives designated as hedging instruments			\$ 0.1		\$
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps	Accrued expenses and other current liabilities	\$ 659.1	\$ 2.8	\$ 252.7	\$ 1.5
	Other liabilities		2.1		0.7
Total derivatives not designated as hedging instruments			\$ 4.9		\$ 2.2
Total derivatives			\$ 5.0		\$ 2.2

All financial instruments, including derivatives, are subject to counterparty credit risk which is considered as part of the overall fair value measurement. Counterparty credit risk is mitigated by entering into derivative contracts with only major financial institutions of investment grade quality and by limiting the amount of exposure to each financial institution. The Company has considered credit adjustments in its determination of the fair value of its derivative assets and liabilities as of September 30, 2012 and December 31, 2011, based on market participant assumptions. In addition, based on the credit evaluation of each counter-party institution as of September 30, 2012 and December 31, 2011, the Company believes the carrying values to be fully realizable. No counterparty has experienced a significant downgrade in 2012 and the condensed consolidated financial statements would not be materially impacted if any counterparties failed to perform according to the terms of its agreement. Under the terms of the agreements, posting of collateral is not required by any party whether derivatives are in an asset or liability position.

The following table provides the gains and losses reported in Other Comprehensive Income (OCI) within Equity for the three and nine months ended September 30, 2012 and 2011:

(\$ in millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives and Other Financial Instruments (Effective Portion)			
	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Derivatives Designated as Cash Flow Hedges:				
Foreign exchange contracts	\$ 0.2	\$ (1.4)	\$ (0.1)	\$ 0.6
Non-Derivative Debt Designated as Net Investment Hedge:				
Euro-denominated debt	\$	\$ 1.6	\$ (0.3)	\$ (10.5)

For the three and nine months ended September 30, 2012, losses of \$0.2 million and \$0.3 million, respectively, were reclassified from accumulated other comprehensive income into income. For the three and nine months ended September 30, 2011, gains of \$1.1 million and \$1.4 million, respectively, were reclassified from accumulated other comprehensive income into income.

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The following table provides the gains and losses reported in the condensed consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011:

(\$ in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives				Location of Gain or (Loss) Recognized in Income on Derivatives
	Three months ended September 30,		Nine months ended September 30,		
	2012	2011	2012	2011	
Derivatives Not Designated as Hedging Instruments:					
Interest rate contracts	\$ (2.3)	\$ (3.9)	\$ (2.5)	\$ 1.0	Interest expense, net
Total derivatives	\$ (2.3)	\$ (3.9)	\$ (2.5)	\$ 1.0	

The Company follows a fair value measurement hierarchy to measure assets and liabilities. As of September 30, 2012 and December 31, 2011, the assets and liabilities measured at fair value on a recurring basis are derivatives, cash equivalents and government securities. In addition, the Company measures its pension plan assets at fair value (see Item 8. Financial Statements and Supplementary Data - Note 14, Employee Benefit Plans in the Company's 2011 Annual Report on Form 10-K for further details). The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy as follows:

Level 1 Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The fair values of money market funds and government securities are based on unadjusted quoted market prices from various financial information service providers and securities exchanges.

Level 2 Inputs are directly or indirectly observable, which include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. The fair values of derivatives are based on quoted market prices from various banks for similar instruments. The valuation of these instruments reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward curves.

Level 3 Inputs are unobservable inputs that are used to measure fair value to the extent observable inputs are not available. The Company does not have any financial assets or liabilities that are recorded on its condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011 that are classified as Level 3 inputs.

In accordance with the fair value hierarchy, the following table provides the fair value of the Company's financial assets and liabilities that are measured at fair value in the condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011:

(\$ in millions)	As of September 30, 2012			As of December 31, 2011		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Cash equivalents	\$ 1,077.5	\$ 1,077.5	\$	\$ 154.7	\$ 154.7	\$
Government securities	0.3	0.3		0.9	0.9	
Total assets at fair value	\$ 1,077.8	\$ 1,077.8	\$	\$ 155.6	\$ 155.6	\$
Liabilities						

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Interest rate swaps	\$	4.9	\$	\$	4.9	\$	2.2	\$	\$	2.2
Foreign exchange contracts		0.1			0.1					
Total liabilities at fair value	\$	5.0	\$	\$	5.0	\$	2.2	\$	\$	2.2

Note Receivable

The Company has a non-interest bearing note receivable from its titanium dioxide pigments venture partner that is due in August 2028 with a carrying value of \$10.1 million in the condensed consolidated balance sheets as of September 30, 2012. The fair value of the note receivable is approximately \$6.2 million at September 30, 2012 and is categorized as Level 3 in the fair value hierarchy. The fair value is determined based on an internally developed valuation that uses current interest rates in developing a present value of the receivable.

Debt

The carrying value of the Company's term loans under the senior secured credit facilities and Titanium Dioxide Pigments venture facility agreement approximates fair value as they bear interest based on prevailing variable market rates currently available. As a result, the Company categorizes these term loans as Level 2 in the fair value hierarchy.

Based on quoted market values in active markets from financial service providers at September 30, 2012, the Company estimates the fair value of its Senior Notes due in 2020 (2020 Notes) approximated \$1,268.8 million. As a result, the Company categorizes these 2020 Notes as Level 1 in the fair value hierarchy. As of September 30, 2012, the principal carrying amount of the 2020 Notes was \$1,250.0 million.

5. INVENTORIES:

Inventories are comprised of the following:

(\$ in millions)	September 30, 2012	December 31, 2011
Raw materials	\$ 287.8	\$ 222.9
Work-in-process	106.3	88.9
Finished goods	452.7	355.3
Packaging materials	7.4	7.2
Total	\$ 854.2	\$ 674.3

6. GOODWILL:

Below are goodwill balances and activity by segment:

(\$ in millions)	Lithium	Surface Treatment	Advanced Ceramics	Corporate and other	Total
Balance, December 31, 2011	\$ 259.3	\$ 336.2	\$ 249.4	\$ 4.7	\$ 849.6
Foreign exchange	(2.3)	(2.2)	(1.8)	(0.1)	(6.4)
Balance, September 30, 2012	\$ 257.0	\$ 334.0	\$ 247.6	\$ 4.6	\$ 843.2

7. OTHER INTANGIBLE ASSETS, NET:

Other intangible assets, net consist of:

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(\$ in millions)	As of September 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 362.8	\$ (195.4)	\$ 167.4	\$ 363.7	\$ (178.0)	\$ 185.7
Trade names and trademarks	112.4	(42.2)	70.2	127.7	(42.2)	85.5
Customer relationships	333.4	(166.4)	167.0	334.2	(146.7)	187.5
Supply agreements	59.0	(27.9)	31.1	59.3	(22.9)	36.4
Other	58.8	(41.8)	17.0	51.1	(36.5)	14.6
Total	\$ 926.4	\$ (473.7)	\$ 452.7	\$ 936.0	\$ (426.3)	\$ 509.7

In the first quarter of 2012, the Company wrote-off a trade name in the amount of \$10.3 million in the Lithium segment in connection with the restructuring of the Specialty Chemicals business.

