

Rockwood Holdings, Inc.
Form 10-Q
November 07, 2014
[Table of Contents](#)

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, 2014

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

52-2277366

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

(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. 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 November 3, 2014, there were 71,266,632 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

Table of Contents

TABLE OF CONTENTS

FORM 10-Q

PART I- FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements (Unaudited)</u> <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013</u> <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013</u> <u>Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u> <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u> <u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months September 30, 2014 and 2013</u> <u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4</u>	<u>Controls and Procedures</u>

PART II- OTHER INFORMATION

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

Table of Contents**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,	
	2014	2013	2014	2013
Net sales	\$ 356.3	\$ 345.8	\$ 1,073.1	\$ 1,030.8
Cost of products sold	193.4	193.1	585.3	567.5
Gross profit	162.9	152.7	487.8	463.3
Selling, general and administrative expenses	113.8	99.8	333.3	303.0
Equity in earnings of unconsolidated affiliates	(5.1)	(2.3)	(9.9)	(7.4)
Gain on previously held equity investment		(16.0)		(16.0)
Restructuring and other severance costs	1.4	4.6	7.0	13.2
Asset write-downs and other	0.4	(0.7)	2.1	4.0
Operating income	52.4	67.3	155.3	166.5
Other income (expenses), net:				
Interest expense, net	(13.5)	(21.2)	(41.3)	(67.9)
Loss on early extinguishment/modification of debt		(15.5)		(15.5)
Foreign exchange gain (loss) on financing activities, net	55.1	(31.2)	60.9	(41.7)
Other, net	(0.2)		(0.2)	
Other income (expenses), net	41.4	(67.9)	19.4	(125.1)
Income (loss) from continuing operations before taxes	93.8	(0.6)	174.7	41.4
Income tax provision (benefit)	39.4	(9.0)	64.5	0.8
Income from continuing operations	54.4	8.4	110.2	40.6
Income (loss) from discontinued operations, net of tax	33.5	(60.9)	4.4	(45.1)
Gain on sale of discontinued operations, net of tax		1,163.8	2.1	1,163.8
Net income	87.9	1,111.3	116.7	1,159.3
Net (income) loss attributable to noncontrolling interest - discontinued operations	(2.0)	(0.1)	(4.9)	0.8
Net income attributable to Rockwood Holdings, Inc. stockholders	\$ 85.9	\$ 1,111.2	\$ 111.8	\$ 1,160.1
Amounts attributable to Rockwood Holdings, Inc. stockholders:				
Income from continuing operations	\$ 54.4	\$ 8.4	\$ 110.2	\$ 40.6
Income from discontinued operations	31.5	1,102.8	1.6	1,119.5
Net income	\$ 85.9	\$ 1,111.2	\$ 111.8	\$ 1,160.1

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

Basic earnings per share attributable to Rockwood Holdings, Inc. stockholders:								
Earnings from continuing operations	\$	0.76	\$	0.11	\$	1.52	\$	0.53
Earnings from discontinued operations		0.45		14.85		0.02		14.61
Basic earnings per share	\$	1.21	\$	14.96	\$	1.54	\$	15.14
Diluted earnings per share attributable to Rockwood Holdings, Inc. stockholders:								
Earnings from continuing operations	\$	0.75	\$	0.11	\$	1.50	\$	0.52
Earnings from discontinued operations		0.44		14.53		0.02		14.30
Diluted earnings per share	\$	1.19	\$	14.64	\$	1.52	\$	14.82
Dividends declared per share of common stock	\$	0.45	\$	0.45	\$	1.35	\$	1.25
Weighted average number of basic shares outstanding								
		71,239		74,262		72,504		76,611
Weighted average number of diluted shares outstanding								
		72,176		75,906		73,547		78,264

See accompanying notes to condensed consolidated financial statements.

Table of Contents**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,	
	2014	2013	2014	2013
Net income	\$ 87.9	\$ 1,111.3	\$ 116.7	\$ 1,159.3
Other comprehensive (loss) income, net of tax:				
Pension related adjustments	8.5	10.6	12.0	21.2
Foreign currency translation	(176.5)	64.5	(178.9)	35.3
Intercompany foreign currency loans	(38.1)	28.4	(39.4)	17.6
Foreign exchange contracts and other		0.1		0.1
Other comprehensive (loss) income	(206.1)	103.6	(206.3)	74.2
Comprehensive (loss) income	(118.2)	1,214.9	(89.6)	1,233.5
Comprehensive income attributable to noncontrolling interest	(2.0)	(0.2)	(4.9)	(0.6)
Comprehensive (loss) income attributable to Rockwood Holdings, Inc. stockholders	\$ (120.2)	\$ 1,214.7	\$ (94.5)	\$ 1,232.9

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 710.0	\$ 1,522.8
Accounts receivable, net	236.4	228.1
Inventories	227.5	228.2
Deferred income taxes	51.0	45.4
Prepaid expenses and other current assets	48.8	90.1
Assets of discontinued operations	1,505.3	1,549.1
Total current assets	2,779.0	3,663.7
Property, plant and equipment, net	871.1	842.8
Goodwill	609.2	659.6
Other intangible assets, net	110.5	127.9
Deferred financing costs, net	15.9	17.9
Deferred income taxes	146.1	156.5
Investment in unconsolidated affiliates	522.1	34.2
Other assets	28.0	29.7
Total assets	\$ 5,081.9	\$ 5,532.3
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 79.0	\$ 92.2
Income taxes payable	34.8	13.5
Accrued compensation	73.4	70.0
Accrued expenses and other current liabilities	104.2	89.0
Deferred income taxes	3.3	2.3
Long-term debt, current portion	9.5	10.3
Liabilities of discontinued operations	452.0	486.5
Total current liabilities	756.2	763.8
Long-term debt	1,278.8	1,285.1
Pension and related liabilities	245.7	268.9
Deferred income taxes	41.9	38.4
Other liabilities	90.8	102.7
Total liabilities	2,413.4	2,458.9
Commitments and Contingencies - See Note 17		
Restricted stock units	22.2	24.2
EQUITY		
Rockwood Holdings, Inc. stockholders' equity:		
Common stock (\$0.01 par value, 400,000 shares authorized, 80,541 shares issued and 71,241 shares outstanding at September 30, 2014; 400,000 shares authorized, 80,219 shares issued and 73,892 shares outstanding at December 31, 2013)	0.8	0.8
Paid-in capital	1,275.3	1,269.8
Accumulated other comprehensive (loss) income	(102.6)	103.7

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

Retained earnings	1,936.0	1,923.1
Treasury stock, at cost (9,300 shares and 6,327 shares, respectively)	(616.0)	(401.3)
Total Rockwood Holdings, Inc. stockholders' equity	2,493.5	2,896.1
Noncontrolling interest	152.8	153.1
Total equity	2,646.3	3,049.2
Total liabilities and equity	\$ 5,081.9	\$ 5,532.3

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in millions)****(Unaudited)**

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 116.7	\$ 1,159.3
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(4.4)	45.1
Gain on sale of discontinued operations, net of tax	(2.1)	(1,163.8)
Depreciation and amortization	75.7	68.0
Deferred financing costs amortization	2.0	3.7
Equity in earnings of unconsolidated affiliates	(9.9)	(7.4)
Loss on early extinguishment/modification of debt		15.5
Gain on previously held equity interest		(16.0)
Foreign exchange (gain) loss on financing activities, net	(60.9)	41.7
Stock-based compensation	7.4	9.9
Deferred income taxes	15.4	(1.1)
Asset write-downs and other	5.1	4.0
Excess tax benefits from stock-based payment arrangements	(1.0)	(3.8)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(19.2)	(26.5)
Inventories	(8.8)	(15.2)
Prepaid expenses and other assets	3.0	0.8
Accounts payable	(4.1)	(4.7)
Income taxes payable	14.5	(43.8)
Accrued expenses and other liabilities	12.1	26.1
Net cash provided by operating activities of continuing operations	141.5	91.8
Net cash provided by operating activities of discontinued operations	78.9	187.8
Net cash provided by operating activities	220.4	279.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(134.4)	(128.7)
Acquisition of 49% equity interest in Talison	(516.6)	
Other acquisitions	(2.5)	(33.8)
Increase in restricted cash		(14.2)
Proceeds on sale of assets	2.4	2.5
Net cash used in investing activities of continuing operations	(651.1)	(174.2)
Net cash (used in) provided by investing activities of discontinued operations	(84.1)	1,648.9
Net cash (used in) provided by investing activities	(735.2)	1,474.7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	2.1	9.5
Excess tax benefits from stock-based payment arrangements	1.0	3.8
Payments of long-term debt	(3.9)	(1,130.3)
Proceeds from long term debt	0.1	204.6
Fees related to early extinguishment/modification of debt		(5.2)
Purchase of noncontrolling interest		(130.3)

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

Dividend distributions to shareholders	(97.6)	(94.8)
Share repurchases	(214.7)	(399.9)
Net cash used in financing activities of continuing operations	(313.0)	(1,542.6)
Net cash used in financing activities of discontinued operations	(9.9)	(511.0)
Net cash used in financing activities	(322.9)	(2,053.6)
Effect of exchange rate changes on cash and cash equivalents	28.0	(33.2)
Net decrease in cash and cash equivalents	(809.7)	(332.5)
Less net increase in cash and cash equivalents from discontinued operations	3.1	1.6
Decrease in cash and cash equivalents from continuing operations	(812.8)	(334.1)
Cash and cash equivalents, beginning of period	1,522.8	1,266.1
Cash and cash equivalents, end of period	\$ 710.0	\$ 932.0
Supplemental disclosures of cash flow information:		
Interest paid	\$ 29.9	\$ 57.4
Income taxes paid, net of refunds	34.6	45.8
Non-cash investing activities:		
Acquisition of capital equipment included in accounts payable	13.4	4.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

(Dollars in millions)

(Unaudited)

	Rockwood Holdings, Inc. Stockholders Equity						
	Accumulated						
	Other						
	Total	Common Stock	Paid-in Capital	Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Noncontrolling Interest
Balance, January 1, 2014	\$ 3,049.2	\$ 0.8	\$ 1,269.8	\$ 103.7	\$ 1,923.1	\$ (401.3)	\$ 153.1
Issuance of common stock	2.1		2.1				
Deferred compensation	2.1		2.1				
Share repurchases	(214.7)					(214.7)	
Dividend paid to shareholders (\$1.35 per share)	(97.6)		1.3		(98.9)		
Distributions to noncontrolling shareholders	(5.2)						(5.2)
Other comprehensive loss, net of tax	(206.3)			(206.3)			
Net income	116.7				111.8		4.9
Balance, September 30, 2014	\$ 2,646.3	\$ 0.8	\$ 1,275.3	\$ (102.6)	\$ 1,936.0	\$ (616.0)	\$ 152.8
Balance, January 1, 2013	\$ 1,875.7	\$ 0.8	\$ 1,243.1	\$ (12.6)	\$ 392.7	\$ (1.4)	\$ 253.1
Issuance of common stock	9.5		9.5				
Deferred compensation	2.2		2.2				
Share repurchases	(399.9)					(399.9)	
Dividend paid to shareholders (\$1.25 per share)	(94.8)		1.6		(96.4)		
Distributions to noncontrolling shareholders	(2.1)						(2.1)
Purchase of noncontrolling interest	(130.3)		(6.9)	(27.6)			(95.8)
Other comprehensive income, net of tax	74.2			72.8			1.4
Net income	1,159.3				1,160.1		(0.8)
Balance, September 30, 2013	\$ 2,493.8	\$ 0.8	\$ 1,249.5	\$ 32.6	\$ 1,456.4	\$ (401.3)	\$ 155.8

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 that are, in the opinion of management, necessary for a fair presentation of the financial position as of September 30, 2014 and December 31, 2013, and the results of operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013, and cash flows and changes in stockholders' equity for the nine months ended September 30, 2014 and 2013. All intercompany balances and transactions have been eliminated. Subsequent events are evaluated through the report issuance date and disclosed where applicable. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited condensed consolidated financial statements may not be indicative of the full year results.

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

In May 2014, the Company completed the purchase of a 49% equity interest in Windfield Holdings Pty Ltd (Windfield), which is the parent of Talison Lithium Pty. Ltd (Talison), thereby creating a joint venture with Sichuan Tianqi Lithium Industries Inc. (Tianqi) giving the Company an indirect ownership interest in Talison. See Note 2, Investment in Unconsolidated Affiliates, for further details. The Company's condensed consolidated statements of operations for the three and nine month periods ended September 30, 2013 were reclassified to conform to current-year presentation for the presentation of equity in earnings of unconsolidated affiliates and the Company's condensed consolidated balance sheet as of December 31, 2013 was reclassified to conform to current-year presentation for the presentation of investment in unconsolidated affiliates.

