Rockwood Holdings, Inc.
Form 10-Q
August 07, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

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

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

(609) 514-0300
(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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

As of August 1, 2007, there were 73,813,269 outstanding shares of common stock, par value $0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Net sales	$ 850.7	$ 771.5	$ 1,646.8	$ 1,495.6
Cost of products sold	578.0	528.6	1,117.1	1,026.9
Gross profit	272.7	242.9	529.7	468.7
Selling, general and administrative expenses	160.2	148.3	315.0	288.9
Restructuring charges, net	1.5	1.0	6.0	2.2
(Gain) loss on sale of assets	(0.4)	0.1	(5.2)	(0.4)
Operating income	111.4	93.5	213.9	178.0
Other income (expenses):				
Interest expense	(47.0)	(47.7)	(101.7)	(87.5)
Interest income	4.0	1.1	9.1	2.5
Loss on early extinguishment of debt	(19.4)		(19.4)	
Refinancing expenses			(0.9)	
Foreign exchange gain, net	3.3	5.1	3.7	2.2
Other, net		0.2	(0.1)	1.8
Other income (expenses), net	(59.1)	(41.3)	(109.3)	(81.0)
Income from continuing operations before taxes and minority interest	52.3	52.2	104.6	97.0
Income tax provision	22.0	22.0	44.0	40.3
Income from continuing operations before minority interest	30.3	30.2	60.6	56.7
Minority interest in continuing operations	(2.3)		(3.4)	
Net income from continuing operations	28.0	30.2	57.2	56.7
Income from discontinued operations, net of tax		8.1	0.5	24.6
Gain on sale of discontinued operations, net of tax			115.7	
Minority interest in discontinued operations		(1.2)	(0.1)	(4.2)
Net income	$ 28.0	$ 37.1	$ 173.3	$ 77.1
Basic earnings per share:				
Earnings from continuing operations	$ 0.38	$ 0.41	$ 0.78	$ 0.77
Earnings from discontinued operations, net of tax		0.09	1.57	0.27
Basic earnings per share	$ 0.38	$ 0.50	$ 2.35	$ 1.04
Diluted earnings per share:				
Earnings from continuing operations	$ 0.37	$ 0.40	$ 0.75	$ 0.76
Earnings from discontinued operations, net of tax		0.09	1.53	0.27
Diluted earnings per share	$ 0.37	$ 0.49	$ 2.28	$ 1.03
Weighted average number of basic shares outstanding	73,796	73,781	73,791	73,780
Weighted average number of diluted shares outstanding	76,371	75,111	76,150	75,041

See accompanying notes to condensed consolidated financial statements.

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ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 193.5	$ 27.7
Accounts receivable, net	531.0	463.4
Inventories	445.7	445.4
Deferred income taxes	16.3	9.7
Prepaid expenses and other current assets	54.0	43.1
Assets of discontinued operations		490.6
Total current assets	1,240.5	1,479.9
Property, plant and equipment, net	1,405.5	1,374.9
Goodwill	1,754.0	1,717.7
Other intangible assets, net	637.0	539.6
Deferred debt issuance costs, net of accumulated amortization of $25.0 and $25.4, respectively	42.9	51.6
Deferred income taxes	21.2	
Other assets	56.6	56.1
Total assets	$ 5,157.7	$ 5,219.8
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 261.2	$ 290.3
Income taxes payable	3.1	0.2
Accrued compensation	73.2	85.9
Restructuring liability	10.7	8.5
Accrued expenses and other current liabilities	169.1	180.7
Deferred income taxes	4.3	
Senior secured revolving credit facility		37.0
Long-term debt, current portion	89.6	80.8
Liabilities of discontinued operations		171.1
Total current liabilities	611.2	854.5
Long-term debt	2,437.2	2,720.9
Pension and related liabilities	365.0	353.0
Deferred income taxes	84.3	43.1
Other liabilities	145.3	94.2
Total liabilities	3,643.0	4,065.7
Minority interest	178.4	33.6
Performance restricted stock units	0.3	
Stockholders equity:		
Common stock ($0.01 par value, 400,000 shares authorized, 73,895 shares issued and 73,801 shares outstanding at June 30, 2007; 400,000 shares authorized, 73,879 shares issued and 73,785 shares outstanding at December 31, 2006)	0.7	0.7
Paid-in capital	1,152.7	1,151.8
Accumulated other comprehensive income	282.7	234.0
Accumulated deficit	(98.7)	(264.6)
Treasury stock, at cost	(1.4)	(1.4)