Amortization of other intangible assets was \$17.5 million and \$19.5 million for the three months ended September 30, 2012 and 2011, respectively, and \$53.5 million and \$58.9 million for the nine months ended September 30, 2012 and 2011, respectively.

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

(\$ in millions) Year ending	Amortization Expense
2012	\$ 70.7
2013	69.2
2014	60.2
2015	54.2
2016	51.4

8. LONG-TERM DEBT:

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

(\$ and in millions)	September 30, 2012	December 31, 2011
Senior secured credit facilities:		
Term Loan A	\$ 336.9	\$
Term Loan B	837.2	845.8
2020 Notes	1,250.0	
2014 Notes (250.1 and \$200.0 as of December 31, 2011)		524.1
Titanium Dioxide Pigments venture term loans		
Facility A (200.0 and 195.0, respectively)	257.2	252.7
Facility B (200.0)	257.2	
Capitalized lease obligations	33.4	35.4
Other loans	28.9	29.7
	3,000.8	1,687.7
Less current maturities	(327.7)	(250.5)
	\$ 2,673.1	\$ 1,437.2

On September 25, 2012, the Company's indirect wholly-owned subsidiary, Rockwood Specialties Group, Inc. (RSGI), issued \$1.25 billion of 4.625% Senior Notes due in 2020. The 2020 Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Company and each of RSGI's existing and future domestic subsidiaries that is a guarantor under RSGI's senior secured credit facilities. The 2020 Notes pay interest at a rate of 4.625% per annum semi-annually on April 15 and October 15 of each year, commencing April 15, 2013. The Notes will mature on October 15, 2020. In October 2012, the Company used a portion of the proceeds to prepay \$250 million of term loan B under its senior secured credit facility, and expects to use the remaining proceeds to fund general corporate purposes, which may include strategic investments, including the acquisition of Talison, and the repayment of debt. The Talison acquisition is expected to be completed in the fourth quarter of 2012 for C\$6.50 per share for an equity purchase price of approximately C\$724 million (\$736 million, based on an exchange rate of C\$1 = \$1.0166 as of September 30, 2012) plus any amount in connection with any exercise of outstanding Talison stock options through the closing date.

In June 2012, the Company's titanium dioxide venture, Sachtleben GmbH, entered into a new facility agreement in the aggregate amount of 430.0 million (\$553.0 million), consisting of 200.0 million (\$257.2 million) of term loan A, 200.0 million (\$257.2 million) of term loan B and a 30.0 million (\$38.6 million) revolving credit facility. The venture used the proceeds to retire existing term loans (195.0 million - \$244.1 million), pay a dividend to the venture partners (88.8 million - \$112.3 million, of which \$68.5 million was paid to Rockwood and \$43.8 million was paid to Kemira) and to acquire certain business assets, including production assets and inventory, of crenox GmbH. Term loan A is payable in

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semi-annual installments over its five-year term. Term loan B and the revolving credit facility have a maturity of five years. In connection with this refinancing, the Company recorded a charge of \$2.8 million in 2012 comprised of fees of \$2.5 million and the write-off of deferred financing costs of \$0.3 million.

On February 22, 2012, the Company issued a new tranche of term loan A under its existing senior secured credit facility in the amount of \$350.0 million. The proceeds, along with cash on hand, were used in March 2012 to redeem all of its 2014 Notes (250.1 million and \$200.0 million, or \$534.1 million in the aggregate based on the exchange rate in effect on the date of payment) and pay accrued interest. In the first quarter of 2012, the Company paid redemption premiums of \$6.7 million and wrote-off \$3.0 million of deferred financing costs associated with the redemption of the 2014 Notes.

The Company recorded a charge of \$16.6 million in the nine months ended September 30, 2011 comprised of related fees of \$13.5

million and the write-off of deferred financing costs of \$3.1 million in connection with the refinancing of its senior secured credit facility in February 2011.

For further details of the terms of the Company's long-term debt, see Item 8. Financial Statements and Supplementary Data - Note 10, Long-Term Debt in the Company's 2011 Annual Report on Form 10-K.

9. INCOME TAXES:

In the second quarter of 2012, the Company recorded an income tax benefit resulting from a \$139.0 million reversal of the Company's federal valuation allowance against its net federal deferred tax assets. The Company evaluates evidence at each balance sheet date to determine if it is more likely than not that the Company will be able to utilize its net deferred tax assets in future years. At June 30, 2012, the evidence related to the net federal deferred tax assets indicated that the positive factors outweighed the negative factors. Accordingly, the Company concluded that it was more likely than not that the net federal deferred tax assets will be utilized in future years and reversed \$139.0 million of its federal valuation allowance.

The effective tax rate on income from continuing operations was 27.6% and (16.7)% for the three and nine months ended September 30, 2012, respectively, compared to 28.2% and 27.9% for the three and nine months ended September 30, 2011, respectively. Excluding the impact of the \$139.0 million valuation allowance reversal from the second quarter, the effective tax rate on income from continuing operations was 25.5% for the nine months ended September 30, 2012, respectively. The effective rate for each period is lower than the U.S. statutory rate of 35% primarily due to the favorable impact of domestic income that was not tax effected due to a valuation allowance reversal and a beneficial foreign earnings mix.

The following table reflects the activity in the Company's worldwide valuation allowance:

(\$ in millions)	Valuation Allowance	
Balance as of December 31, 2011	\$	181.8
U.S. valuation allowance reversal - future years' income		(139.0)
U.S. valuation allowance reversal - current year income		(8.0)
Other		(2.0)
Balance as of September 30, 2012	\$	32.8

Unrecognized tax benefits at September 30, 2012 were \$30.8 million, all of which, if recognized, would impact the effective tax rate. The Company had accrued \$9.1 million for interest and penalties as of September 30, 2012. The Company recognizes interest and penalties related to unrecognized tax benefits in its income tax provision.