In July 2014, the Company, Albemarle Corporation (Albemarle) and the Merger Sub entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into the Company, with the Company as the surviving entity (the Merger). As a result of the Merger, the Company will become a wholly-owned subsidiary of Albemarle. At the effective time of the Merger, each outstanding share of Rockwood common stock (other than shares owned, directly or indirectly, by Albemarle, the Company or Merger Sub or any stockholder who is entitled to demand and properly demands appraisal of such shares pursuant to, and who complies in all material respects with, Section 262 of the Delaware General Corporation Law) will convert into the right to receive (x) \$50.65 in cash and (y) 0.4803 of a share of Albemarle common stock ((x) and (y) together, the Merger Consideration). The transaction is subject to Albemarle and Rockwood shareholder and regulatory approvals and other customary

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

closing conditions and is expected to close by the end of the first quarter of 2015.

In the second quarter of 2014, the Company reorganized its Metal Sulfides business and began reporting it within its Surface Treatment segment. The Metal Sulfides business was previously reported in the Other category. As a result, the Company's condensed consolidated financial statements have been reclassified to reflect this segment change for all periods presented. See Note 4, Segment Information, for further details.

During 2013, the Company sold its Advanced Ceramics segment and Clay-based Additives business, and in October 2014, sold its Titanium Dioxide Pigments, Color Pigments and Services, Timber Treatment Chemicals, Rubber/Thermoplastics Compounding and Water Chemistry businesses (TiO₂ Pigments and Other Businesses). As of September 30, 2014, all of these transactions met the criteria for being reported as discontinued operations. As a result, the Company's condensed consolidated financial statements have been reclassified to reflect discontinued operations for these transactions for all periods presented. See Note 3, Discontinued Operations and Note 20, Subsequent Events for further details of these transactions.

Noncontrolling interest represents the total of the noncontrolling party's interest in certain investments (principally the former Titanium

Table of Contents

Dioxide Pigments venture and the Timber Treatment joint venture) that are consolidated but less than 100% owned. On February 15, 2013, the Company acquired Kemira Oyj s (Kemira) 39% interest in its former Titanium Dioxide Pigments venture for a purchase price of 97.5 million (\$130.3 million based on the rate in effect on the date of purchase).

Unless otherwise noted, all balance sheet-related items which are denominated in Euros are translated at the September 30, 2014 exchange rate of 1.00 = \$1.2631. For the three months ended September 30, 2014 and 2013 and the nine months ended September 30, 2014 and 2013, the average rate of exchange of the Euro to the U.S. dollar is \$1.3249 and \$1.3256, respectively, and \$1.3557 and \$1.3173, respectively.

Foreign Currency Translation The functional currency of each of the Company s foreign subsidiaries is primarily the respective local currency. Balance sheet accounts of the foreign operations are translated into U.S. dollars at period-end exchange rates and income and expense accounts are translated at average exchange rates during the period. Translation gains and losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity s functional currency), including intercompany financing arrangements for which settlement is planned or anticipated, are included in determining net income for the period in which exchange rates change. Gains or losses on certain intercompany loans that are of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future are reported and accumulated in the same manner as translation adjustments. These loans are all related to intercompany debt arrangements. As of September 30, 2014, intercompany debt arrangements deemed to be of a long-term investment nature for which settlement is not planned or anticipated in the foreseeable future equaled 367.0 million (\$463.6 million).

Recently Issued Accounting Standards:

In April 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that changes the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift that has (or will have) a major effect on an entity s operations and financial results should be presented as discontinued operations. Examples of these include disposals of a major geographic area, a major line of business or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations, as well as requiring disclosure of pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This ASU is effective for the Company in its first quarter beginning January 1, 2015 and is not expected to have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued their final standard on revenue from contracts with customers. The standard, issued as an ASU by the FASB and as International Financial Reporting Standards 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the Company in its first quarter beginning January 1, 2017 and is not expected to have a material impact on the Company s consolidated financial statements.

2. INVESTMENT IN UNCONSOLIDATED AFFILIATES:

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

In May 2014, the Company completed the purchase of a 49% equity interest in Windfield, which is the parent of Talison, thereby creating a joint venture with Tianqi, giving the Company an indirect ownership interest in Talison with cash on hand for an aggregate amount of \$516.6 million, which includes the original purchase price of \$475.3 million plus an adjustment for estimated net cash, certain other customary adjustments and professional fees. The Company's ownership in the joint venture is accounted for under the equity method of accounting.

As part of the transaction, Rockwood Specialties Group GmbH, a wholly-owned subsidiary of Rockwood, granted Tianqi an option to purchase from 20% to 30% of the equity interests in Rockwood Lithium GmbH, which is a wholly-owned subsidiary of Rockwood Specialties Group GmbH. Rockwood Lithium GmbH controls the European and Asian arms of Rockwood's global lithium business. The option is exercisable by Tianqi at any time through December 31, 2016 at an exercise price equal to the trailing 12-month EBITDA of Rockwood Lithium GmbH multiplied by 14, minus the debt of Rockwood Lithium GmbH, calculated based on the (indirect) portion

Table of Contents

of Rockwood Lithium GmbH that is subject to Tianqi's purchase, subject to adjustments based on the financial condition of Rockwood Lithium GmbH at the time of exercise.

Talison, a leading global producer of lithium for over 25 years, mines and processes lithium-bearing mineral spodumene at its operations located at Greenbushes, Western Australia (the Greenbushes Lithium Operations). The Greenbushes Lithium Operations are estimated to be the world's largest known reserves of lithium spodumene minerals. Talison has a leading position in the lithium concentrates market and produces two categories of lithium concentrates: (i) technical-grade lithium concentrates which have low iron content for use in the manufacture of glass, ceramics and heat-proof cookware; and (ii) a high-yielding chemical-grade lithium concentrate, which is used to produce lithium chemicals which form the basis for manufacture of lithium-ion batteries for laptop computers, mobile phones, electric bicycles and electric vehicles.

3. DISCONTINUED OPERATIONS:

In August 2013, the Company completed the sale of its Advanced Ceramics segment for cash proceeds of \$2.0 billion and a gain on sale of \$1.2 billion. In October 2013, the Company completed the sale of its Clay-based Additives business, which was part of the Performance Additives segment, for cash proceeds of \$626.6 million and a gain on sale of \$506.1 million.

In September 2013, the Company entered into a definitive agreement to sell its TiO₂ Pigments and Other Businesses, and in October 2014, the Company completed the sale of these businesses for an enterprise value of \$1.275 billion, including the assumption of \$225 million in pension obligations. The Company received net cash proceeds of approximately \$950 million before investment banking fees of \$8 million, which is subject to certain potential post-closing adjustments.

As of September 30, 2014, all of these transactions met the criteria for being reported as discontinued operations. The Company's condensed consolidated financial statements have been reclassified to reflect discontinued operations for these transactions for all periods presented.

In 2013, the Company recorded a charge of \$98.0 million related to an expected loss on sale of the TiO₂ Pigments and Other Businesses. In the nine months ended September 30, 2014, the Company recorded an additional charge of \$101.3 million related to the expected loss on the sale, in part as a result of a \$50 million contribution in the form of a purchase price reduction to assist the purchaser in proposing a remedy to the European Commission competition authorities. The expected loss on sale represents the difference between the carrying value of these businesses and the expected proceeds. This carrying value includes the assumed recognition of actuarial (pension-related) losses and unrealized foreign exchange losses currently recorded in accumulated other comprehensive income within stockholders' equity, which must be recognized upon completion of the sale. The fair value of the assets to be sold are categorized as Level 3 in the fair value hierarchy, as the fair value was determined based on expected sale proceeds (see Note 6, Financial Instruments and Fair Value Measurements, for a description of the fair value levels).

Results of the discontinued operations of the Advanced Ceramics segment, the Clay-based Additives business and the TiO₂ Pigments and Other Businesses included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 are as follows:

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

(\$ in millions)	Advanced Ceramics	Clay-based Additives	TiO2 Pigments and Other	Total
Three months ended September 30, 2014				
Net sales	\$	\$	\$ 395.1	\$ 395.1
Income before taxes			34.8	34.8
Three months ended September 30, 2013				
Net sales	\$ 91.7	\$ 48.5	\$ 404.1	\$ 544.3
(Loss) income before taxes	(3.4)	7.7	(76.6)	(72.3)
Nine months ended September 30, 2014				
Net sales	\$	\$	\$ 1,224.4	\$ 1,224.4
Income before taxes			24.6	24.6
Nine months ended September 30, 2013				
Net sales	\$ 384.6	\$ 147.8	\$ 1,233.8	\$ 1,766.2
Income (loss) before taxes	46.7	33.1	(126.8)	(47.0)

Table of Contents

The carrying values of the assets and liabilities of the TiO2 Pigments and Other Businesses included as discontinued operations in the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 are as follows:

(\$ in millions)	TiO2 Pigments and Other	
	September 30, 2014	December 31, 2013
ASSETS		
Accounts receivable, net	\$ 209.6	\$ 200.3
Inventories	406.4	401.9
Property, plant and equipment, net	831.1	749.2
Other intangible assets, net		64.3
Other assets	58.2	133.4
Total assets	\$ 1,505.3	\$ 1,549.1
LIABILITIES		
Accounts payable and other current liabilities	\$ 225.0	\$ 249.9
Pension and related liabilities	193.7	205.0
Other liabilities	33.3	31.6
Total liabilities	\$ 452.0	\$ 486.5

The Company has a non-interest bearing note receivable from its former titanium dioxide pigments venture partner in the amount of \$29.4 million that is due in August 2028, with a carrying value of \$7.3 million and \$7.4 million in the assets of discontinued operations as of September 30, 2014 and December 31, 2013, respectively. Interest is imputed at an effective rate of 8.96%. The fair value of the note receivable was approximately \$13.0 million and \$13.6 million at September 30, 2014 and December 31, 2013, respectively, and is categorized as Level 3 in the fair value hierarchy. The fair value was determined based on an internally developed valuation that uses current interest rates to develop the present value of the receivable.

Included in other liabilities are reclamation obligations of \$7.1 million and \$8.1 million in the liabilities of discontinued operations as of September 30, 2014 and December 31, 2013, respectively. These obligations primarily relate to post-closure reclamation of landfills in the Titanium Dioxide Pigments business.

During the nine months ended September 30, 2014, an out-of-period adjustment of \$7.9 million was recorded to income from discontinued operations and deferred tax assets to recognize a tax benefit in relation to TiO2 Pigments and Other Businesses, and represented the correction of an immaterial error in the year ended December 31, 2013.

4. SEGMENT INFORMATION:

The Company is a leading global developer, manufacturer and marketer of technologically advanced and high value-added specialty chemicals used for industrial and commercial purposes. As discussed in Note 3, Discontinued Operations, in 2013, the Company sold its Advanced Ceramics segment and Clay-based Additives business, and in October 2014, completed the sale of its TiO2 Pigments and Other Businesses. As a result, the Company operates in two reportable segments, Lithium and Surface Treatment, based on 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 chief operating decision maker, who is the Company's Chief Executive Officer.

Items that cannot be readily attributed to individual segments have been classified as Other. 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 Other classification also includes the results of operations of the wafer reclaim businesses.

Table of Contents

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,	
	2014	2013	2014	2013
Net Sales:				
Lithium	\$ 117.2	\$ 120.3	\$ 349.7	\$ 364.5
Surface Treatment	236.3	222.3	714.2	656.1
Other	2.8	3.2	9.2	10.2
Total	\$ 356.3	\$ 345.8	\$ 1,073.1	\$ 1,030.8

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) 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 operating decision maker and senior management to evaluate the operating performance of each segment. See Note 3, Segment Information, in the Company's 2013 Annual Report on Form 10-K for a discussion of the use of Adjusted EBITDA as a non-GAAP financial measure.

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Adjusted EBITDA:				
Lithium	\$ 53.9	\$ 43.1	\$ 139.8	\$ 139.0
Surface Treatment	57.8	50.9	167.5	145.0
Other	(11.1)	(12.4)	(37.2)	(38.9)
Total	\$ 100.6	\$ 81.6	\$ 270.1	\$ 245.1

The following table presents the identifiable assets for each of the reportable segments:

(\$ in millions)	Identifiable Assets as of	
	September 30, 2014	December 31, 2013
Lithium	\$ 1,820.1	\$ 1,373.4
Surface Treatment	1,158.1	1,152.9
Other (a)	1,001.0	1,872.9
Eliminations (b)	(402.6)	(416.0)
Total (c)	\$ 3,576.6	\$ 3,983.2

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

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

(b) Amounts included in Eliminations represent individual subsidiaries' retained interest in their cumulative net cash balance (deposits less withdrawals) included in the corporate cash concentration arrangements. These amounts are eliminated as the cash concentration arrangement balances are included in the Other segment's identifiable assets.