Total stockholders equity	1,336.0	1,120.5
Total liabilities and stockholders equity	$ 5,157.7	$ 5,219.8

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Six months ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 173.3	$ 77.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(0.5)	(24.6)
Gain on sale of discontinued operations, net of tax	(115.7)	
Minority interest in discontinued operations	0.1	4.2
Depreciation and amortization	108.4	93.0
Deferred financing costs amortization	4.7	4.7
Loss on early extinguishment of debt (including $4.9 million of noncash write-offs on deferred financing costs)	19.4	
Foreign exchange gain	(3.7)	(2.2)
Fair value adjustment of derivatives	2.0	(15.3)
Bad debt provision	1.2	0.5
Stock-based compensation	0.7	
Deferred income taxes	20.0	16.2
Gain on sale of assets	(5.2)	(0.4)
Minority interest in continuing operations	3.4	
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(57.9)	(53.0)
Inventories, including inventory write-up reversal	5.6	0.2
Prepaid expenses and other assets	(7.1)	7.6
Accounts payable	(15.2)	(24.7)
Income taxes payable	1.7	11.1
Accrued expenses and other liabilities (including intercompany transactions with discontinued operations of $51.3 million for the six months ended June 30, 2006)	11.5	(45.4)
Net cash provided by operating activities of continuing operations	146.7	49.0
Net cash provided by operating activities of discontinued operations	1.6	56.5
Net cash provided by operating activities	148.3	105.5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees paid, net of cash acquired	(33.4)	(13.4)
Capital expenditures, excluding capital leases	(93.8)	(71.2)
Proceeds from formation of Viance joint venture	76.6	
Proceeds from sale of discontinued operations, net	421.4	
Proceeds on sale of assets	10.0	2.4
Net cash provided by (used in) investing activities of continuing operations	380.8	(82.2)
Net cash used in investing activities of discontinued operations		(18.9)
Net cash provided by (used in) investing activities	380.8	(101.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	0.2	
Proceeds from senior secured credit facilities		103.1
Repayment of 2011 Notes	(273.4)	
Repayment of senior secured credit facilities	(64.9)	(129.2)
Payments on other long-term debt	(4.1)	(2.8)
Payments related to early extinguishment of debt	(14.5)	
Net cash used in financing activities of continuing operations	(356.7)	(28.9)
Net cash used in financing activities of discontinued operations		(37.8)

Net cash used in financing activities	(356.7)	(66.7)
Effect of exchange rate changes on cash and cash equivalents	(5.0)	(3.4)
Net increase (decrease) in cash and cash equivalents	167.4	(65.7)
Less (increase) decrease in cash and cash equivalents from discontinued operations	(1.6)	0.1
Increase (decrease) in cash and cash equivalents from continuing operations	165.8	(65.6)
Cash and cash equivalents of continuing operations, beginning of period	27.7	100.5
Cash and cash equivalents of continuing operations, end of period	$ 193.5	$ 34.9
Supplemental disclosures of cash flow information:		
Interest paid, net	$ 90.4	$ 84.7
Income taxes paid, net of refunds	$ 22.3	$ 12.6
Non-cash investing activities:		
Acquisition of equipment under capital leases	$ 0.3	$
Decrease in liabilities for property, plant and equipment	$ (14.8)	$ (12.0)

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

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

Business Description, Background Rockwood Holdings, Inc. and Subsidiaries (Rockwood or the Company) is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes.

Rockwood was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition) by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR). The businesses acquired focused on specialty compounds, iron-oxide pigments, timber-treatment chemicals, clay-based additives, pool and spa chemicals, and electronic chemicals in semiconductors and printed circuit boards.