The Company is currently under audit in certain jurisdictions and during the next twelve months, it is reasonably possible that resolution of these audits could result in a benefit of up to \$1.2 million or a charge of up to \$0.2 million.

10. STOCK-BASED COMPENSATION:

In December 2011, the Company approved 257,440 market-based restricted stock unit awards to its management and key employees which will vest on January 1, 2015 as long as the employee continues to be employed by the Company on this date and upon the achievement of certain performance targets approved by the Compensation Committee. In January 2012, the performance targets that formed the basis for vesting of these restricted stock units were set. As a result, the Company recognized compensation cost beginning in January 2012. A portion of the share units vest based on the percentage change in the price of the Company's common stock over the award period January 1, 2012 to December 31, 2014. The remaining portion vest based upon the Company's total shareholder return as compared to the total shareholder return for the Dow Jones U.S. Chemical Index for the period January 1, 2012 to December 31, 2014.

All restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment after a change in control as defined in the award agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of September 30, 2012 and December 31, 2011 has been recorded as mezzanine equity (outside of permanent equity) in the condensed consolidated balance sheets.

The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the stock-

based compensation plans caused income from continuing operations before taxes to decrease by \$2.9 million and \$3.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$8.7 million and \$9.8 million for the nine months ended September 30, 2012 and 2011, respectively. The total tax benefit recognized related to stock awards was \$0.3 million and \$0.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.1 million and \$0.9 million for the nine months ended September 30, 2012 and 2011, respectively.

See Item 8. Financial Statements and Supplementary Data - Note 13, Stock-Based Compensation, in the Company's 2011 Annual Report on Form 10-K for further details of the Company's stock-based compensation plans.

11. PENSION AND POSTRETIREMENT LIABILITIES:

The following table represents the net periodic benefit cost of defined benefit pension plans:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 2.4	\$ 2.3	\$ 7.2	\$ 6.8
Interest cost	7.7	8.5	23.3	25.5
Expected return on assets	(3.8)	(4.3)	(11.5)	(12.8)
Amortization of actuarial losses	1.7	0.7	5.2	2.0
Amortization of prior service cost	0.2	0.2	0.6	0.5
Total pension cost	\$ 8.2	\$ 7.4	\$ 24.8	\$ 22.0

Contributions to defined benefit pension plans, including benefit payments paid directly to plan participants, are expected to approximate \$25.4 million during 2012, of which \$17.0 million was contributed in the nine months ended September 30, 2012.

The Company also sponsors and participates in various defined contribution and multi-employer plans. The expense for the defined contribution plans was \$2.9 million and \$2.9 million for the three months ended September 30, 2012 and 2011, respectively, and \$9.8 million and \$9.6 million for the nine months ended September 30, 2012 and 2011, respectively. The expense for the multi-employer plans was \$1.7 million and \$1.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$4.3 million and \$4.0 million for the nine months ended September 30, 2012 and 2011, respectively.

12. EARNINGS PER COMMON SHARE:

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

(\$ in millions, except per share amounts; shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
EPS Numerator:				
Amounts attributable to Rockwood Holdings, Inc. shareholders:				
Income from continuing operations	\$ 61.6	\$ 75.9	\$ 362.3	\$ 228.1
Income from discontinued operations (a)				120.3
Net income	\$ 61.6	\$ 75.9	\$ 362.3	\$ 348.4
EPS Denominator:				
Basic weighted average number of common shares outstanding				
	77,639	76,703	77,542	76,430
Effect of dilutive stock options and other incentives				
	2,324	3,327	2,372	3,477
Diluted weighted average number of common shares outstanding and common stock equivalents				
	79,963	80,030	79,914	79,907
Basic earnings per common share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	\$ 0.79	\$ 0.99	\$ 4.67	\$ 2.98
Earnings from discontinued operations, net of tax (a)				1.58
Basic earnings per common share	\$ 0.79	\$ 0.99	\$ 4.67	\$ 4.56
Basic earnings per common share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	\$ 0.77	\$ 0.95	\$ 4.53	\$ 2.85
Earnings from discontinued operations, net of tax (a)				1.51
Diluted earnings per common share	\$ 0.77	\$ 0.95	\$ 4.53	\$ 4.36

(a) Primarily relates to the gain on sale of the plastic compounding business in January 2011.

There were no outstanding shares that would have had an anti-dilutive effect.

13. RESTRUCTURING AND OTHER SEVERANCE COSTS:

The Company records restructuring liabilities that represent charges incurred in connection with consolidations and cessations of certain of its operations, including operations from acquisitions, as well as headcount reduction programs. These charges include severance costs, facility/entity closure costs and asset write-downs. Severance charges are based on various factors including the employee's length of service, contract provisions, salary levels and local governmental legislation. At the time a related charge is recorded, the Company calculates its best estimate based upon detailed analysis. Although significant changes are not expected, actual costs may differ from these estimates.

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The following table provides the restructuring and other severance costs for the three and nine months ended September 30, 2012 and 2011:

(\$ in millions)	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Severance/Relocation	\$ 1.4	\$ 1.9	\$ 3.1	\$ 5.0				
Facility/entity closure and other	3.1	1.3	5.8	2.5				
Asset write-downs	0.1		11.6					
Restructuring charge	4.6	3.2	20.5	7.5				
Other severance costs	1.4	1.3	3.4	2.0				
Total	\$ 6.0	\$ 4.5	\$ 23.9	\$ 9.5				

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For the three months ended September 30, 2012, the restructuring charges primarily relate to facility closure and severance/relocation costs in connection with organizational changes in the Surface Treatment, Lithium and Performance Additives segments.

For the nine months ended September 30, 2012, the restructuring charges primarily relate to the write-off of a trade name in the amount of \$10.3 million in the Lithium segment in connection with the reorganization of the Specialty Chemicals segment and facility closure costs in connection with organizational changes in the Lithium, Surface Treatment and Performance Additives segments.

All restructuring actions still in progress as of September 30, 2012 are expected to be substantially complete within the next twelve months, except for severance and facility closure costs in connection with the future consolidation of the North American Surface Treatment and Color Pigments and Services businesses. However, payouts of certain liabilities resulting from these actions will take place over several years. Selected information for outstanding liabilities from recent restructuring actions is as follows:

(\$ in millions)	Severance/ Relocation	Facility/Entity Closure and Other	Total
Liability balance, December 31, 2011	\$ 5.8	\$ 2.4	\$ 8.2
Restructuring charge in 2012 (a)	3.1	5.8	8.9
Utilized	(3.2)	(5.4)	(8.6)
Foreign exchange and other	(0.4)	0.1	(0.3)
Liability balance, September 30, 2012	\$ 5.3	\$ 2.9	\$ 8.2

(a) Excludes \$11.6 million of asset write downs described above.