(c) Amounts do not include \$1,505.3 million and \$1,549.1 million of identifiable assets at September 30, 2014 and December 31, 2013, respectively, from discontinued operations. Total identifiable assets including these amounts were \$5,081.9 million and \$5,532.3 million as of September 30, 2014 and December 31, 2013, respectively.

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 2013 Annual Report on Form 10-K.

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

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

Table of Contents

(\$ in millions)	Lithium	Surface Treatment	Corporate and other	Consolidated
Three months ended September 30, 2014				
Income from continuing operations before taxes	\$ 33.7	\$ 42.5	\$ 17.6	\$ 93.8
Interest expense, net	(0.4)	2.9	11.0	13.5
Depreciation and amortization	11.1	8.7	4.8	24.6
Restructuring and other severance costs (a)	0.1	1.3		1.4
Equity investment adjustments (b)	8.7	0.8		9.5
Systems/organization establishment expenses (c)	0.6		0.1	0.7
Acquisition and disposal costs (d)	0.1	0.2	11.0	11.3
Asset write-downs and other (e)	0.2	0.3	(0.1)	0.4
Foreign exchange (gain) loss on financing activities, net (f)	(0.2)	0.7	(55.6)	(55.1)
Other		0.4	0.1	0.5
Total Adjusted EBITDA from continuing operations	\$ 53.9	\$ 57.8	\$ (11.1)	\$ 100.6
Three months ended September 30, 2013				
Income (loss) from continuing operations before taxes	\$ 27.6	\$ 48.3	\$ (76.5)	\$ (0.6)
Interest expense, net	0.5	2.9	17.8	21.2
Depreciation and amortization	11.6	8.8	2.4	22.8
Restructuring and other severance costs (a)	1.4	1.0	2.2	4.6
Systems/organization establishment expenses (c)	0.2	0.1		0.3
Acquisition and disposal costs (d)		0.7	1.5	2.2
Loss on early extinguishment/modification of debt (g)	2.2	3.2	10.1	15.5
Asset write-downs and other (e)	(0.8)	0.1		(0.7)
Gain on previously held equity investment (h)		(16.0)		(16.0)
Foreign exchange loss on financing activities, net (f)	0.4	1.3	29.5	31.2
Other		0.5	0.6	1.1
Total Adjusted EBITDA from continuing operations	\$ 43.1	\$ 50.9	\$ (12.4)	\$ 81.6
Nine months ended September 30, 2014				
Income (loss) from continuing operations before taxes	\$ 92.2	\$ 122.8	\$ (40.3)	\$ 174.7
Interest expense, net	(0.9)	9.0	33.2	41.3
Depreciation and amortization	34.7	26.2	14.8	75.7
Restructuring and other severance costs (a)	3.7	3.3		7.0
Equity investment adjustments (b)	11.8	2.9		14.7
Systems/organization establishment expenses (c)	1.7	0.3	0.1	2.1
Acquisition and disposal costs (d)	0.1	0.9	11.9	12.9
Asset write-downs and other (e)	1.8	0.2	0.1	2.1
Foreign exchange (gain) loss on financing activities, net (f)	(5.3)	1.5	(57.1)	(60.9)
Other		0.4	0.1	0.5
Total Adjusted EBITDA from continuing operations	\$ 139.8	\$ 167.5	\$ (37.2)	\$ 270.1
Nine months ended September 30, 2013				
Income (loss) from continuing operations before taxes	\$ 87.2	\$ 114.8	\$ (160.6)	\$ 41.4
Interest expense, net	1.9	9.0	57.0	67.9
Depreciation and amortization	34.5	26.2	7.3	68.0
Restructuring and other severance costs (a)	5.8	4.4	3.0	13.2
Systems/organization establishment expenses (c)	0.7	0.8		1.5
Acquisition and disposal costs (d)	0.1	1.5	4.1	5.7
Loss on early extinguishment/modification of debt (g)	2.2	3.2	10.1	15.5
Asset write-downs and other (e)	3.9	0.1		4.0
Gain on previously held equity investment (h)		(16.0)		(16.0)
Foreign exchange loss on financing activities, net (f)	2.7		39.0	41.7
Other		1.0	1.2	2.2

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

Total Adjusted EBITDA from continuing operations	\$	139.0	\$	145.0	\$	(38.9)	\$	245.1
--	----	-------	----	-------	----	--------	----	-------

Table of Contents

(a) See Note 15, Restructuring and Other Severance Costs, for further details.

(b) The following table represents adjustments to the EBITDA of unconsolidated affiliates included in the calculation of Adjusted EBITDA, consistent with the adjustments made on a consolidated basis:

(\$ in millions)	Lithium	Surface Treatment	Consolidated
Three months ended September 30, 2014			
Interest income, net	\$ (0.4)	\$	\$ (0.4)
Depreciation and amortization	1.9	0.2	2.1
Income tax provision	1.0	0.7	1.7
Acquisition method inventory charges (i)	6.2		6.2
Other		(0.1)	(0.1)
Total adjustments	\$ 8.7	\$ 0.8	\$ 9.5
Nine months ended September 30, 2014			
Interest income, net	\$ (0.5)	\$ (0.2)	\$ (0.7)
Depreciation and amortization	2.3	0.5	2.8
Income tax provision	1.1	2.5	3.6
Acquisition method inventory charges (i)	8.9		8.9
Other		0.1	0.1
Total adjustments	\$ 11.8	\$ 2.9	\$ 14.7

(c) Primarily represents costs incurred in conjunction with the integration of businesses acquired.

(d) Primarily represents professional fees incurred in connection with exploring strategic options, and for the three and nine months ended September 30, 2014, these primarily relate to the announced merger between the Company and Albemarle.

(e) For the nine months ended September 30, 2014, the charge primarily relates to the impairment of a brine pond in Chile in the Lithium segment related to damage from unfavorable weather conditions. For the three and nine months ended September 30, 2013, the amounts primarily relate to the write-off of assets related to the termination of a geothermal energy project at the Silver Peak, Nevada lithium facility.

(f) For the three and nine months ended September 30, 2014, foreign exchange gains were primarily related to the impact of a weaker Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity, as well as non-operating Euro-denominated transactions. For the three and nine months ended September 30, 2013, foreign exchange losses were primarily related to the impact of a stronger Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity and Euro-denominated intercompany loans.

(g) For the three and nine months ended September 30, 2013, in connection with the repayment of all outstanding borrowings under the senior secured credit facility in September 2013, the Company recorded a charge of \$15.5 million consisting of the write-off of deferred financing costs of \$10.3 million and fees of \$5.2 million.

(h) Represents the gain as a result of revaluing the Company's previously held equity interest to fair value related to the acquisition of the remaining 50% interest in a Surface Treatment joint venture in India on July 1, 2013 for a purchase price of \$21.0 million.

(i) All inventories acquired in an acquisition must be revalued to fair value, resulting in a reduction in earnings as the inventory is sold in the ordinary course of business. This adjustment recognizes the effect based on the inventory values from the Company's acquisition of a 49% interest in the joint venture related to Talison in May 2014.

5. VARIABLE INTEREST ENTITIES:

As discussed in Note 3, Discontinued Operations, the Company entered into a definitive agreement in September 2013 to sell its TiO₂ Pigments and Other Businesses, which include Titanium Dioxide Pigments and the Timber Treatment Chemicals business. This transaction was completed in October 2014. Our discontinued operations include the following variable interest entities:

Titanium Dioxide Pigments

The Company formed a Titanium Dioxide Pigments venture with Kemira in September 2008. The Company previously owned 61% of

Table of Contents

the venture and consolidated it based on the voting interest model given its majority ownership and ability to control decision making. On February 15, 2013, the Company acquired Kemira's 39% interest in the Titanium Dioxide Pigments venture for a purchase price of \$97.5 million (\$130.3 million based on the rate in effect on the date of purchase). The increase in ownership was accounted for as an equity transaction. As a result, the Company owns 100% of the Titanium Dioxide Pigments business. In conjunction with this venture, there is a power plant that was previously determined to be a variable interest entity (VIE). Subsequent to the purchase of Kemira's 39% interest, the power plant will continue to be a VIE.

Viance LLC

The Company has a variable interest entity in its Viance LLC (Viance) venture, which is part of the Timber Treatment Chemicals business, that provides an extensive range of advanced wood treatment technologies and services to the global wood treatment industry. The Company has concluded that Rockwood is the primary beneficiary of Viance and as such has consolidated the joint venture. This conclusion was made as Rockwood has the obligation to absorb losses of Viance that could potentially be significant to Viance and/or the right to receive benefits from Viance that could potentially be significant to Viance. In addition, Chemical Specialties, Inc. (CSI) has the power to direct the activities of Viance that most significantly impact Viance's performance, as Viance does not own manufacturing facilities. As a result, Viance primarily relies on CSI to provide product and distribution requirements through a supply agreement.

As of September 30, 2014 and December 31, 2013, 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. 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 assets of discontinued operations and liabilities of discontinued operations in the consolidated balance sheets are as follows:

(\$ in millions)	September 30, 2014	December 31, 2013
Total assets (a)	\$ 64.3	\$ 65.3
Total liabilities	\$ 4.0	\$ 3.6

(a) The majority of these assets are other intangible assets.

Continuing Operations

As of September 30, 2014 and December 31, 2013, 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, were \$27.2 million and \$32.3 million, respectively.

In May 2014, the Company completed the purchase of a 49% equity interest in Windfield, which is the parent of Talison, thereby creating a joint venture with Tianqi, in which the Company's indirect ownership in Talison is accounted for under the equity method of accounting. As the parties share risks and benefits disproportionate to their voting interests, the Company has concluded that Talison is a VIE. However, the Company has also concluded that it should not consolidate this VIE as it is not the primary beneficiary. The Company does not have the power and/or ability to direct the activities most affecting the venture's performance due to the governance structure which gives the Company protective rights only. As of September 30, 2014, the Company's investment in Talison was \$493.5 million.

These investments are classified as Investments in unconsolidated affiliates 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.

See Item 8. Financial Statements and Supplementary Data - Note 4, Variable Interest Entities, in the Company's 2013 Annual Report for further details.

6. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS:

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable and debt instruments. 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

Table of Contents

approximates fair value. The Company has exposure to market risk from changes in interest rates and foreign currency exchange rates.

The Company follows a fair value measurement hierarchy to measure assets and liabilities. As of September 30, 2014 and December 31, 2013, the assets and liabilities measured at fair value on a recurring basis are 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 2013 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 cash equivalents 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, when used by the Company, 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 recurring financial assets or liabilities that are recorded on its condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 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 recurring financial assets and liabilities that are measured at fair value in the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013:

(\$ in millions)	As of September 30, 2014		As of December 31, 2013	
	Total	Level 1	Total	Level 1
Assets				
Cash equivalents	\$ 236.8	\$ 236.8	\$ 1,370.5	\$ 1,370.5
Government securities	0.1	0.1	0.1	0.1
Total assets at fair value	\$ 236.9	\$ 236.9	\$ 1,370.6	\$ 1,370.6

Debt

As of September 30, 2014 and December 31, 2013, the Company's estimated fair value of its unsecured Senior Notes due in 2020 ("2020 Notes") was \$1,289.9 million and \$1,273.8 million, respectively, based on quoted market values in active markets from financial service providers. The Company's principal carrying amount of the 2020 Notes was \$1,249.3 million and \$1,250.0 million at September 30, 2014 and December 31, 2013, respectively. The Company categorizes these 2020 Notes as Level 1 in the fair value hierarchy.