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

On January 9, 2007, the Company completed the sale of its Groupe Novasep subsidiary which represented one of its reportable segments. As a result, the condensed consolidated financial statements have been reclassified to reflect the former Groupe Novasep segment as a discontinued operation for all periods presented. See Note 2, Discontinued Operations, for further details.

Basis of Presentation The accompanying condensed financial statements of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim financial statements included herein are unaudited. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America (U.S. GAAP), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company s 2006 Form 10-K. In the opinion of management, this information contains all adjustments necessary, consisting of normal and recurring accruals, for a fair presentation of the results for the periods presented.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

The Company s minority interest in continuing operations represents the total of the minority party s interest in certain investments (principally Viance, LLC) that are consolidated but less than 100% owned. See Note 3, Viance, LLC Joint Venture, for further details. In the condensed consolidated balance sheet, the minority interest balance as of December 31, 2006 relates to the former Groupe Novasep segment that was sold in January 2007.

Nature of Operations/Segment Reporting The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company operates in various business lines within its six reportable segments consisting of: (1) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (2) Performance Additives, which includes color pigments and services, timber treatment chemicals, clay-based additives, and water treatment chemicals, (3) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (4) Advanced Ceramics, which includes ceramic-on-ceramic ball head and liner components used in hip-joint prostheses systems, ceramic cutting tools and a range of other ceramic components, (5) Specialty Compounds, which consists of plastic compounds and (6) Electronics, which consists of electronic chemicals and photomasks.

The basis for determining an enterprise s operating segments is the manner in which financial information is used internally by the enterprise s chief operating decision maker, the Company s Chief Executive Officer. See Note 4, Segment Information, for further segment reporting information.

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

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

Related Party Transactions Rockwood has engaged in transactions with certain related parties including KKR and DLJ Merchant Banking Partners III, L.P. (DLJMB) and affiliates of each. Information concerning certain transactions is included in the Company s 2006 Form 10-K in Item 13, Certain Relationships and Related Transactions, and Director Independence. There have been no significant changes to our related party transactions for the period ended June 30, 2007.

Revenue Recognition The Company recognizes revenue when the earnings process is complete. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company s experience. Revenue under service agreements, which was less than 1% of consolidated revenues in 2006, is realized when the service is performed.

Foreign Currency Translation The functional currency of each of the Company s foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity s functional currency) are included in determining net income for the period in which exchange rates change, except for gains or losses on euro-denominated debt that is designated as a net investment hedge of the Company s euro-denominated investments and gains or losses on certain intercompany loans that are of a long-term nature for which settlement is not planned or anticipated in the foreseeable future which are reported and accumulated in the same manner as translation adjustments. These loans are all related to intercompany debt arrangements. As of June 30, 2007, the amount of intercompany debt arrangements deemed to be of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future is 519.4 million ($703.4 million using the Friday, June 29, 2007 exchange rate of 1.00 = $1.3542).

Derivatives The Company accounts for derivatives based on Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Changes in the fair value of derivatives not designated as hedging instruments are recognized currently in earnings while changes in the fair value of derivatives that are designated as hedging instruments are recognized as a component of comprehensive income. The Company uses derivative instruments to manage its exposure to market risks associated with fluctuations in interest rates and foreign currency exchange rates. See Comprehensive Income section of Note 1 for the impact of the Company s net investment hedges. The Company does not enter into derivative contracts for trading purposes nor does it use leveraged or complex instruments.

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

Income Taxes Income taxes are determined in accordance with SFAS 109, *Accounting for Income Taxes* and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

Comprehensive Income Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany foreign currency loan transactions that are of a long-term investment nature as well as minimum pension liability adjustments that are recorded directly into a separate section of stockholders equity in the balance sheets. Also included are the net investment hedges discussed below. Foreign currency translation amounts are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries and certain intercompany debt.