The total charges for open restructuring actions and the future costs for those actions are summarized below:

(\$ in millions)	Lithium	Surface Treatment	Performance Additives	Total
Severance/Relocation				
Total charges	\$ 3.2	\$ 3.6	\$ 3.4	\$ 10.2
Incurred to date	(3.0)	(3.2)	(2.5)	(8.7)
Expected future costs	\$ 0.2	\$ 0.4	\$ 0.9	\$ 1.5
Facility/Entity Closure				
Total charges (a)	\$ 15.4	\$ 5.9	\$ 3.3	\$ 24.6
Incurred to date (a)	(14.0)	(4.0)	(1.3)	(19.3)
Expected future costs	\$ 1.4	\$ 1.9	\$ 2.0	\$ 5.3

(a) Includes \$10.3 million related to the write-off of a trade name in the Lithium segment in connection with the reorganization of the Specialty Chemicals segment into two reportable segments.

14. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings The Company is involved in various legal proceedings, including commercial, intellectual property, product liability, regulatory and environmental matters of a nature considered normal for its business. The Company accrues for amounts related to these matters if it is probable that a liability has been incurred and an amount can be reasonably estimated. The Company discloses such matters when there is at least a reasonable possibility that a material loss may have been incurred. However, the Company cannot predict the outcome of any litigation or the potential for future litigation.

Former Glass Sealants Business

A subsidiary in the Surface Treatment segment formerly operated a business of manufacturing and distributing sealants for insulating glass, which was sold in 2003. This subsidiary has been named as a defendant in several lawsuits in Germany and the Netherlands, which were initiated prior to and after the sale of the business, relating to allegedly defective sealants. The court in the Dutch litigation recently concluded that our subsidiary breached certain implied product warranties and is responsible for certain alleged damages to be determined. The Company's subsidiary has appealed this decision. In general, this subsidiary may be required to compensate damage claims asserted by the various plaintiffs in these actions. Although the Company expects its subsidiary to have coverage under its product liability insurance policies should damages ultimately be awarded or agreed to, in such an event, its insurance may not cover such damages and, if not, its subsidiary may not have sufficient cash flow to pay them. The Company estimates that the possible range of loss from those damage claims, net of expected insurance recoveries, is from 1.0 million (\$1.3 million) to 4.0 million (\$5.1 million) as of September 30, 2012. However, the Company does not believe that the resolution of these matters will have a material effect on its financial condition, results of operations or cash flows.

Migratory Bird Matter

In August 2011, the U.S. Department of Justice Environment and Natural Resources Division (DOJ), along with the U.S. Fish and Wildlife Service (FWS) and the Nevada Department of Wildlife (NDOW) commenced an investigation relating to alleged migratory bird deaths at the Company's subsidiary in Silver Peak, Nevada in violation of the Migratory Bird Treaty Act of 1918. The Company's subsidiary is working with the DOJ, FWS and NDOW to address any migratory bird issues. To date, no proceedings have been initiated and no fines have been levied. The Company does not expect the resolution of this matter to have a material impact on its financial condition, results of operations or cash flows.

Real Estate Transfer Tax Matter

In December 2009, the Company received a tax assessment from German tax authorities, claiming that the Company's acquisition of Dynamit Nobel in 2004 triggered a real estate transfer tax obligation in the amount of 4.2 million (\$5.4 million). The Company appealed the assessment to the German tax authorities on the grounds that it had already paid the relevant real estate transfer tax and that the further assessment would constitute duplicate taxation of the real estate transfers. However, in October 2011, the German tax authorities affirmed their position with regard to the assessment. Consequently, the Company appealed this assessment with the fiscal court and intends to vigorously defend its position in this matter. The Company estimates that the possible range of loss from these claims as of September 30, 2012 is from 0.0 million to 4.2 million (\$5.4 million). The Company does not expect this matter to have a material impact on its financial condition, results of operations or cash flows.

Inspector General Subpoena

In February 2010, a subsidiary of the Company received a subpoena from the Inspector General of the Department of Defense (DOD) seeking information related to a product in the Timber Treatment Chemicals business in the Performance Additives segment. The United States government recently filed a notice of election indicating that it will not intervene at this time regarding a complaint, which was ordered to be unsealed by the court in June 2012, filed by Osmose, Inc. The complaint alleges that our subsidiary misrepresented properties of certain fire retardants in relation to a military specification for such products. The Company cannot predict the likelihood of further legal action or estimate the loss or possible range of loss, if any, in connection with this matter and intends to vigorously defend this matter.

Other Matters

Although the Company expects to continue to pay legal fees in connection with the above matters and other legal actions such as chromated copper arsenate, ceramic hips, and other product liability matters, based on currently available facts, the Company does not believe that any other individual action will have a material effect on its financial condition, results of operations or cash flows.

Reserves in connection with known product liability matters, net of expected insurance recoveries, do not individually exceed \$2.0 million and in the aggregate equal \$3.7 million as of September 30, 2012. The Company's reserve estimates are based on available facts, including damage claims and input from its internal and external legal counsel, past experience, and, in some instances where defense costs are being paid by its insurer, known or expected insurance recoveries. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available. Further, the Company cannot predict the outcome of any litigation or the potential for future litigation.

Indemnity Matters The Company is indemnified by third parties in connection with certain matters related to acquired businesses. Although the Company has no reason to believe that the financial condition of those parties who may have indemnification obligations to the Company is other than sound, in the event the Company seeks indemnity under any of these agreements or through other means,

there can be no assurance that any party who may have obligations to indemnify the Company will adhere to their obligations and the Company may have to resort to legal action to enforce its rights under the indemnities. In cases where the Company's indemnification claims to such third parties are uncontested, the Company expects to realize recoveries within the short term.

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

Rockwood's pension liability includes defined benefit obligations to employees of a previously divested company which cannot legally be transferred to the owners under local law. The owner of the business had agreed to indemnify the Company for these obligations, however, such company has filed for bankruptcy. Accordingly, as of September 30, 2012, the Company has recorded a reserve of \$4.9 million (\$6.3 million) against its related receivable of \$5.4 million (\$6.9 million) due from the current owner. The Company cannot predict the ultimate outcome of this matter.

In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to the Company or by the Company is not expected to have a material effect on the Company's financial condition, results of operations or cash flows.