7. INVENTORIES:

Inventories are comprised of the following:

(\$ in millions)	September 30, 2014		December 31, 2013	
Raw materials	\$	60.3	\$	64.7
Work-in-process		54.4		53.4
Finished goods		112.8		110.1
Total	\$	227.5	\$	228.2

Table of Contents**8. GOODWILL:**

Goodwill balances and activity by segment are as follows:

(\$ in millions)	Lithium	Surface Treatment	Total
Balance, December 31, 2013	\$ 275.1	\$ 384.5	\$ 659.6
Foreign exchange	(22.6)	(27.8)	(50.4)
Balance, September 30, 2014	\$ 252.5	\$ 356.7	\$ 609.2

9. OTHER INTANGIBLE ASSETS, NET:

Other intangible assets, net consist of:

(\$ in millions)	As of September 30, 2014			As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and other intellectual property	\$ 107.0	\$ (81.6)	\$ 25.3	\$ 111.7	\$ (81.1)	\$ 30.6
Trade names and trademarks	44.9	(23.6)	21.4	47.9	(23.6)	24.3
Customer relationships	143.2	(89.1)	54.1	146.1	(83.8)	62.3
Other	37.0	(27.2)	9.7	37.3	(26.6)	10.7
Total	\$ 332.1	\$ (221.5)	\$ 110.5	\$ 343.0	\$ (215.1)	\$ 127.9

Amortization of other intangible assets was \$5.5 million and \$6.8 million in the three months ended September 30, 2014 and 2013, respectively, and \$18.8 million and \$19.6 million in the nine months ended September 30, 2014 and 2013, respectively.

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

(\$ in millions) Year ending	Amortization Expense
2014	\$ 24.9
2015	20.9
2016	19.3
2017	17.3
2018	10.2

10. LONG-TERM DEBT:

Long-term debt is summarized as follows:

(\$ in millions)	September 30,		December 31,	
	2014		2013	
2020 Unsecured senior notes	\$	1,249.3	\$	1,250.0
Capitalized lease obligations		26.9		31.5
Other loans		12.1		13.9
		1,288.3		1,295.4
Less current maturities		(9.5)		(10.3)
	\$	1,278.8	\$	1,285.1

In April 2014, the Company announced that its wholly-owned subsidiary, Rockwood Specialties Group, Inc. (RSGI), commenced a cash tender offer (the Asset Sale Offer) to purchase up to \$400 million in the aggregate principal amount of its \$1.25 billion of 4.625% Senior Notes due in 2020 (2020 Notes), at a purchase price of 100% of the principal amount thereof, plus accrued and unpaid interest thereon, to but not including the date of purchase. The Asset Sale Offer was made pursuant to the indenture governing the 2020 Notes as a result of the Company's sale of the Advanced Ceramics segment and Clay-based Additives business. Those sales constituted Asset Sales under the indenture governing the 2020 Notes. The principal

Table of Contents

amount of the Notes tendered and accepted in the Asset Sale Offer was \$0.7 million.

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 2013 Annual Report on Form 10-K.

11. INCOME TAXES:

The effective tax rate on income from continuing operations was 42.0% and 36.9% for the three and nine months ended September 30, 2014, respectively. The income tax rate is higher than the U.S. statutory rate of 35% primarily due to a tax provision recorded on foreign exchange gains in connection with the repayment of an intercompany loan that was formerly deemed to be of a long-term investment nature, an income tax charge related to a tax rate change in Chile and an unfavorable earnings mix. The higher rate in the nine months ended September 30, 2014 was partially offset by the reversal of tax reserves due to a lapse in statute of limitations.

The Company recorded an income tax benefit of \$9.0 million on a loss from continuing operations of \$0.6 million for the three months ended September 30, 2013 and an income tax charge of \$0.8 million on income from continuing operations of \$41.4 million (effective tax rate of 1.9%) for the nine months ended September 30, 2013. The income tax benefit for the three months ended September 30, 2013 is favorably impacted by the reversal of tax reserves and a beneficial foreign earnings mix. The effective tax rate for the nine months ended September 30, 2013 is lower than the U.S. statutory rate of 35% primarily due to the reversal of tax reserves and a beneficial foreign earnings mix.

The following table reflects the activity in the Company's worldwide valuation allowance attributable to deferred tax assets:

(\$ in millions)	Valuation Allowance	
Balance as of December 31, 2013	\$	18.5
U.S. valuation allowance - State		(1.4)
Foreign valuation allowance		5.2
Other		(0.6)
Balance as of September 30, 2014	\$	21.7

Unrecognized tax benefits at September 30, 2014 were \$28.5 million, all of which, if recognized, would impact the effective tax rate. The Company has accrued \$5.6 million for interest and penalties as of September 30, 2014. 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 \$1.3 million.

12. STOCK-BASED COMPENSATION:

In December 2013, the Company awarded 161,156 of market-based restricted stock unit awards to its management and key employees which will vest on January 1, 2017 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 2014, 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 2014. 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, 2014 to December 31, 2016. 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, 2014 to December 31, 2016.

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 payable on the original vesting date 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, 2014 and December 31, 2013 has been recorded as mezzanine equity (outside of permanent equity) in the condensed consolidated balance sheets. The Company, Albemarle and the Merger Sub entered into an Agreement and Plan of Merger on July 15, 2014. As a result, on the closing date of the transaction, approximately 550,000 restricted stock units (such amount may be increased up to 150% depending upon performance) shall immediately become converted into the right to receive a cash payment on the original vesting date. Such payment may be accelerated if employment is terminated by the Company prior to such date.

The aggregate compensation cost for restricted stock units and Board of Director stock grants recorded under the stock-based compensation plans was \$1.8 million and \$3.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$7.4 million and \$9.9 million for the nine months ended September 30, 2014 and 2013, respectively. The total tax benefit recognized related

Table of Contents

to stock awards was \$0.7 million and \$1.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$2.5 million and \$3.2 million for the nine months ended September 30, 2014 and 2013, respectively.

See Item 8. Financial Statements and Supplementary Data - Note 13, Stock-Based Compensation, in the Company's 2013 Annual Report on Form 10-K for further details of the Company's stock-based compensation plans.

13. 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,		
	2014	2013	2013	2014	2013	2013
Service cost	\$ 0.9	\$ 0.9	\$ 0.9	\$ 2.9	\$ 2.8	\$ 2.8
Interest cost	3.9	3.6	3.6	11.8	10.8	10.8
Expected return on assets	(2.2)	(2.1)	(2.1)	(6.6)	(6.2)	(6.2)
Amortization of actuarial losses	1.1	1.5	1.5	3.3	4.4	4.4
Amortization of prior service cost	0.2	0.2	0.2	0.5	0.5	0.5
Total pension cost	\$ 3.9	\$ 4.1	\$ 4.1	\$ 11.9	\$ 12.3	\$ 12.3

Contributions to defined benefit pension plans, including benefit payments paid directly to plan participants, are expected to approximate \$17.7 million during 2014, of which \$13.3 million was contributed in the nine months ended September 30, 2014.

The Company also sponsors and participates in various defined contribution and multi-employer plans. The expense for the defined contribution plans was \$2.0 million and \$1.9 million for the three months ended September 30, 2014 and 2013, respectively, and \$5.7 million and \$5.1 million for the nine months ended September 30, 2014 and 2013, respectively. The expense for the multi-employer plans was \$0.4 million for both of the three months ended September 30, 2014 and 2013, respectively, and \$1.3 million and \$1.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents**14. EARNINGS PER COMMON SHARE:**

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

(\$ in millions, except per share amounts; shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
EPS Numerator:				
Amounts attributable to Rockwood Holdings, Inc.:				
Income from continuing operations	\$ 54.4	\$ 8.4	\$ 110.2	\$ 40.6
Income from discontinued operations	31.5	1,102.8	1.6	1,119.5
Net income	\$ 85.9	\$ 1,111.2	\$ 111.8	\$ 1,160.1
EPS Denominator:				
Basic weighted average number of common shares				
outstanding	71,239	74,262	72,504	76,611
Effect of dilutive stock options and other incentives	937	1,644	1,043	1,653
Diluted weighted average number of common shares				
outstanding and common stock equivalents	72,176	75,906	73,547	78,264
Basic earnings per share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	\$ 0.76	\$ 0.11	\$ 1.52	\$ 0.53
Earnings from discontinued operations	0.45	14.85	0.02	14.61
Basic earnings per share	\$ 1.21	\$ 14.96	\$ 1.54	\$ 15.14
Diluted earnings per share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	\$ 0.75	\$ 0.11	\$ 1.50	\$ 0.52
Earnings from discontinued operations	0.44	14.53	0.02	14.30
Diluted earnings per share	\$ 1.19	\$ 14.64	\$ 1.52	\$ 14.82

For the three and nine months ended September 30, 2014 and 2013, there were no outstanding shares that would have had an anti-dilutive effect.

15. RESTRUCTURING AND OTHER SEVERANCE COSTS:

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

The following table provides the restructuring and other severance costs for the three and nine months ended September 30, 2014 and 2013:

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

(\$ in millions)	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
Severance/Relocation	\$	0.1	\$	0.2	\$	1.1	\$	2.2
Facility/entity closure and other		1.0		4.0		2.6		8.9
Asset write-downs						3.0		
Restructuring charge		1.1		4.2		6.7		11.1
Other severance costs		0.3		0.4		0.3		2.1
Total	\$	1.4	\$	4.6	\$	7.0	\$	13.2

For the three months ended September 30, 2014, the restructuring charges were primarily incurred in the Surface Treatment segment mainly due to closure costs. For the nine months ended September 30, 2014, the restructuring charges primarily relate to asset

Table of Contents

write-downs, as well as severance and closure costs, in connection with the closure of a lithium manufacturing facility in India, as well as closure and severance costs in the Surface Treatment segment.

For the three months ended September 30, 2013, the restructuring charges primarily relate to environmental reserves recorded for facilities retained as part of the sale of the TiO2 Pigments and Other businesses, as well as closure costs related to the move of the Lithium headquarters to a new location. For the nine months ended September 30, 2013, the restructuring charges primarily relate to the closure of a lithium manufacturing facility in the U.S., environmental reserves recorded for facilities retained as part of the sale of the TiO2 Pigments and Other businesses, organizational changes in the Surface Treatment segment, as well as closure costs related to the move of the Lithium headquarters to a new location.

All restructuring actions still in progress as of September 30, 2014 are expected to be substantially complete within the next twelve months. However, payouts of certain liabilities resulting from these actions will take place over several years. There are no significant future costs related to open restructuring plans remaining. 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, 2013	\$ 2.4	\$ 4.8	\$ 7.2
Restructuring charge in 2014	1.1	5.6	6.7
Utilized	(1.3)	(3.6)	(4.9)
Foreign exchange and other	(0.1)	(3.2)	(3.3)
Liability balance, September 30, 2014	\$ 2.1	\$ 3.6	\$ 5.7

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Changes in accumulated other comprehensive income (loss) are as follows:

(\$ in millions)	Pension related adjustments, net of tax	Foreign currency translation	Intercompany foreign currency loans	Net investment hedge, net of tax	Total accumulated other comprehensive income
Balance at December 31, 2013	\$ (123.2)	\$ 269.1	\$ 147.7	\$ (189.9)	\$ 103.7
Other comprehensive income before reclassifications	6.7	(178.9)	(39.4)		(211.6)
Amounts reclassified from accumulated other comprehensive income to net income	5.3				5.3
Balance at September 30, 2014	\$ (111.2)	\$ 90.2	\$ 108.3	\$ (189.9)	\$ (102.6)

Table of Contents

The amounts reclassified from accumulated other comprehensive income (loss) into net income are as follows:

(\$ in millions) Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income			
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Pension related adjustments:				
Sale of Advanced Ceramics (a)	\$	\$ (18.1)	\$	\$ (18.1)
Actuarial losses (b)	(2.2)	(4.1)	(6.5)	(12.4)
Prior service costs (b)	(0.2)	(0.2)	(0.6)	(0.6)
	(2.4)	(22.4)	(7.1)	(31.1)
Income tax provision	0.6	6.1	1.8	8.5
	\$ (1.8)	\$ (16.3)	\$ (5.3)	\$ (22.6)
Foreign Currency Translation:				
Sale of Advanced Ceramics (a)	\$	\$ (3.3)	\$	\$ (3.3)
	\$	\$ (3.3)	\$	\$ (3.3)
Intercompany foreign currency loans:				
Sale of Advanced Ceramics (a)	\$	\$ 1.5	\$	\$ 1.5
	\$	\$ 1.5	\$	\$ 1.5
Total reclassifications for the period	\$ (1.8)	\$ (18.1)	\$ (5.3)	\$ (24.4)

(a) Amounts reclassified to gain on sale of discontinued operations, net of tax in the Condensed Consolidated Statements of Operations.

(b) These accumulated other comprehensive loss components are included in the computation of net periodic pension costs that are recorded in costs of products sold and selling, general and administrative expenses in the condensed consolidated statements of operations. In addition, these accumulated other comprehensive loss components include the effect of actuarial losses and prior service costs from discontinued operations.

17. 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.