Comprehensive income is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2007**	**2006**	**2007**	**2006**
Net income	$ 28.0	$ 37.1	$ 173.3	$ 77.1
Pension related adjustments, net of tax	(0.4)		0.1	4.6
Foreign currency translation	24.6	93.6	61.4	119.0
Intercompany foreign currency loan transactions	9.5	34.9	11.6	66.5
Net investment hedge, net of tax	(14.0)	(57.9)	(24.4)	(83.2)
Total comprehensive income	$ 47.7	$ 107.7	$ 222.0	$ 184.0

In November 2004, the Company completed the sale of 375.0 million aggregate principal amount of 7.625% senior subordinated notes and $200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 (2014 Notes). In connection with the 2014 Notes, the Company entered into a cross-currency swap with a five-year term and a notional amount of 155.6 million that effectively converted the U.S. dollar fixed-rate debt in respect of the dollar notes sold into euro fixed-rate debt. The Company has designated this contract as a hedge of the foreign currency exposure of its net investment in its euro-denominated operations. There was no ineffective portion of the net investment hedge as of June 30, 2007. The Company does not expect any of the loss on the net investment hedge residing in comprehensive income at June 30, 2007 to be reclassified into earnings during the subsequent twelve months.

In addition, we designated the remaining portion of our euro-denominated debt that is recorded on our U.S. books as a net investment hedge of our euro-denominated investments as of October 1, 2005 (euro-denominated debt of 680.9 million or $922.1 million based on the Friday, June 29, 2007 exchange rate of 1.00 = $1.3542). As a result, effective October 1, 2005, any foreign currency gains and losses resulting from the euro-denominated debt discussed above are accounted for as a component of accumulated other comprehensive income. There was no ineffective portion of the net investment hedge as of June 30, 2007. The Company does not expect any of the loss on the net investment hedge residing in comprehensive income at June 30, 2007 to be reclassified into earnings during the subsequent twelve months.

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

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

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

The Company adopted SFAS No. 123R using the modified prospective approach and therefore has not restated prior periods. In accordance with SFAS No. 123R, beginning in the first quarter of 2006, the Company recorded compensation cost for the unvested portion of awards issued after February 2005, which is the date it first filed its registration statement with the Securities and Exchange Commission (SEC). The compensation cost for stock options and restricted stock units recorded under the Plan caused income from continuing operations before taxes and minority interest to decrease by $0.7 million and less than $0.1 million for the three months ended June 30, 2007 and 2006, respectively, and to decrease by $0.8 million and less than $0.1 million for the six months ended June 30, 2007 and 2006, respectively.

As discussed in Note 10, Stock-Based Compensation, the Company granted additional stock options and performance restricted stock units in the second quarter of 2007 to certain employees of Rockwood Corporate Headquarters and its business units. The performance restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment upon a change in control as defined in the equity agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of June 30, 2007 have been recorded as mezzanine equity (outside of permanent equity) in the Condensed Consolidated Balance Sheets.

Recent Accounting Pronouncements The Company adopted the following in the first quarter of 2007:

In June 2006, a final consensus was reached on Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation).* The scope of this Issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. This Issue affirms that the presentation of taxes in the income statement should be on either a gross (included in revenues and costs) or a net (excluded from revenues) basis and that this is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22. In addition, if such taxes are significant and reported on a gross basis, the amounts of those taxes should be disclosed in interim and annual financial statements. The Company adopted this EITF in the first quarter of 2007 and has adopted an accounting policy that requires taxes collected from customers and remitted to governmental authorities to be reported on a net basis (excluded from revenues). The adoption of this EITF did not have a material impact on the Company s financial statements.

In July 2006, FIN 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company adopted this interpretation in the first quarter of 2007. See Note 9, Income Taxes, for the impact of adopting this interpretation. In May 2007, the FASB issued Staff Position (FSP) FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48.* This FSP amends FIN 48 to provide guidance on how an enterprise should determine whether a tax provision is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

In September 2006, the FASB issued FSP No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. It continues to permit the application of three alternative methods of accounting for planned maintenance activities: direct expense, built-in-overhaul and deferral methods. In addition, this FSP requires disclosure of the method of accounting for planned maintenance activities selected. The Company adopted this FSP in the first quarter of 2007 and has adopted an accounting policy that requires planned major maintenance activities to be accounted for under the direct-expense method. The adoption of this FSP did not have a material impact on the Company s financial statements.

The Company will adopt the following standards on January 1, 2008:

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. This statement is effective for the Company as of January 1, 2008. The Company is currently evaluating the impact this statement will have on its financial statements.