Safety, Health and Environmental Matters

For further details of the Company's Safety, Health and Management Systems, SHE Capital Expenditures, and Regulatory Developments, see Item 8. Financial Statements and Supplementary Data - Note 19, Commitments and Contingencies in the Company's 2011 Annual Report on Form 10-K.

Environmental Reserves

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

In addition, Superfund statutes in the United States as well as statutes in other jurisdictions impose strict, joint and several liability for clean-up costs on the entities that generated waste and/or arranged for its disposal at contaminated third party sites, as well as the past and present owners and operators of contaminated sites. All responsible parties may be required to bear some or all clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

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The following table provides a list of the Company's present and former facilities with environmental contamination or reclamation obligations for which the Company has reserved for at September 30, 2012:

Country	Location	(a)	(b)	(c)	(d)	(e)
Brazil	Diadema			X		
Chile	La Negra				X	
	Salar de Atacama				X	
China	Shenzhen			X		
Finland	Kipsikorpi				X	
	Pori				X	
France	Sens	X				
Germany	Duisburg	X			X	
	Empelde	X				X
	Hainhausen	X				
	Liebenau			X		
	Schwarzheide				X	
	Marktredwitz		X			
	Plochingen		X			
	Stadeln	X	X			
	Troisdorf	X	X	X		
	Uerdingen	X				
Italy	Turin	X				
The Netherlands	Oss	X				
United Kingdom	Barrow-in Furness	X				
	Birtley			X		
United States	Beltsville, MD	X				
	East St. Louis, IL			X		
	Easton, PA			X		
	Harrisburg, NC	X		X		
	Kings Mountain, NC				X	
	Laurens, SC		X			
	Middletown, NY	X		X		X
	Pineville, NC					X
	Silver Peak, NV	X			X	
	Sunbright, VA	X				X
	Valdosta, GA	X				

-
- (a) The Company is currently operating groundwater monitoring and/or remediation systems at these locations.
- (b) The Company is currently operating groundwater monitoring and/or remediation systems at these locations for which prior owners or insurers have assumed all or most of the responsibility.
- (c) The Company is currently conducting investigations into additional possible soil and/or groundwater contamination at these locations.
- (d) The Company has land restoration obligations generally relating to landfill activities or surface mining at these locations.
- (e) The Company is responsible for liabilities related to environmental matters at these formerly owned or closed facilities.

The Company is also responsible for environmental matters at some of its former off-site disposal locations owned by third parties. These sites are considered Superfund sites as defined by the EPA or state regulatory authority. The Company is a potentially responsible party or *de minimis* participant at the following Superfund locations: Augusta, GA and South Gate, CA.

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Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material effect on its financial condition, results of operations or cash flows. Nonetheless, the discovery of contamination arising from present or historical industrial

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operations at some of the Company's or its predecessor's former and present properties and/or at sites where the Company and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

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

The Company's liability estimates are based upon available facts, existing technology, indemnities from third parties, past experience and, in some instances, insurance recoveries where the remediation costs are being paid by its insurers, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company has accrued \$50.1 million and \$49.8 million for environmental liabilities as of September 30, 2012 and December 31, 2011, most of which were classified as other non-current liabilities in the consolidated balance sheets.

Included in the environmental liabilities are reclamation obligations of \$21.4 million and \$23.2 million as of September 30, 2012 and December 31, 2011, respectively. These obligations primarily relate to post-closure reclamation of landfills in the Titanium Dioxide Pigments segment and surface mining and manufacturing sites within the Lithium segment.

The remaining environmental liabilities (\$28.7 million and \$26.6 million as of September 30, 2012 and December 31, 2011, respectively), represent remediation obligations. Of these accruals, \$17.1 million and \$14.6 million as of September 30, 2012 and December 31, 2011, respectively, represent liabilities discounted using discount rates ranging from 4.3% to 7.0%.

The Company's remediation liabilities are payable over periods of up to 30 years. At a number of the sites described above, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable and could potentially affect the range. The Company estimates that the potential range for such environmental liabilities (excluding reclamation obligations) as of September 30, 2012 is from \$28.7 million to \$52.0 million. For the nine months ended September 30, 2012, the Company recorded charges of \$0.4 million to increase its environmental liabilities and made payments of \$2.8 million for reclamation and remediation costs, which reduced its environmental liabilities. For the nine months ended September 30, 2012, the recurring cost of managing hazardous substances for ongoing operations is \$35.8 million.

The Company believes these reserves are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued; however, based on currently available information, it does not believe the additional amount of potential losses would have a material effect on its business or financial condition. The Company does not believe that any known individual environmental matter would have a material effect on its financial condition, results of operations or cash flows. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available.

In the event that manufacturing operations are discontinued at any of the Company's facilities with known contamination, regulatory authorities may impose more stringent requirements on the Company including soil remediation. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities' remaining lives are not known. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations, the Company does not have sufficient information to

estimate a range of potential settlement dates for its obligations. Consequently, the Company cannot employ a present value technique to estimate fair value and, accordingly, has not accrued for any environmental-related costs to remediate soil at these facilities.

15. GUARANTOR FINANCIAL STATEMENTS

In connection with the issuance of the 2020 Notes in the aggregate principal amount of \$1.25 billion in September 2012 by RSGI, an indirect wholly owned subsidiary of the Company, the Company (Parent Company) and certain of its wholly owned domestic subsidiaries (Guarantor Subsidiaries) jointly, fully, severally and unconditionally guarantee such debt securities. The following presents the consolidating financial information separately for:

- Parent Company,
- RSGI, the issuer of the guaranteed obligations;
- Guarantor Subsidiaries, on a combined basis;
- Non-Guarantor Subsidiaries, on a combined basis;

- Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Parent Company, RSGI, the Guarantor Subsidiaries and the Non-Guarantor subsidiaries, (b) eliminate the investments in subsidiaries and (c) record consolidating entries; and
- Parent Company and its subsidiaries on a consolidated basis.

Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements.

The Parent Company Guarantor, Issuer and Guarantor Subsidiaries are party to a JP Morgan Chase cash concentration account to maximize the availability of cash for use for general corporate and operating purposes. Cash balances are frequently swept from the accounts of the entities who are party to the arrangement into the concentration account. For the purpose of the cash concentration, there are no restrictions on the movement of cash between the Parent Company Guarantor, the Issuer and the Guarantor Subsidiaries.