Shareholder Litigation

On July 22, 2014, a putative class action complaint was filed in the Chancery Division of the Superior Court of New Jersey, Mercer County relating to the Merger. On July 24, 2014, an additional putative class action complaint was filed in the Chancery Division of the Superior Court of New Jersey, Mercer County relating to the Merger. Both suits name the same plaintiff but were filed by different law firms. On August 1, 2014 and August 12, 2014, three additional putative class action complaints were filed in the Court of Chancery of the State of Delaware relating to the Merger. The lawsuits filed in New Jersey, *Thwaites v. Rockwood Holdings Inc., et al.*, (*Thwaites I*) and *Thwaites v. Rockwood Holdings, Inc., et al.* (*Thwaites II*), and the lawsuits filed in Delaware, *Rudman Partners, L.P. v. Rockwood Holdings, Inc., et al.*, *Riley v. Rockwood Holdings, Inc., et al.*, and *North Miami Beach Police Officers & Firefighters Retirement Plan v. Rockwood Holdings, Inc., et al.*, each name Rockwood, its directors and Albemarle as defendants. *Thwaites II* and the cases filed in Delaware also name Merger Sub as a defendant. The lawsuits (collectively the *Actions*), which contain substantially similar allegations, include allegations that the Rockwood board of directors breached their fiduciary duties in connection with the Merger by failing to ensure that Rockwood shareholders will receive the maximum value for their shares, failing to conduct an appropriate sale process and putting their own interests ahead of Rockwood shareholders. Rockwood and Albemarle are alleged to have aided and abetted the alleged fiduciary breaches. The lawsuits seek a variety of equitable relief, including enjoining the Rockwood board of directors from proceeding with the proposed Merger unless and until they have acted in accordance with their fiduciary duties to maximize shareholder value and rescission of the Merger to the extent implemented, in addition to damages arising from the defendants' alleged breaches and attorneys' fees and costs. On August 12, 2014, the plaintiff in *Thwaites I* filed a Notice of Voluntary Dismissal Without Prejudice as to all defendants. On August 27, 2014, the Delaware Court of Chancery ordered the three Delaware cases consolidated and appointed co-lead counsel. The court also ordered that no response to the complaints shall be due until after plaintiffs in the cases filed in Delaware file an amended consolidated complaint. Plaintiffs in the cases filed in Delaware have yet to file an amended consolidated complaint. On September 19, 2014, the plaintiff in *Thwaites II* filed an amended complaint including additional allegations that the registration statement failed to disclose material information. On October 6, 2014, the parties in *Thwaites II* filed a stipulation whereby the plaintiff agreed to extend the time for defendants to answer or otherwise move to dismiss the amended complaint to December 8, 2014, and the defendants agreed to provide certain limited discovery without prejudice to any and all defenses prior to answering or otherwise moving to dismiss the amended complaint.

On November 6, 2014, the defendants entered into a memorandum of understanding (the *MOU*) with the plaintiffs providing for the settlement of all claims in the *Actions*. Under the *MOU*, and subject to court approval and definitive documentation, the plaintiffs and the putative class settle and release, against the named defendants and their affiliates and agents, all claims in the *Actions* and any potential claim related to (i) the Merger or the Merger Agreement, (ii) any deliberations or negotiations in connection with the Merger or the Merger Agreement, including the process of deliberation or negotiation by the defendants, and any of their respective officers, directors, principals, partners or advisors, (iii) the consideration to be received by class members in connection with the Merger, (iv) the Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission by the Company on October 1, 2014, or any other disclosures made available or filed relating to the Merger, (v) the statutory or fiduciary obligations of the defendants and certain related persons in connection with the Merger, (vi) the fees, expenses or costs incurred with prosecuting, defending or settling the *Actions*, or (vii) any of the allegations in any complaint or amendment(s) thereto filed in the *Actions*.

Table of Contents

While the Company and Albemarle believe that no supplemental disclosure is required under applicable laws, in order to avoid the risk of the putative stockholder class actions delaying or adversely affecting the Merger and to minimize the expense of defending such actions, the Company and Albemarle have agreed, pursuant to the terms of the MOU, to make certain supplemental disclosures related to the proposed Merger. The MOU contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to the Company's stockholders. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Superior Court of New Jersey, Mercer County will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the proposed Merger, the Merger Agreement and any disclosure made in connection therewith, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel will file a petition in the Superior Court of New Jersey, Mercer County for an award of attorneys' fees and expenses to be paid by the Company or its successor. The settlement, including the payment by the Company or any successor thereto of any such attorneys' fees, is also contingent upon, among other things, the Merger becoming effective under Delaware law. There can be no assurance that the Superior Court of New Jersey, Mercer County will approve the settlement contemplated by the MOU. In the event that the settlement is not approved and such conditions are not satisfied, the defendants will continue to vigorously defend against the allegations in the Actions, which the defendants believe are without merit.

Former Glass Sealants Business

A subsidiary in the Surface Treatment segment formerly manufactured and distributed sealants for insulating glass. This business was sold in 2003. This subsidiary has been named as a defendant, or third-party defendant, in several lawsuits, which were initiated prior to and after the sale of the business, relating to allegedly defective manufacturing of those products. The six remaining lawsuits are pending in the Netherlands (High Court of Hertogenbosch). The court of the first instance in those litigations concluded in March 2012 that the Company's subsidiary breached certain implied product warranties and is responsible for certain alleged damages to be determined. The Company's subsidiary has appealed the decisions. The subsidiary may be required to compensate the eventual damage claims still to be 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 0.7 million (\$0.9 million) to 4.0 million (\$5.1 million) as of September 30, 2014. The Company does not believe that the resolution of these matters will have a material effect on its consolidated 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. 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 German 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, 2014 is from 0.0 million to 5.7 million (\$7.2 million). The Company does not expect this matter to have a material impact on its consolidated financial condition, results of operations or cash flows.

La Negra Construction Project

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

In August 2013, a subsidiary of the Company's Lithium segment sought to terminate a construction agreement to which it is a party for a breach of the construction agreement by the other party/contractor in connection with the expansion project in La Negra, Chile. As a result of the eventual termination, the contractor tendered an arbitration claim under the construction agreement in March 2014. The Company's subsidiary issued a counterclaim in April 2014 seeking damages resulting from such contractor's breach. The parties are currently participating in a binding arbitration process with a third party arbitrator in Chile under the Santiago Chamber of Commerce rules as required under the construction agreement. The Company estimates that the possible range of loss from these claims as of September 30, 2014 is from \$0.0 million to \$4.7 million. The Company does not expect this matter to have a material impact on its consolidated financial condition, results of operations or cash flows.

Other Matters

Although the Company expects to continue to pay legal fees in connection with the above matters and other legal actions such as chromated copper arsenate and other product liability matters, based on currently available facts, the Company does not believe that any other individual action will have a material effect on its consolidated 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 \$1.9 million and in the aggregate equal \$2.8 million as of September 30, 2014. 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 and divested businesses. The Company has no reason to believe that the financial condition of those parties who may have indemnification

Table of Contents

obligations to the Company is other than sound, except as regards to pension obligations disclosed below. However, 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, Clay-based Additives and TiO₂ Pigments and Other Businesses for certain tax and environmental matters that may arise in the future that relate to the period prior to the closing or other matters related to such businesses.

The Company'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, 2014, the Company has recorded a reserve of \$4.9 million (\$6.2 million) against its related receivable of \$5.4 million (\$6.8 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 consolidated 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 18, Commitments and Contingencies in the Company's 2013 Annual Report on Form 10-K.

Environmental Reserves

Environmental laws have a significant effect on the nature and scope of any cleanup 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 cleanup 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 of the clean-up costs regardless of fault, legality of the original disposal or ownership of the disposal site.

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

Table of Contents

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, 2014:

Country	Location	(a)	(b)	(c)	(d)	(e)	(f)
Brazil	Diadema			X		X	
Chile	La Negra				X		
	Salar de Atacama				X		
China	Shenzhen			X			
France	Sens	X					
Germany	Duisburg				X		
	Empelde	X				X	
	Hainhausen	X					
	Liebenau			X			
	Stadeln	X	X				
	Troisdorf	X	X	X			
	Walluf						X
The Netherlands	Oss	X					
South Africa	Boksburg	X					
United States	Beltsville, MD	X					
	East St. Louis, IL			X			
	Easton, PA			X			
	Kings Mountain, NC				X		
	Pineville, NC					X	
	Silver Peak, NV				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 certain liabilities related to environmental matters at these formerly owned or closed facilities.

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

(f) The Company will be required to conduct certain investigation activities at the end of the lease of a retained site in connection with the sale of TiO₂ Pigments and Other Businesses.

The Company is also responsible for environmental matters at one of its former off-site disposal locations owned by a third party. This site is considered a Superfund site as defined by the EPA or state regulatory authority. The Company is a potentially responsible party or *de minimis* participant at a Superfund locations in South Gate, CA and Houston, TX. Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material effect on its consolidated financial condition, results of operations or cash flows. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company's or its predecessor's former and present properties and/or at sites where the Company and its predecessor disposed wastes could expose the Company to clean up obligations and other damages in the future.

In connection with the sale of TiO₂ Pigments and Other Businesses, the Company agreed to retain liability for certain environmental matters at the following operating sites where the Company currently has environmental reserves; Walluf, Germany, Hainhausen, Germany, Shenzhen, China, Beltsville, Maryland, East St. Louis, Illinois, Easton, Pennsylvania and Valdosta, Georgia. The Company also agreed to retain certain operating sites and lease them to the purchaser. Thus, the reserves for the above sites, and for one other site, include estimates for further environmental investigation costs. Accordingly, the reserves for these sites remain in continuing operations. The reserves for remaining TiO₂ Pigments and Other Businesses operating sites are included in discontinued operations (Birtley, UK, Duisburg, Uerdingen, and Schwarzheide, Germany, Kipsikorpi, Finland, Harrisburg, North Carolina, and Turin, Italy). The Company also agreed to indemnify the buyer for certain environmental matters at such other operating sites of the businesses for a limited period subject to certain limitations, caps and deductibles.

Table of Contents

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 or to 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 \$37.7 million and \$42.0 million for environmental liabilities as of September 30, 2014 and December 31, 2013, respectively, most of which were classified as other non-current liabilities in the condensed consolidated balance sheets. Included in the environmental liabilities are reclamation obligations of \$16.4 million and \$15.3 million as of September 30, 2014 and December 31, 2013, respectively. These obligations primarily relate to post-closure reclamation in the surface mining and manufacturing sites within the Lithium segment.

The remaining environmental liabilities (\$21.3 million and \$26.7 million as of September 30, 2014 and December 31, 2013, respectively) represent remediation obligations. The Company estimates that the potential range for such environmental matters (excluding reclamation obligations) as of September 30, 2014 is from \$21.3 million to \$33.4 million. Of these accruals, \$13.2 million and \$14.3 million as of September 30, 2014 and December 31, 2013, respectively, represent liabilities discounted using discount rates ranging from 2.8% to 7.5%.

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. For the nine months ended September 30, 2014, the Company recorded charges of \$1.9 million to increase its environmental liabilities and made payments of \$0.9 million for reclamation and remediation costs, which reduced its environmental liabilities. For the nine months ended September 30, 2014, the recurring cost of managing hazardous substances for ongoing operations is \$7.5 million.

The Company believes these accruals are adequate based on currently available information. The Company may incur losses in excess of the amounts accrued; however, based on currently available information, it does not believe the additional amount of potential losses would have a material effect on its business or consolidated financial condition, but may have a material effect on the results of operations or cash flows in any given quarterly or annual reporting period. The Company does not believe that any known individual environmental matter would have a material effect on its consolidated 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, except for those sites we expect to lease to the purchaser of the TiO₂ Pigments and Other Businesses. 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.