In February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* was issued. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value and permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective for the Company as of January 1, 2008. The Company is currently evaluating the impact this statement will have on its financial statements.

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2. DISCONTINUED OPERATIONS:

On January 9, 2007, the Company completed the sale of its Groupe Novasep subsidiary. The transaction was valued at approximately 425 million, which included the repayment of third party and intercompany indebtedness. As of December 31, 2006, the Company met the criteria for reporting the pending sale of its Groupe Novasep subsidiary as an asset held for sale and discontinued operations pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The Company s financial statements reflect the Groupe Novasep subsidiary as a discontinued operation for all periods presented.

Operating results of the discontinued operations are as follows:

($ in millions)	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Net sales	$	$ 84.3	$ 8.9	$ 172.8
Cost of products sold		58.3	7.0	122.9
Gross profit		26.0	1.9	49.9
Selling, general and administrative expenses		14.0	1.0	30.4
(Gain) loss on sale of business/assets		(0.1)	(117.7)	11.9
Operating income		12.1	118.6	7.6
Other income (expenses):				
Interest expense, net		(1.2)	(0.3)	(1.9)
Foreign exchange gain, net		0.4		0.7
Net		(0.8)	(0.3)	(1.2)
Income before taxes and minority interest		11.3	118.3	6.4
Income tax provision (benefit)		3.2	2.1	(18.2)
Net income before minority interest		8.1	116.2	24.6
Minority interest		(1.2)	(0.1)	(4.2)
Net income	$	$ 6.9	$ 116.1	$ 20.4

The Company received net cash proceeds of $421.4 million in 2007 from the sale of Groupe Novasep. The net gain on the sale recorded in the first quarter of 2007 is $115.7 million (net of $2.0 million of German taxes).

In connection with the sale of Rohner AG, a subsidiary in the Company s former Groupe Novasep segment, the Company recorded a pre-tax loss of $12.1 million in the first quarter of 2006, representing consideration given less the remaining net liabilities of Rohner, which were transferred to the purchaser.

3. VIANCE, LLC JOINT VENTURE:

On January 2, 2007, Chemical Specialties, Inc. (CSI), a wholly-owned subsidiary of the Company within the Timber Treatment Chemicals business of the Performance Additives segment, and Rohm and Haas Company completed the formation of Viance, LLC, a joint venture company that provides an extensive range of advanced wood treatment technologies and services to the global wood treatment industry. Viance is jointly-owned by CSI and Rohm and Haas and was formed through the contribution by CSI and its related subsidiaries of their wood protection chemicals business and the contribution by Rohm and Haas of its wood biocides business and cash of $76.6 million. The assets contributed by Rohm and Haas were recorded at fair values whereas the assets contributed by CSI were recorded at book value. The Company was assisted in determining fair value by independent appraisers. In accordance with the consolidation principles of FIN 46 (R), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51,* the Company has concluded that Rockwood is the primary beneficiary of the joint venture and as such has consolidated the joint venture.

All intercompany accounts, balances and transactions have been eliminated. The minority interest in the consolidated subsidiary reflected in the Company s condensed consolidated balance sheet reflects Rohm and Haas share of the estimated fair value of the net assets of the joint venture.

At June 30, 2007, the joint venture had no third party debt outstanding, no consolidated assets of the Company were pledged as collateral for any joint venture obligations and the general creditors of the joint venture had no recourse to the general credit of the Company.

4. SEGMENT INFORMATION:

Rockwood operates in six 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, the Company s Chief Executive Officer. The six segments are: (1) Specialty Chemicals, which consists of the surface treatment and fine chemicals business lines; (2) Performance Additives, which consists of color pigments and services, timber treatment chemicals (including Viance, LLC), clay-based additives and water treatment chemicals business lines; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics; (5) Specialty Compounds; and (6) Electronics, which consists of electronic chemicals and photomasks business lines.

Items that cannot be readily attributed to individual segments have been classified as Corporate. The corporate operating loss primarily represents payroll, professional fees and other operating expenses of centralized functions such as treasury, legal, internal audit and consolidation accounting as well as the cost of operating our central offices (including some costs maintained based on legal or tax considerations). The primary components of corporate loss, in addition to operating loss, are interest expense on external debt (including the amortization of deferred financing costs), foreign exchange losses or gains, and mark-to-market gains or losses on derivatives.