The following tables present the Company's consolidating statement of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2012 and 2011 and the Company's consolidating balance sheet as of September 30, 2012 and December 31, 2011.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2012****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 185.5	\$ 731.3	\$ (54.0)	\$ 862.8
Cost of products sold			142.6	506.6	(54.0)	595.2
Gross profit			42.9	224.7		267.6
Selling, general and administrative expenses			36.0	120.3		156.3
Restructuring and other severance costs			3.6	2.4		6.0
Operating income			3.3	102.0		105.3
Other income (expenses), net:						
Intergroup interest, net		7.1	(2.5)	(4.6)		
Interest expense, net		(10.6)	(0.3)	(10.2)		(21.1)
Loss on early extinguishment/modification of debt				(0.1)		(0.1)
Intergroup other, net			12.3	(12.3)		
Foreign exchange gain (loss) on financing activities, net		0.1	(0.2)	0.5		0.4
Other, net			(0.1)	(0.1)		(0.2)
Other income (expenses), net		(3.4)	9.2	(26.8)		(21.0)
(Loss) income from continuing operations before taxes		(3.4)	12.5	75.2		84.3
Income tax (benefit) provision		(10.8)	10.6	23.5		23.3
Income from continuing operations		7.4	1.9	51.7		61.0
Equity in undistributed earnings of subsidiaries	61.6	54.2	14.6	61.6	(192.0)	
Net income	61.6	61.6	16.5	113.3	(192.0)	61.0
Net loss attributable to the noncontrolling interest				0.6		0.6
Net income attributable to Rockwood Holdings, Inc. shareholders	\$ 61.6	\$ 61.6	\$ 16.5	\$ 113.9	\$ (192.0)	\$ 61.6

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS ENDED SEPTEMBER 30, 2012****(Dollars in millions)****(Unaudited)**

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	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 61.6	\$ 61.6	\$ 16.5	\$ 113.3	\$ (192.0)	\$ 61.0
Other comprehensive income (loss)	29.1	29.1		154.6	(181.9)	30.9
Comprehensive income	90.7	90.7	16.5	267.9	(373.9)	91.9
Comprehensive income attributable to noncontrolling interest				(1.2)		(1.2)
Comprehensive income attributable to Rockwood Holdings, Inc. shareholders	\$ 90.7	\$ 90.7	\$ 16.5	\$ 266.7	\$ (373.9)	\$ 90.7

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2011****(Dollars in millions)****(Unaudited)**

	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 192.7	\$ 796.9	\$ (48.7)	\$ 940.9
Cost of products sold			140.8	517.3	(48.7)	609.4
Gross profit			51.9	279.6		331.5
Selling, general and administrative expenses			42.1	133.9		176.0
Restructuring and other severance costs			1.2	3.3		4.5
Operating income			8.6	142.4		151.0
Other income (expenses), net:						
Intergroup interest, net		20.1	(3.7)	(16.4)		
Interest expense, net		(18.8)	(0.3)	(7.2)		(26.3)
Loss on early extinguishment/modification of debt				(0.1)		(0.1)
Intergroup other, net			4.7	(4.7)		
Foreign exchange gain (loss) on financing activities, net		1.3		(3.7)		(2.4)
Other, net						
Other income (expenses), net		2.6	0.7	(32.1)		(28.8)
Income from continuing operations before taxes		2.6	9.3	110.3		122.2
Income tax provision	0.3		0.6	33.5		34.4
Income from continuing operations	(0.3)	2.6	8.7	76.8		87.8
Income from discontinued operations, net of tax						
Equity in undistributed earnings of subsidiaries	76.2	73.3	15.2	75.9	(240.6)	
Net income	75.9	75.9	23.9	152.7	(240.6)	87.8
Net income attributable to the noncontrolling interest				(11.9)		(11.9)
Net income attributable to Rockwood Holdings, Inc. shareholders	\$ 75.9	\$ 75.9	\$ 23.9	\$ 140.8	\$ (240.6)	\$ 75.9

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS ENDED SEPTEMBER 30, 2011****(Dollars in millions)****(Unaudited)**

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	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 75.9	\$ 75.9	\$ 23.9	\$ 152.7	\$ (240.6)	\$ 87.8
Other comprehensive loss	(133.1)	(133.1)	(2.2)	(218.2)	340.7	(145.9)
Comprehensive (loss) income	(57.2)	(57.2)	21.7	(65.5)	100.1	(58.1)
Comprehensive loss attributable to noncontrolling interest				0.9		0.9
Comprehensive (loss) income attributable to Rockwood Holdings, Inc. shareholders	\$ (57.2)	\$ (57.2)	\$ 21.7	\$ (64.6)	\$ 100.1	\$ (57.2)

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF OPERATIONS****NINE MONTHS ENDED SEPTEMBER 30, 2012****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 591.2	\$ 2,259.8	\$ (173.1)	\$ 2,677.9
Cost of products sold			436.3	1,484.0	(173.1)	1,747.2
Gross profit			154.9	775.8		930.7
Selling, general and administrative expenses		0.3	119.8	380.8		500.9
Restructuring and other severance costs			6.5	17.4		23.9
Operating (loss) income		(0.3)	28.6	377.6		405.9
Other income (expenses), net:						
Intergroup interest, net		40.8	(9.6)	(31.2)		
Interest expense, net		(38.1)	(0.5)	(17.9)		(56.5)
Loss on early extinguishment/modification of debt		(0.3)	(3.4)	(8.8)		(12.5)
Intergroup other, net			28.0	(28.0)		
Foreign exchange loss on financing activities, net		(4.3)	(0.6)	(2.4)		(7.3)
Other, net			(0.1)			(0.1)
Other income (expenses), net		(1.9)	13.8	(88.3)		(76.4)
(Loss) income from continuing operations before taxes		(2.2)	42.4	289.3		329.5
Income tax (benefit) provision		(149.4)	12.7	81.8		(54.9)
Income from continuing operations		147.2	29.7	207.5		384.4
Equity in undistributed earnings of subsidiaries	362.3	215.1	43.1	362.3	(982.8)	
Net income	362.3	362.3	72.8	569.8	(982.8)	384.4
Net income attributable to the noncontrolling interest				(22.1)		(22.1)
Net income attributable to Rockwood Holdings, Inc. shareholders	\$ 362.3	\$ 362.3	\$ 72.8	\$ 547.7	\$ (982.8)	\$ 362.3

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****NINE MONTHS ENDED SEPTEMBER 30, 2012****(Dollars in millions)****(Unaudited)**