18. GUARANTOR FINANCIAL STATEMENTS:

Rockwood Holdings Inc. (Parent Company) and certain of its 100% owned domestic subsidiaries (Guarantor Subsidiaries) jointly and severally, and fully and unconditionally guarantee the 2020 Notes in the aggregate principal amount of \$1.25 billion issued in September 2012 by RSGI, an indirect 100% owned subsidiary of the Company. The following presents the consolidating financial information separately for:

- Parent Company Guarantor the Parent Company owns a 100% direct investment in Rockwood Specialties Consolidated, Inc. (RSCI). RSCI owns a 100% direct investment in Rockwood Specialties International, Inc. (RSII). RSII owns a 100% direct investment in RSGI. Each of these entities is a domestic holding company;
- Issuer RSGI, the issuer of the guaranteed obligations, owns direct or indirect investments in all other domestic and foreign subsidiaries;

Table of Contents

- **Guarantor Subsidiaries** – these represent substantially all of RSGI’s domestic subsidiaries on a combined basis. The investment in subsidiary and equity in undistributed earnings of subsidiaries represents all non-guarantor subsidiaries of such guarantors;
- **Non-Guarantor Subsidiaries** – these include all of the Company’s foreign subsidiaries, two domestic subsidiaries and RSCI and RSII (because they are non-guarantors) on a consolidated basis. As a result, the investment in subsidiary and equity in undistributed earnings of subsidiaries presented in the Non-Guarantor Subsidiaries column includes all of the subsidiaries of RSCI;
- **Consolidating Adjustments** – represent 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) offset deferred income taxes within the same tax jurisdictions; and
- **Total Consolidated Amounts** – 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, Guarantor Subsidiaries and Non-Guarantor Subsidiaries are parties to cash concentration arrangements with three financial institutions to maximize the availability of cash for general corporate and operating purposes. Cash balances under one of the cash concentration arrangements are swept daily from the accounts of the entities who are party to the arrangement into the concentration account. There are no restrictions under the cash concentration arrangements on the movement of cash between the Parent Company Guarantor, the Issuer, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. There are no significant restrictions on the ability of RSGI or any Guarantor Subsidiaries to obtain funds by dividend or loan. However, there are restrictions contained in the indenture governing the 2020 Notes on the ability of the Parent Company to obtain funds from RSGI and its subsidiaries. See Item 8. Financial Statements and Supplementary Data - Note 10, Long-term Debt in the Company’s 2013 Annual Report on Form 10-K for further details.

The guarantor financial statements for the three and nine months ended September 30, 2013 were adjusted for the adjustment related to Turin, Italy (described in Note 19, Immaterial Corrections), a correction of misclassifications among operating, investing and financing activities in the guarantor statements of cash flows for the nine months ended September 30, 2013 for intercompany pooling/lending arrangements, and other changes to conform to current year presentation.

The following tables present the Company’s consolidating statement of operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013, the consolidating statement of cash flows for the nine months ended September 30, 2014 and 2013, and the consolidating balance sheets as of September 30, 2014 and December 31, 2013:

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2014****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Net sales	\$	\$	\$ 90.7	\$ 286.7	\$ (21.1)	\$ 356.3
Cost of products sold			53.8	161.7	(22.1)	193.4
Gross profit			36.9	125.0	1.0	162.9
Selling, general and administrative expenses			38.8	75.0		113.8
Equity in earnings of unconsolidated affiliates				(5.1)		(5.1)
Restructuring and other severance costs			0.5	0.9		1.4
Asset write-downs and other			0.1	0.3		0.4
Operating (loss) income			(2.5)	53.9	1.0	52.4
Other (expenses) income, net:						
Intergroup interest, net		8.3	(2.2)	(6.1)		
Interest (expense) income, net		(14.9)	(0.3)	1.7		(13.5)
Intergroup other, net			(0.2)	0.2		
Foreign exchange (loss) gain on financing activities, net		(4.3)	0.4	59.0		55.1
Other, net			0.1	(0.3)		(0.2)
Other (expenses) income, net		(10.9)	(2.2)	54.5		41.4
(Loss) income from continuing operations before taxes		(10.9)	(4.7)	108.4	1.0	93.8
Income tax (benefit) provision		(4.8)	(0.5)	44.4	0.3	39.4
Net (loss) income from continuing operations		(6.1)	(4.2)	64.0	0.7	54.4
Income from discontinued operations, net of tax		3.1	17.2	12.6	0.6	33.5
Equity in undistributed earnings of subsidiaries	85.9	88.9	11.0	85.9	(271.7)	
Net income	85.9	85.9	24.0	162.5	(270.4)	87.9
Net income attributable to the noncontrolling interest - discontinued operations				(2.0)		(2.0)
Net income attributable to Rockwood Holdings, Inc. stockholders	\$ 85.9	\$ 85.9	\$ 24.0	\$ 160.5	\$ (270.4)	\$ 85.9

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME**

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

THREE MONTHS ENDED SEPTEMBER 30, 2014

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income	\$ 85.9	\$ 85.9	\$ 24.0	\$ 162.5	\$ (270.4)	\$ 87.9
Other comprehensive loss	(206.1)	(206.1)	(1.7)	(374.1)	581.9	(206.1)
Comprehensive loss	(120.2)	(120.2)	22.3	(211.6)	311.5	(118.2)
Comprehensive income attributable to noncontrolling interest				(2.0)		(2.0)
Comprehensive loss attributable to Rockwood Holdings, Inc. stockholders	\$ (120.2)	\$ (120.2)	\$ 22.3	\$ (213.6)	\$ 311.5	\$ (120.2)

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF OPERATIONS****NINE MONTHS ENDED SEPTEMBER 30, 2014****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Net sales	\$	\$	\$ 265.5	\$ 876.1	\$ (68.5)	\$ 1,073.1
Cost of products sold			160.0	495.4	(70.1)	585.3
Gross profit			105.5	380.7	1.6	487.8
Selling, general and administrative expenses		0.7	101.7	230.9		333.3
Equity in earnings of unconsolidated affiliates				(9.9)		(9.9)
Restructuring and other severance costs			1.0	6.0		7.0
Asset write-downs and other			0.1	2.0		2.1
Operating (loss) income		(0.7)	2.7	151.7	1.6	155.3
Other (expenses) income, net:						
Intergroup interest, net		30.4	(6.6)	(23.8)		
Interest (expense) income, net		(44.9)	(0.8)	4.4		(41.3)
Intergroup other, net			10.0	(10.0)		
Foreign exchange (loss) gain on financing activities, net		(4.5)	0.2	65.2		60.9
Other, net			0.1	(0.3)		(0.2)
Other (expenses) income, net		(19.0)	2.9	35.5		19.4
(Loss) income from continuing operations before taxes		(19.7)	5.6	187.2	1.6	174.7
Income tax provision (benefit)		7.8	(8.8)	64.9	0.6	64.5
Net (loss) income from continuing operations		(27.5)	14.4	122.3	1.0	110.2
Income (loss) from discontinued operations, net of tax		13.7	9.5	(18.8)		4.4
(Loss) gain on sale of discontinued operations, net of tax		(0.1)		2.2		2.1
Equity in undistributed earnings of subsidiaries	111.8	125.7	42.3	111.8	(391.6)	
Net income	111.8	111.8	66.2	217.5	(390.6)	116.7
Net income attributable to the noncontrolling interest - discontinued operations				(4.9)		(4.9)
Net income attributable to Rockwood Holdings, Inc. stockholders	\$ 111.8	\$ 111.8	\$ 66.2	\$ 212.6	\$ (390.6)	\$ 111.8

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2014

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income	\$ 111.8	\$ 111.8	\$ 66.2	\$ 217.5	\$ (390.6)	\$ 116.7
Other comprehensive loss	(206.3)	(206.3)	(1.4)	(373.6)	581.3	(206.3)
Comprehensive (loss) income	(94.5)	(94.5)	64.8	(156.1)	190.7	(89.6)
Comprehensive income attributable to noncontrolling interest				(4.9)		(4.9)
Comprehensive (loss) income attributable to Rockwood Holdings, Inc. stockholders	\$ (94.5)	\$ (94.5)	\$ 64.8	\$ (161.0)	\$ 190.7	\$ (94.5)

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2013****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Net sales	\$	\$	\$ 88.3	\$ 282.5	\$ (25.0)	\$ 345.8
Cost of products sold			56.1	162.5	(25.5)	193.1
Gross profit			32.2	120.0	0.5	152.7
Selling, general and administrative expenses			29.4	70.4		99.8
Equity in earnings of unconsolidated affiliates				(2.3)		(2.3)
Gain on previously held equity investment				(16.0)		(16.0)
Restructuring and other severance costs			0.3	4.3		4.6
Asset write-downs and other			(0.9)	0.2		(0.7)
Operating income			3.4	63.4	0.5	67.3
Other income (expenses), net:						
Intergroup interest, net		15.6	(3.0)	(12.6)		
Interest expense, net		(20.7)	(0.8)	0.3		(21.2)
Loss on early extinguishment/modification of debt		(0.8)	(4.3)	(10.4)		(15.5)
Intergroup other, net		58.7	(51.5)	(7.2)		
Foreign exchange loss on financing activities, net		(11.6)	(0.2)	(19.4)		(31.2)
Other (expenses) income, net		41.2	(59.8)	(49.3)		(67.9)
Income (loss) from continuing operations before taxes		41.2	(56.4)	14.1	0.5	(0.6)
Income tax provision (benefit)		2.7	(0.4)	(11.3)		(9.0)
Net income (loss) from continuing operations		38.5	(56.0)	25.4	0.5	8.4
(Loss) income from discontinued operations, net of tax		(6.1)	6.4	(61.2)		(60.9)
Gain on sale of discontinued operations, net of tax		3.0	8.9	1,151.9		1,163.8
Equity in undistributed earnings of subsidiaries	1,111.2	1,075.8	13.4	1,111.2	(3,311.6)	
Net income (loss)	1,111.2	1,111.2	(27.3)	2,227.3	(3,311.1)	1,111.3
Net income attributable to the noncontrolling interest - discontinued operations				(0.1)		(0.1)
Net income attributable to Rockwood Holdings, Inc.	\$ 1,111.2	\$ 1,111.2	\$ (27.3)	\$ 2,227.2	\$ (3,311.1)	\$ 1,111.2

stockholders

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ 1,111.2	\$ 1,111.2	\$ (27.3)	\$ 2,227.3	\$ (3,311.1)	\$ 1,111.3
Other comprehensive income	102.9	102.9	0.9	175.8	(278.9)	103.6
Comprehensive income (loss)	1,214.1	1,214.1	(26.4)	2,403.1	(3,590.0)	1,214.9
Comprehensive income attributable to noncontrolling interest				(0.2)		(0.2)
Comprehensive income (loss) attributable to Rockwood Holdings, Inc. stockholders	\$ 1,214.1	\$ 1,214.1	\$ (26.4)	\$ 2,402.9	\$ (3,590.0)	\$ 1,214.7

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF OPERATIONS****NINE MONTHS ENDED SEPTEMBER 30, 2013****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Net sales	\$	\$	\$ 249.1	\$ 849.4	\$ (67.7)	\$ 1,030.8
Cost of products sold			156.1	478.7	(67.3)	567.5
Gross profit			93.0	370.7	(0.4)	463.3
Selling, general and administrative expenses		0.4	89.8	212.8		303.0
Equity in earnings of unconsolidated affiliates				(7.4)		(7.4)
Gain on previously held equity investment				(16.0)		(16.0)
Restructuring and other severance costs			7.2	6.0		13.2
Asset write-downs and other			3.8	0.2		4.0
Operating (loss) income		(0.4)	(7.8)	175.1	(0.4)	166.5
Other income (expenses), net:						
Intergroup interest, net		53.4	(9.2)	(44.2)		
Interest expense, net		(66.1)	(1.8)			(67.9)
Loss on early extinguishment/modification of debt		(0.8)	(4.3)	(10.4)		(15.5)
Intergroup other, net		58.7	(36.6)	(22.1)		
Foreign exchange loss on financing activities, net		(18.0)	(0.5)	(23.2)		(41.7)
Other income (expenses), net		27.2	(52.4)	(99.9)		(125.1)
Income (loss) from continuing operations before taxes		26.8	(60.2)	75.2	(0.4)	41.4
Income tax (benefit) provision		(0.7)	(0.2)	1.9	(0.2)	0.8
Net income (loss) from continuing operations		27.5	(60.0)	73.3	(0.2)	40.6
(Loss) income from discontinued operations, net of tax		(6.1)	17.9	(56.9)		(45.1)
Gain on sale of discontinued operations, net of tax		3.0	8.9	1,151.9		1,163.8
Equity in undistributed earnings of subsidiaries	1,160.1	1,135.7	46.7	1,160.1	(3,502.6)	
Net income	1,160.1	1,160.1	13.5	2,328.4	(3,502.8)	1,159.3
Net income attributable to the noncontrolling interest - discontinued operations				0.8		0.8
Net income attributable to Rockwood Holdings, Inc.	\$ 1,160.1	\$ 1,160.1	\$ 13.5	\$ 2,329.2	\$ (3,502.8)	\$ 1,160.1

stockholders

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income	\$ 1,160.1	\$ 1,160.1	\$ 13.5	\$ 2,328.4	\$ (3,502.8)	\$ 1,159.3
Other comprehensive income	45.2	45.2	0.1	98.8	(115.1)	74.2
Comprehensive income	1,205.3	1,205.3	13.6	2,427.2	(3,617.9)	1,233.5
Comprehensive income attributable to noncontrolling interest				(0.6)		(0.6)
Comprehensive income attributable to Rockwood Holdings, Inc. stockholders	\$ 1,205.3	\$ 1,205.3	\$ 13.6	\$ 2,426.6	\$ (3,617.9)	\$ 1,232.9