Major corporate components within the reconciliation of income (loss) from continuing operations before taxes and minority interest (described more fully below) include systems/organization establishment expenses such as outside consulting costs for Sarbanes-Oxley initial documentation and fees relating to the implementation of a new consolidation software system, interest expense on external debt, interest income, foreign exchange losses or gains and refinancing expenses related to external debt. Corporate identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing, deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The corporate classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel. These operations are substantially unrelated by nature to businesses currently within the Company s operating segments.

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

($ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Electronics	Corporate	Consolidated (a)
Three months ended June 30, 2007								
Net sales	$ 270.9	$ 216.2	$ 123.3	$ 118.6	$ 70.8	$ 50.9	$	$ 850.7
Total Adjusted EBITDA	66.3	45.5	21.0	32.7	9.5	8.7	(14.7)	169.0
Three months ended June 30, 2006								
Net sales	$ 232.0	$ 212.8	$ 111.0	$ 98.0	$ 66.1	$ 51.6	$	$ 771.5
Total Adjusted EBITDA	50.7	42.8	21.8	25.6	8.6	9.7	(12.8)	146.4
Six months ended June 30, 2007								
Net sales	$ 538.8	$ 401.0	$ 239.4	$ 224.1	$ 140.4	$ 103.1	$	$ 1,646.8
Total Adjusted EBITDA	134.6	78.1	43.4	61.5	17.6	18.1	(28.1)	325.2
Six months ended June 30, 2006								
Net sales	$ 460.1	$ 395.3	$ 219.2	$ 190.7	$ 129.3	$ 101.0	$	$ 1,495.6
Total Adjusted EBITDA	102.1	76.1	42.7	49.2	15.9	18.3	(25.1)	279.2

	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Electronics	Corporate (b)	Eliminations (c)	Consolidated (d)
Identifiable assets as of:									
June 30, 2007	$ 1,704.1	$ 1,207.8	$ 728.6	$ 807.8	$ 290.3	$ 281.2	$ 294.4	$ (156.5)	$ 5,157.7
December 31, 2006	1,624.8	1,041.8	738.2	749.5	272.2	306.3	133.0	(136.6)	4,729.2

(a) This amount does not include $19.8 million for the three months ended June 30, 2006 and $1.8 million and $35.7 million for the six months ended June 30, 2007 and 2006, respectively, of Adjusted EBITDA from the former Groupe Novasep segment which was sold on January 9, 2007.

(b) This amount includes $43.1 million and $41.0 million of assets from the legacy businesses formerly belonging to Dynamit Nobel at June 30, 2007 and December 31, 2006, respectively.

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

(d) This amount does not include $490.6 million of identifiable assets at December 31, 2006 from the former Groupe Novasep segment which was sold on January 9, 2007. Total identifiable assets including this amount were $5,219.8 million at December 31, 2006.

Geographic information regarding net sales based on seller s location and long-lived assets are described in Note 4, Segment Information, in the Company s 2006 Form 10-K.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges deemed by our senior management to be non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement, which reflects management s interpretations thereof. The indentures governing the 2011 Notes (which was terminated when the 2011 Notes were redeemed in May 2007) and the 2014 Notes exclude certain adjustments permitted under the senior credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company s business segments and reporting units. See Note 8, Long-term Debt, for information regarding the redemption of the 2011 Notes.

The Company uses Adjusted EBITDA on a segment basis to assess its operating performance. Because the Company views Adjusted EBITDA on a segment basis as an operating performance measure, the Company uses income (loss) from continuing operations before taxes and minority interest as the most comparable GAAP measure.