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	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 362.3	\$ 362.3	\$ 72.8	\$ 569.8	\$ (982.8)	\$ 384.4
Other comprehensive (loss) income	(1.9)	(3.6)	0.1	(0.1)	1.1	(4.4)
Comprehensive income	360.4	358.7	72.9	569.7	(981.7)	380.0
Comprehensive income attributable to noncontrolling interest				(19.6)		(19.6)
Comprehensive income attributable to Rockwood Holdings, Inc. shareholders	\$ 360.4	\$ 358.7	\$ 72.9	\$ 550.1	\$ (981.7)	\$ 360.4

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF OPERATIONS****NINE MONTHS ENDED SEPTEMBER 30, 2011****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$	\$ 570.6	\$ 2,439.6	\$ (155.3)	\$ 2,854.9
Cost of products sold			417.5	1,594.5	(155.3)	1,856.7
Gross profit			153.1	845.1		998.2
Selling, general and administrative expenses		0.1	131.2	406.8		538.1
Restructuring and other severance costs			1.8	7.7		9.5
Operating (loss) income		(0.1)	20.1	430.6		450.6
Other income (expenses), net:						
Intergroup interest, net		66.5	(13.0)	(53.5)		
Interest expense, net		(59.8)	(1.0)	(13.2)		(74.0)
Loss on early extinguishment/modification of debt		(1.3)	(4.9)	(10.4)		(16.6)
Intergroup other, net		113.0	(92.1)	(20.9)		
Foreign exchange gain (loss) on financing activities, net		5.9		(4.1)		1.8
Other, net				(0.1)		(0.1)
Other income (expenses), net		124.3	(111.0)	(102.2)		(88.9)
Income (loss) from continuing operations before taxes		124.2	(90.9)	328.4		361.7
Income tax provision	0.3	0.4	3.3	97.0		101.0
(Loss) income from continuing operations	(0.3)	123.8	(94.2)	231.4		260.7
Income (loss) from discontinued operations, net of tax		46.5	129.2	(55.4)		120.3
Equity in undistributed earnings of subsidiaries	348.7	178.1	42.5	348.4	(917.7)	
Net income	348.4	348.4	77.5	524.4	(917.7)	381.0
Net income attributable to the noncontrolling interest				(32.6)		(32.6)
Net income attributable to Rockwood Holdings, Inc. shareholders	\$ 348.4	\$ 348.4	\$ 77.5	\$ 491.8	\$ (917.7)	\$ 348.4

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****NINE MONTHS ENDED SEPTEMBER 30, 2011****(Dollars in millions)****(Unaudited)**

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	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 348.4	\$ 348.4	\$ 77.5	\$ 524.4	\$ (917.7)	\$ 381.0
Other comprehensive loss	(38.8)	(38.8)	(3.4)	(70.7)	111.9	(39.8)
Comprehensive income	309.6	309.6	74.1	453.7	(805.8)	341.2
Comprehensive income attributable to noncontrolling interest				(31.6)		(31.6)
Comprehensive income attributable to Rockwood Holdings, Inc. shareholders	\$ 309.6	\$ 309.6	\$ 74.1	\$ 422.1	\$ (805.8)	\$ 309.6

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2012

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 948.2	\$ 633.1	\$ 292.6	\$ (384.0)	\$ 1,489.9
Accounts receivable, net			86.2	435.0		521.2
Intergroup receivable			9.6	13.9	(23.5)	
Inventories			136.8	717.4		854.2
Deferred income taxes			4.3	10.1	(0.7)	13.7
Prepaid expenses and other current assets		1.8	6.8	58.6		67.2
Total current assets		950.0	876.8	1,527.6	(408.2)	2,946.2
Property, plant and equipment, net			284.4	1,389.9		1,674.3
Investment in subsidiary	1,647.0	1,244.0	430.2	1,647.0	(4,968.2)	
Goodwill			17.1	826.1		843.2
Intergroup receivable	71.8	1,752.5	145.4	83.0	(2,052.7)	
Other intangible assets, net			58.6	394.1		452.7
Deferred financing costs, net		21.0	6.1	28.0		55.1
Deferred income taxes		125.9	5.7	21.6		153.2
Other assets			0.6	54.4		55.0
Total assets	\$ 1,718.8	\$ 4,093.4	\$ 1,824.9	\$ 5,971.7	\$ (7,429.1)	\$ 6,179.7
LIABILITIES						
Current liabilities:						
Accounts payable	\$	\$	\$ 29.4	\$ 175.9	\$	\$ 205.3
Intergroup payable			13.9	9.6	(23.5)	
Income taxes payable				65.2		65.2
Accrued compensation			13.9	100.9		114.8
Accrued expenses and other current liabilities		7.5	26.5	111.7		145.7
Deferred income taxes		0.7		4.7	(0.7)	4.7
Long-term debt, current portion		280.6		47.1		327.7
Total current liabilities		288.8	83.7	515.1	(24.2)	863.4
Long-term debt		2,143.5		529.6		2,673.1
Pension and related liabilities			20.8	439.9		460.7
Intergroup payable	22.3	2.1	1,444.5	967.8	(2,436.7)	
Deferred income taxes				96.8		96.8
Other liabilities		12.0	27.9	76.5		116.4
Total liabilities	22.3	2,446.4	1,576.9	2,625.7	(2,460.9)	4,210.4
Restricted stock units	22.7					22.7
EQUITY						
Rockwood Holdings, Inc. stockholders' equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8

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Paid-in capital	1,231.2	1,044.0	504.9	1,694.1	(3,243.0)	1,231.2
Accumulated other comprehensive income (loss)	8.2	9.5	4.0	134.3	(147.8)	8.2
Retained earnings (deficit)	435.0	593.5	(451.5)	1,080.1	(1,222.1)	435.0
Treasury stock, at cost	(1.4)					(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	1,673.8	1,647.0	248.0	3,073.2	(4,968.2)	1,673.8
Noncontrolling interest				272.8		272.8
Total equity	1,673.8	1,647.0	248.0	3,346.0	(4,968.2)	1,946.6
Total liabilities and equity	\$ 1,718.8	\$ 4,093.4	\$ 1,824.9	\$ 5,971.7	\$ (7,429.1)	\$ 6,179.7