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING BALANCE SHEET**

SEPTEMBER 30, 2014

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 7.0	\$ 64.3	\$ 638.7	\$	\$ 710.0
Accounts receivable, net			47.9	188.5		236.4
Intergroup receivable		1,083.2	848.7	10.8	(1,942.7)	
Inventories			58.3	172.6	(3.4)	227.5
Deferred income taxes		4.2	35.0	10.8	1.0	51.0
Prepaid expenses and other current assets	0.1	0.1	5.7	42.9		48.8
Assets of discontinued operations	3.2	90.5	283.8	1,297.9	(170.1)	1,505.3
Total current assets	3.3	1,185.0	1,343.7	2,362.2	(2,115.2)	2,779.0
Property, plant and equipment, net			138.0	733.1		871.1
Investment in subsidiary	3,286.5	2,590.9	526.5	3,286.5	(9,690.4)	
Goodwill			25.5	583.7		609.2
Other intangible assets, net			30.2	80.3		110.5
Intergroup receivable	94.5	868.2	118.0	71.8	(1,152.5)	
Deferred financing costs, net		15.9				15.9
Deferred income taxes		90.8	39.6	15.7		146.1
Investment in unconsolidated affiliates		4.8		517.3		522.1
Other assets			0.9	27.1		28.0
Total assets	\$ 3,384.3	\$ 4,755.6	\$ 2,222.4	\$ 7,677.7	\$ (12,958.1)	\$ 5,081.9
LIABILITIES						
Current liabilities:						
Accounts payable	\$	\$	\$ 11.6	\$ 67.4	\$	\$ 79.0
Intergroup payable	843.7	0.3	1,094.0	4.7	(1,942.7)	
Income taxes payable			2.9	31.9		34.8
Accrued compensation			19.3	54.1		73.4
Accrued expenses and other current liabilities		27.1	22.8	54.3		104.2
Deferred income taxes				3.3		3.3
Long-term debt, current portion				9.5		9.5
Liabilities of discontinued operations		4.6	191.8	423.9	(168.3)	452.0
Total current liabilities	843.7	32.0	1,342.4	649.1	(2,111.0)	756.2
Long-term debt		1,249.3		29.5		1,278.8
Pension and related liabilities			8.4	237.3		245.7

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

Intergroup payable	24.9	183.0	391.4	553.2	(1,152.5)	
Deferred income taxes				41.9		41.9
Other liabilities		4.8	25.8	60.2		90.8
Total liabilities	868.6	1,469.1	1,768.0	1,571.2	(3,263.5)	2,413.4
Restricted stock units	22.2					22.2
EQUITY						
Rockwood Holdings, Inc. stockholders' equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8
Paid-in capital	1,275.3	1,037.1	661.4	1,728.5	(3,427.0)	1,275.3
Accumulated other comprehensive income	(102.6)	(101.3)	4.9	(103.8)	200.2	(102.6)
Retained earnings (deficit)	1,936.0	2,350.7	(402.5)	4,164.3	(6,112.5)	1,936.0
Treasury stock, at cost	(616.0)					(616.0)
Total Rockwood Holdings, Inc. stockholders' equity	2,493.5	3,286.5	454.4	5,953.7	(9,694.6)	2,493.5
Noncontrolling interest				152.8		152.8
Total equity	2,493.5	3,286.5	454.4	6,106.5	(9,694.6)	2,646.3
Total liabilities and equity	\$ 3,384.3	\$ 4,755.6	\$ 2,222.4	\$ 7,677.7	\$ (12,958.1)	\$ 5,081.9

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2013****(Dollars in millions)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 12.9	\$ 30.9	\$ 1,479.0	\$	\$ 1,522.8
Accounts receivable, net			42.6	185.5		228.1
Intergroup receivable		840.0	541.9	15.3	(1,397.2)	
Inventories			56.8	176.4	(5.0)	228.2
Deferred income taxes		2.5	35.2	7.6	0.1	45.4
Prepaid expenses and other current assets			17.0	73.1		90.1
Assets of discontinued operations	3.0	94.8	197.8	1,423.1	(169.6)	1,549.1
Total current assets	3.0	950.2	922.2	3,360.0	(1,571.7)	3,663.7
Property, plant and equipment, net			134.8	708.0		842.8
Investment in subsidiary	3,381.0	2,447.2	490.5	3,381.0	(9,699.7)	
Goodwill			25.4	634.2		659.6
Other intangible assets, net			33.5	94.4		127.9
Intergroup receivable	94.7	1,264.7	118.0	2.5	(1,479.9)	
Deferred financing costs, net		17.9				17.9
Deferred income taxes		103.8	18.0	34.7		156.5
Investment in unconsolidated affiliates				34.2		34.2
Other assets			0.9	28.8		29.7
Total assets	\$ 3,478.7	\$ 4,783.8	\$ 1,743.3	\$ 8,277.8	\$ (12,751.3)	\$ 5,532.3
LIABILITIES						
Current liabilities:						
Accounts payable	\$	\$	\$ 10.4	\$ 81.8	\$	\$ 92.2
Intergroup payable	533.5	0.6	850.0	12.8	(1,396.9)	
Income taxes payable			1.9	11.6		13.5
Accrued compensation			17.0	53.0		70.0
Accrued expenses and other current liabilities		13.6	22.2	53.2		89.0
Deferred income taxes				3.7	(1.4)	2.3
Long-term debt, current portion				10.3		10.3
Liabilities of discontinued operations		5.4	176.5	472.7	(168.1)	486.5
Total current liabilities	533.5	19.6	1,078.0	699.1	(1,566.4)	763.8
Long-term debt		1,250.0		35.1		1,285.1
Pension and related liabilities			9.3	259.6		268.9
Intergroup payable	24.9	120.5	388.1	946.2	(1,479.7)	
Deferred income taxes				38.4		38.4

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

Other liabilities		12.7	24.1	65.9		102.7
Total liabilities	558.4	1,402.8	1,499.5	2,044.3	(3,046.1)	2,458.9
Restricted stock units	24.2					24.2
EQUITY						
Rockwood Holdings, Inc.						
stockholders' equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8
Paid-in capital	1,269.8	1,037.1	515.6	1,694.4	(3,247.1)	1,269.8
Accumulated other comprehensive income	103.7	105.0	6.3	269.6	(380.9)	103.7
Retained earnings (deficit)	1,923.1	2,238.9	(468.7)	3,951.7	(5,721.9)	1,923.1
Treasury stock, at cost	(401.3)					(401.3)
Total Rockwood Holdings, Inc. stockholders' equity	2,896.1	3,381.0	243.8	6,080.4	(9,705.2)	2,896.1
Noncontrolling interest				153.1		153.1
Total equity	2,896.1	3,381.0	243.8	6,233.5	(9,705.2)	3,049.2
Total liabilities and equity	\$ 3,478.7	\$ 4,783.8	\$ 1,743.3	\$ 8,277.8	\$ (12,751.3)	\$ 5,532.3

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2014****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 111.8	\$ 111.8	\$ 66.2	\$ 217.5	\$ (390.6)	\$ 116.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(111.8)	(125.7)	(42.3)	(111.8)	391.6	
(Income) loss from discontinued operations, net of tax		(13.7)	(9.5)	18.8		(4.4)
Gain on sale of discontinued operations, net of tax		0.1		(2.2)		(2.1)
Depreciation and amortization			18.7	57.0		75.7
Deferred financing costs amortization		2.0				2.0
Equity in earnings of unconsolidated affiliates				(9.9)		(9.9)
Foreign exchange loss (gain) on financing activities, net		4.5	(0.2)	(65.2)		(60.9)
Stock-based compensation			5.2	2.2		7.4
Deferred income taxes		23.1	(22.4)	14.1	0.6	15.4
Asset write-downs and other			0.1	5.0		5.1
Excess tax benefits from stock-based payment arrangements				(1.0)		(1.0)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:						
Accounts receivable			(5.3)	(13.9)		(19.2)
Inventories			(1.4)	(5.8)	(1.6)	(8.8)
Prepaid expenses and other assets		(0.4)	7.5	(4.1)		3.0
Accounts payable			1.1	(5.2)		(4.1)
Income taxes payable		(15.3)	14.4	15.4		14.5
Accrued expenses and other liabilities		13.0	(7.4)	6.5		12.1
Intercompany operating activities, net		18.2	14.0	(32.2)		

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

Net cash provided by operating activities of continuing operations	17.6	38.7	85.2	141.5
Net cash provided by (used in) operating activities of discontinued operations	2.9	(28.1)	104.1	78.9
Net cash provided by operating activities	20.5	10.6	189.3	220.4
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		(17.4)	(117.0)	(134.4)
Acquisition of 49% ownership of Talison	(4.5)		(512.1)	(516.6)
Other acquisitions		(2.5)		(2.5)
Proceeds on sale of assets		1.3	1.1	2.4
Proceeds from intercompany investing related activity	420.0			(420.0)
Intercompany investing related payment	(261.2)		1.1	260.1
Net cash provided by (used in) investing activities of continuing operations	154.3	(18.6)	(626.9)	(159.9)
Net cash used in investing activities of discontinued operations	(179.9)	(57.8)	(26.1)	179.7
Net cash used in investing activities	(25.6)	(76.4)	(653.0)	19.8
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of common stock, net of fees	2.1			2.1
Excess tax benefits from stock-based payment arrangements			1.0	1.0
Payments of long-term debt	(0.7)		(3.2)	(3.9)
Proceeds from long-term debt			0.1	0.1
Dividend distributions to stockholders	(97.6)			(97.6)
Stock repurchases	(214.7)			(214.7)
Proceeds from intercompany financing related activity	310.2		0.3	(310.5)
Intercompany financing related payments		(50.4)	(420.0)	470.4
Net cash used in financing activities of continuing operations	(0.7)	(50.4)	(421.8)	159.9
Net cash provided by financing activities of discontinued operations		150.0	19.8	(179.7)
Net cash (used in) provided by financing activities	(0.7)	99.6	(402.0)	(19.8)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(0.4)	28.5	28.0
Net (decrease) increase in cash and cash equivalents	(5.9)	33.4	(837.2)	(809.7)
Less net increase in cash and cash equivalents from discontinued operations			3.1	3.1
(Decrease) increase in cash and cash equivalents from continuing operations	(5.9)	33.4	(840.3)	(812.8)
	12.9	30.9	1,479.0	1,522.8

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

Cash and cash equivalents,
beginning of period

Cash and cash equivalents, end
of period

\$	\$	7.0	\$	64.3	\$	638.7	\$	710.0
----	----	-----	----	------	----	-------	----	-------

Table of Contents**ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2013****(Dollars in millions)****(Unaudited)**

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 1,160.1	\$ 1,160.1	\$ 13.5	\$ 2,328.4	\$ (3,502.8)	\$ 1,159.3
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(1,160.1)	(1,135.7)	(46.7)	(1,160.1)	3,502.6	
Loss (income) from discontinued operations, net of tax		6.1	(17.9)	56.9		45.1
Gain on sale of discontinued operations, net of tax		(3.0)	(8.9)	(1,151.9)		(1,163.8)
Depreciation and amortization			19.5	48.5		68.0
Deferred financing costs amortization		2.1	0.8	0.8		3.7
Equity in earnings of unconsolidated affiliates				(7.4)		(7.4)
Loss on early extinguishment/modification of debt		0.8	4.3	10.4		15.5
Gain on previously held equity investment				(16.0)		(16.0)
Foreign exchange loss on financing activities, net		18.0	0.5	23.2		41.7
Stock-based compensation			5.7	4.2		9.9
Deferred income taxes		(0.7)	(0.2)		(0.2)	(1.1)
Asset write-downs and other			3.8	0.2		4.0
Excess tax benefits from stock-based payment arrangements				(3.8)		(3.8)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:						
Accounts receivable			(9.3)	(17.2)		(26.5)
Inventories			(0.3)	(15.3)	0.4	(15.2)
Prepaid expenses and other assets			9.3	(8.5)		0.8
Accounts payable			(2.9)	(1.8)		(4.7)
Income taxes payable		(4.9)	4.2	(43.1)		(43.8)
Accrued expenses and other liabilities		12.3	13.9	(0.1)		26.1
Intercompany operating activities, net		7.9	(11.7)	3.8		
Net cash provided by (used in) operating activities of continuing operations		63.0	(22.4)	51.2		91.8
		(6.5)	11.8	182.5		187.8