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

($ in millions)	Specialty Chemicals	Performance Additives	Titanium Dioxide Pigments	Advanced Ceramics	Specialty Compounds	Electronics	Corporate	Consolidated
Three months ended June 30, 2007								
Income (loss) from continuing operations before taxes and minority interest	$ 43.9	$ 27.8	$ 1.9	$ 13.1	$ 3.0	$ 4.6	$ (42.0)	$ 52.3
Interest expense (a)	9.6	2.9	8.0	8.7	2.3		15.5	47.0
Interest income	(0.9)	(0.3)	(0.1)	(0.2)		(0.4)	(2.1)	(4.0)
Depreciation and amortization	13.6	12.9	10.5	10.1	2.8	4.0	1.3	55.2
Restructuring charges, net	0.3	0.3		0.6			0.3	1.5
CCA litigation defense costs		0.2						0.2
Systems/organization establishment expenses	(0.4)			0.4	0.3			0.3
Cancelled acquisition and disposal costs	0.1		0.7				(0.1)	0.7
Inventory write-up reversal				0.1				0.1
Loss on early extinguishment of debt		1.9			1.1	0.3	16.1	19.4
Loss (gain) on sale of assets						0.1	(0.5)	(0.4)
Foreign exchange loss (gain), net	0.1	(0.1)		(0.1)		0.1	(3.3)	(3.3)
Other		(0.1)					0.1	
Total Adjusted EBITDA	$ 66.3	$ 45.5	$ 21.0	$ 32.7	$ 9.5	$ 8.7	$ (14.7)	$ 169.0
Three months ended June 30, 2006								
Income (loss) from continuing operations before taxes and minority interest	$ 25.1	$ 25.8	$ 5.3	$ 8.8	$ 6.3	$ 5.3	$ (24.4)	$ 52.2
Interest expense (a)	15.0	3.6	7.3	8.2		0.7	12.9	47.7
Interest income	(1.8)		(0.1)	(0.1)		(0.7)	1.6	(1.1)
Depreciation and amortization	11.7	12.2	9.3	8.2	2.3	4.4	1.2	49.3
Restructuring charges, net	0.3	0.6				0.1		1.0
CCA litigation defense costs		0.2						0.2
Systems/organization establishment expenses	0.1	0.4		0.3			1.4	2.2
Cancelled acquisition and disposal costs	0.3							0.3
Inventory write-up reversal				0.1				0.1
Loss on sale of assets				0.1				0.1
Foreign exchange loss (gain), net	0.3					(0.1)	(5.3)	(5.1)
Other	(0.3)						(0.2)	(0.5)
Total Adjusted EBITDA (b)	$ 50.7	$ 42.8	$ 21.8	$ 25.6	$ 8.6	$ 9.7	$ (12.8)	$ 146.4
Six months ended June 30, 2007								
Income (loss) from continuing operations before taxes and minority interest	$ 90.7	$ 43.8	$ 6.1	$ 23.9	$ 6.0	$ 11.6	$ (77.5)	$ 104.6
Interest expense (a)	19.0	6.2	15.9	16.6	4.7	0.1	39.2	101.7
Interest income	(1.7)	(0.5)	(0.1)		(0.2)	(0.7)	(5.9)	(9.1)
Depreciation and amortization	26.4	25.5	20.8	19.7	5.5	8.0	2.5	108.4
Restructuring charges, net	0.5	0.3		0.7		3.7	0.8	6.0
CCA litigation defense costs		0.3						0.3
Systems/organization establishment expenses	(0.4)	0.5		0.6	0.5			1.2
Cancelled acquisition and disposal costs	0.1		0.7					0.8
Inventory write-up reversal				0.1				0.1
Costs incurred related to debt modifications							0.9	0.9
Loss on early extinguishment of debt		1.9			1.1	0.3	16.1	19.4
Loss (gain) on sale of assets		0.1				(4.7)	(0.6)	(5.2)
Foreign exchange loss (gain), net	0.3			(0.1)		(0.2)	(3.7)	(3.7)
Other	(0.3)						0.1	(0.2)
Total Adjusted EBITDA (b)	$ 134.6	$ 78.1	$ 43.4	$ 61.5	$ 17.6	$ 18.1	$ (28.1)	$ 325.2

Six months ended June 30, 2006								
Income (loss) from continuing operations before taxes and minority interest	$ 55.2	$ 45.8	$ 11.8	$ 16.4	$ 11.7	$ 7.7	$ (51.6)	$ 97.0
Interest expense (a)	25.6	7.6						