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2011

(Dollars in millions)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 42.7	\$	\$ 234.5	\$ 298.1	\$ (253.8)	\$ 321.5
Accounts receivable, net			81.5	372.6		454.1
Inventories			134.6	539.7		674.3
Deferred income taxes			4.0	9.1	(2.9)	10.2
Prepaid expenses and other current assets			4.5	70.6		75.1
Total current assets	42.7		459.1	1,290.1	(256.7)	1,535.2
Property, plant and equipment, net			258.1	1,360.4		1,618.5
Investment in subsidiary	1,286.5	1,024.5	388.6	1,288.3	(3,987.9)	
Goodwill			17.1	832.5		849.6
Intergroup receivable	45.0	1,684.8	163.9	159.1	(2,052.8)	
Other intangible assets, net			66.4	443.3		509.7
Deferred financing costs, net		1.0	3.3	10.0		14.3
Deferred income taxes			8.7	19.3	(8.7)	19.3
Other assets			0.9	40.1		41.0
Total assets	\$ 1,374.2	\$ 2,710.3	\$ 1,366.1	\$ 5,443.1	\$ (6,306.1)	\$ 4,587.6
LIABILITIES						
Current liabilities:						
Accounts payable	\$	\$	\$ 57.3	\$ 191.8	\$	\$ 249.1
Income taxes payable			0.1	45.7		45.8
Accrued compensation			40.6	120.8		161.4
Accrued expenses and other current liabilities		10.4	26.6	92.6		129.6
Deferred income taxes		2.9		3.8	(2.9)	3.8
Long-term debt, current portion		195.7		54.8		250.5
Total current liabilities		209.0	124.6	509.5	(2.9)	840.2
Long-term debt		1,174.2		263.0		1,437.2
Pension and related liabilities			20.9	429.8		450.7
Intergroup payable		15.6	1,024.4	1,266.6	(2,306.6)	
Deferred income taxes		13.6		81.6	(8.7)	86.5
Other liabilities		9.6	24.4	66.6		100.6
Total liabilities		1,422.0	1,194.3	2,617.1	(2,318.2)	2,915.2
Restricted stock units	14.0					14.0
EQUITY						
Rockwood Holdings, Inc. stockholders' equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8
Paid-in capital	1,222.2	1,044.0	501.5	1,698.8	(3,244.3)	1,222.2
Accumulated other comprehensive income (loss)	10.1	13.1	3.9	131.9	(148.9)	10.1
Retained earnings (deficit)	128.5	231.2	(524.2)	532.4	(239.4)	128.5
Treasury Stock, at cost	(1.4)					(1.4)

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Total Rockwood Holdings, Inc. stockholders' equity	1,360.2	1,288.3	171.8	2,527.8	(3,987.9)	1,360.2
Noncontrolling interest				298.2		298.2
Total equity	1,360.2	1,288.3	171.8	2,826.0	(3,987.9)	1,658.4
Total liabilities and equity	\$ 1,374.2	\$ 2,710.3	\$ 1,366.1	\$ 5,443.1	\$ (6,306.1)	\$ 4,587.6

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2012****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 362.3	\$ 362.3	\$ 72.8	\$ 569.8	\$ (982.8)	\$ 384.4
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(362.3)	(215.1)	(43.1)	(362.3)	982.8	
Depreciation and amortization			38.7	157.7		196.4
Deferred financing costs amortization		0.1	0.9	4.2		5.2
Loss on early extinguishment/modification of debt		0.3	3.4	8.8		12.5
Foreign exchange loss on financing activities, net		4.3	0.6	2.4		7.3
Fair value adjustment of derivatives				2.5		2.5
Bad debt provision			0.1	0.1		0.2
Stock-based compensation			4.6	4.1		8.7
Deferred income taxes		(141.6)	2.7	13.9		(125.0)
Restructuring and other			1.2	10.7		11.9
Excess tax benefits from stock-based payment arrangements				(1.4)		(1.4)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:						
Accounts receivable			(4.9)	(64.4)		(69.3)
Inventories			(2.1)	(110.4)		(112.5)
Prepaid expenses and other assets		(1.8)	(6.1)	1.7		(6.2)
Accounts payable			(19.5)	(0.3)		(19.8)
Income taxes payable		(7.7)	8.5	19.8		20.6
Accrued expenses and other liabilities		(4.0)	(19.1)	(0.8)		(23.9)
Intercompany operating activities, net	5.6	54.9	41.9	27.8	(130.2)	
Net cash provided by (used in) operating activities of continuing operations	5.6	51.7	80.6	283.9	(130.2)	291.6
Net cash used in operating activities of discontinued operations			(2.7)			(2.7)
Net cash provided by (used in) operating activities	5.6	51.7	77.9	283.9	(130.2)	288.9
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital expenditures (a)			(63.6)	(151.7)		(215.3)
Acquisitions				(69.2)		(69.2)

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Proceeds on sale of assets		0.1	1.6	1.7		
Net cash used in investing activities		(63.5)	(219.3)	(282.8)		
CASH FLOWS FROM FINANCING ACTIVITIES:						
Issuance of common stock, net of fees	6.0			6.0		
Excess tax benefits from stock-based payment arrangements			1.4	1.4		
Payments of long-term debt	(555.7)		(133.7)	(689.4)		
Proceeds from long-term debt	1,600.0		387.4	1,987.4		
Deferred financing costs	(27.1)		(20.4)	(47.5)		
Fees related to early extinguishment/modification of debt	(6.8)		(2.4)	(9.2)		
Dividend paid to shareholders	(54.3)			(54.3)		
Dividend distributions to noncontrolling shareholders			(45.3)	(45.3)		
Intercompany financing related activity	(116.7)	384.7	(268.0)			
Net cash (used in) provided by financing activities	(48.3)	893.7	384.7	(81.0)	1,149.1	
Effect of exchange rate changes on cash and cash equivalents		2.8	(0.5)	10.9	13.2	
Net (decrease) increase in cash and cash equivalents	(42.7)	948.2	398.6	(5.5)	(130.2)	1,168.4
Cash and cash equivalents of continuing operations, beginning of period	42.7		234.5	298.1	(253.8)	321.5
Cash and cash equivalents of continuing operations, end of period	\$	\$ 948.2	\$ 633.1	\$ 292.6	\$ (384.0)	\$ 1,489.9

(a) Net of governments grants of \$9.8 million.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATING STATEMENT OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2011****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 348.4	\$ 348.4	\$ 77.5	\$ 524.4	\$ (917.7)	\$ 381.0
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(348.7)	(178.1)	(42.5)	(348.4)	917.7	
Income from discontinued operations, net of tax		(46.5)	(129.2)	55.4		(120.3)
Depreciation and amortization			34.4	165.8		200.2
Deferred financing costs amortization		0.2	0.5	3.0		3.7
Loss on early extinguishment/modification of debt		1.3	4.9	10.4		16.6
Foreign exchange (gain) loss on financing activities, net		(5.9)		4.1		(1.8)
Fair value adjustment of derivatives		(2.1)		1.1		(1.0)
Bad debt provision			(0.2)	0.2		