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

Net cash (used in) provided by operating activities of discontinued operations					
Net cash provided by (used in) operating activities	56.5	(10.6)	233.7		279.6
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures		(15.2)	(113.5)		(128.7)
Other acquisitions			(33.8)		(33.8)
Increase in restricted cash	(14.2)				(14.2)
Proceeds from intercompany investing related activity	730.0		200.8	(930.8)	
Intercompany investing related payments	(1,498.9)		(1,105.0)	2,603.9	
Proceeds on sale of assets		2.2	0.3		2.5
Net cash used in investing activities of continuing operations	(783.1)	(13.0)	(1,051.2)	1,673.1	(174.2)
Net cash provided by (used in) investing activities of discontinued operations	85.7	(32.6)	1,623.8	(28.0)	1,648.9
Net cash (used in) provided by investing activities	(697.4)	(45.6)	572.6	1,645.1	1,474.7
CASH FLOWS FROM FINANCING ACTIVITIES:					
Issuance of common stock, net of fees	9.5				9.5
Excess tax benefits from stock-based payment arrangements			3.8		3.8
Payments of long-term debt	(1,128.1)		(2.2)		(1,130.3)
Proceeds from long-term debt	204.0		0.6		204.6
Fees related to early extinguishment/modification of debt	(0.1)		(5.1)		(5.2)
Purchase of noncontrolling interest	(1.0)		(129.3)		(130.3)
Dividend distributions to shareholders	(94.8)				(94.8)
Share repurchases	(399.9)				(399.9)
Proceeds from intercompany financing related activity	485.2	1,105.0	91.1	922.8	(2,604.1)
Intercompany financing related payments	(200.0)			(730.0)	930.0
Net cash (used in) provided by financing activities of continuing operations	(20.2)	91.1	60.6	(1,674.1)	(1,542.6)
Net cash used in financing activities of discontinued operations		(27.0)	(513.0)	29.0	(511.0)
Net cash (used in) provided by financing activities	(20.2)	64.1	(452.4)	(1,645.1)	(2,053.6)
Effect of exchange rate changes on cash and cash equivalents	(0.8)	(0.4)	(32.0)		(33.2)
Net (decrease) increase in cash and cash equivalents	(661.9)	7.5	321.9		(332.5)
Less net increase in cash and cash equivalents from discontinued operations			1.6		1.6
(Decrease) increase in cash and cash equivalent from continuing operations	(661.9)	7.5	320.3		(334.1)
Cash and cash equivalents of continuing operations, beginning of period	665.3	8.7	592.1		1,266.1
Cash and cash equivalents of continuing operations, end of period	\$	\$ 3.4	\$ 16.2	\$ 912.4	\$ 932.0

Table of Contents**19. IMMATERIAL CORRECTIONS:**

During 2013, the Company determined, after a formal investigation, that management at a single location in Italy within the Color Pigments and Services business of its former Performance Additives segment (reported in discontinued operations - see Note 3, Discontinued Operations, for further details) had falsified accounting records supporting certain asset, liability and income statement balances, beginning in 2007. Based on the investigation, the Company has identified amounts in need of correction and concluded that they were not material individually or in the aggregate to any of its previously issued annual and interim financial statements, including the presentation of the Color Pigments and Services business as discontinued operations. Although management has determined that the amounts individually and in the aggregate are not material to prior periods, in accordance with authoritative accounting literature on considering the effects of misstatements in prior years when quantifying misstatements in the current year, the financial statements included herein have been adjusted to correct for the impact of these items.

The Company has corrected the relevant financial information from previous reporting periods contained in these financial statements, now classified within discontinued operations, as well as the Non-Guarantor Subsidiaries column in the Company's guarantor financial information (See Note 18, Guarantor Financial Statements). The major adjustments to the relevant balances as originally reported would have been as follows:

- Net income would have decreased \$0.7 million (\$0.01 per share on a diluted basis) and \$1.4 million (\$0.02 per share on a diluted basis) for the three and nine months ended September 30, 2013, respectively.

The following tables set forth the impact of the corrections of immaterial errors in the Company's condensed consolidated statement of operations for the three and nine months ended September 30, 2013:

(\$ in millions)	Three months ended September 30, 2013		
	As Previously Reported	Adjustments	As Corrected
Loss from discontinued operations, net of tax	\$ (60.2)	\$ (0.7)	\$ (60.9)
Net income	1,112.0	(0.7)	1,111.3
Net income attributable to Rockwood Holdings, Inc. stockholders	1,111.9	(0.7)	1,111.2

(\$ in millions)	Nine months ended September 30, 2013		
	As Previously Reported	Adjustments	As Corrected
Loss from discontinued operations, net of tax	\$ (43.7)	\$ (1.4)	\$ (45.1)
Net income	1,160.7	(1.4)	1,159.3
Net income attributable to Rockwood Holdings, Inc. stockholders	1,161.5	(1.4)	1,160.1

The following tables set forth the impact of the corrections of immaterial errors in the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2013:

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

Nine months ended September 30, 2013

(\$ in millions)	As Previously Reported	Adjustments	As Corrected
Net cash provided by operating activities	\$ 278.8	\$ 0.8	\$ 279.6
Net cash used in financing activities	(2,052.8)	(0.8)	(2,053.6)

20. SUBSEQUENT EVENTS:

In September 2013, the Company entered into a definitive agreement to sell its TiO₂ Pigments and Other Businesses, and in October 2014, the Company completed the sale of these businesses for an enterprise value of \$1.275 billion, including the assumption of \$225 million in pension obligations. The Company received net cash proceeds of approximately \$950 million before investment banking fees of \$8 million, which is subject to certain potential post-closing adjustments.

Table of Contents

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

This discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties, including those set forth in Forward-Looking Statements at the end of this Management's Discussion and Analysis (MD&A) section and the risk factors section of our 2013 Annual Report on Form 10-K. You should read the following MD&A together with our condensed consolidated financial statements and the notes to those statements that appear elsewhere in this Quarterly Report.

Executive Summary

We are a global developer, manufacturer and marketer of technologically advanced and high value-added specialty chemicals. We serve more than 50,000 customers across a wide variety of industries and geographic areas. Prior to the completed divestitures described below, we operated through five reportable segments: Lithium, Surface Treatment, Performance Additives, Titanium Dioxide Pigments and Advanced Ceramics. As a result of these completed divestitures, we now operate through two reportable segments: (1) Lithium and (2) Surface Treatment.

We are focused on growth, productivity, cost reduction, margin expansion, re-investment in core businesses, bolt-on acquisitions and debt reduction to drive stockholder value. In connection with this focus, among other things:

- During 2013, we sold our Advanced Ceramics segment and Clay-based Additives business, and in October 2014, sold our Titanium Dioxide Pigments, Color Pigments and Services, Timber Treatment Chemicals, Rubber/Thermoplastics Compounding and Water Chemistry businesses (the TiO₂ Pigments and Other Businesses).
- Our condensed consolidated financial statements have been reclassified to reflect discontinued operations for Advanced Ceramics, Clay-based Additives and the TiO₂ Pigments and Other Businesses for all periods presented. See Note 3, Discontinued Operations, for further details.
- In May 2014, we completed the purchase of a 49% equity interest in Windfield, which is the parent of Talison, thereby creating a joint venture with Tianqi giving the Company an indirect ownership interest in Talison. Our ownership in the joint venture is accounted for under the equity method of accounting.
- In the second quarter of 2014, we reorganized our Metal Sulfides business and began reporting it within the Surface Treatment segment. The Metal Sulfides business was previously reported in the Other category. As a result, the condensed consolidated financial statements have been reclassified to reflect this segment change for all periods presented.

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

- In July 2014, the Company, Albemarle and Albemarle Holdings Corporation (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into the Company, with the Company as the surviving entity (the Merger). As a result of the Merger, the Company will become a wholly-owned subsidiary of Albemarle.

At the effective time of the Merger, each outstanding share of Rockwood common stock, subject to certain exceptions, will convert into the right to receive (x) \$50.65 in cash, without interest, and (y) 0.4803 of a share of Albemarle common stock ((x) and (y) together, the Merger Consideration). Upon closing of the Merger, Albemarle shareholders will own approximately 70% of the combined company and Rockwood shareholders will own approximately 30%. The transaction is subject to shareholder and regulatory approvals and other customary closing conditions and is expected to close by the end of the first quarter of 2015.

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

Table of Contents

The following table is a summary of our financial highlights:

(\$ in millions, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 356.3	\$ 345.8	\$ 1,073.1	\$ 1,030.8
Net income from continuing operations	54.4	8.4	110.2	40.6
Adjusted EBITDA from continuing operations	100.6	81.6	270.1	245.1
Adjusted EBITDA margin from continuing operations	28.2%	23.6%	25.2%	23.8%
Diluted earnings per share from continuing operations attributable to Rockwood Holdings, Inc. stockholders	0.75	0.11	1.50	0.52

Results Third Quarter Review

Total net sales were up in the third quarter of 2014 compared to the same period in the prior year primarily due to higher surface treatment volumes, particularly from higher automotive OEM and automotive components, aerospace, general industrial and coil and cold forming applications, as well as higher selling prices. Net sales were also higher from increased volumes of lithium battery applications and potash. This was partially offset by lower volumes from organometallic products, driven mostly by butyllithium.

Adjusted EBITDA from continuing operations increased in the third quarter of 2014 compared to the same period in the prior year primarily due to the higher net sales noted above and additional Adjusted EBITDA from our equity in unconsolidated affiliates, primarily from our acquisition of a 49% interest in Talison in May 2014. This was partially offset by higher selling, general and administrative costs.

Net income and diluted earnings per share from continuing operations were higher in the third quarter of 2014 compared to the same period in the prior year primarily due to the reasons noted above, increased foreign exchange gains on financing activities, decreased interest expense and a loss on early extinguishment/modification of debt recorded in the third quarter of 2013. This was partially offset by higher selling, general and administrative costs and a gain recorded in the third quarter of 2013 as a result of revaluing a previously held unconsolidated equity interest to fair value. Diluted earnings per share from continuing operations also benefited from fewer common shares outstanding due to share repurchases.

Results Year-to-date Review

Total net sales were up in the nine months ended September 30, 2014 compared to the same period in the prior year primarily due to higher surface treatment volumes, particularly from higher general industrial, automotive OEM and automotive components, coil and cold forming and aerospace applications, as well as the impact of the acquisition of the remaining 50% interest in a previously unconsolidated joint venture in

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

India in 2013, and higher selling prices. Net sales were also higher from increased volumes of lithium battery applications. This was partially offset by lower volumes from organometallic products, driven mostly by butyllithium, and decreased sales of potash, mainly volumes.

Adjusted EBITDA from continuing operations increased in the nine months ended September 30, 2014 compared to the same period in the prior year primarily due to the higher net sales noted above and additional Adjusted EBITDA from our equity in unconsolidated affiliates, primarily from our acquisition of a 49% interest in Talison in May 2014, partially offset by higher selling, general and administrative costs.

Net income and diluted earnings per share from continuing operations were higher in the nine months ended September 30, 2014 compared to the same period in the prior year primarily due to the reasons noted above, increased foreign exchange gains on financing activities, decreased interest expense and a loss on early extinguishment/modification of debt recorded in 2013. This was partially offset by higher selling, general and administrative costs and a gain recorded in 2013 as a result of revaluing a previously held unconsolidated equity interest to fair value. Diluted earnings per share from continuing operations also benefited from fewer common shares outstanding due to share repurchases.

Table of Contents

Factors Which Affect Our Results of Operations

Our Markets

Because the businesses in our segments generally serve many unrelated end-use markets, we discuss the principal market conditions on a segment basis rather than a consolidated basis for our continuing operations. The principal market conditions in our segments and regions in which we operate that impacted our results of operations during the periods presented and in future periods include the following:

Lithium

- Demand for our lithium carbonate products is generally driven by demand in industrial applications, the aluminum business, the battery industry, glass ceramics and cement. Sales of lithium products specifically used in life science applications depend on the trends in drug development and growth in pharmaceuticals and agrochemicals markets, as well as generic competition. In the nine months ended September 30, 2014, net sales were down primarily from lower volumes of organometallic products, driven mostly by butyllithium, as well as decreased prices and volumes for potash, partially offset by higher volumes of lithium carbonate and hydroxide for battery applications.
- We expect continued growth in demand for the remainder of 2014 for lithium carbonate and lithium hydroxide for battery applications, along with the impact of the Talison transaction for the remainder of the year, to more than offset lower volumes of organometallic products, particularly butyllithium.

Surface Treatment

- Demand for Surface Treatment products generally follows the activity levels of metal processing manufacturers, including the automotive, steel and aerospace industries, as well as products sold to general industry markets, including household appliances, manufacturing, heating, ventilation and aluminum finishing. Net sales were up in the nine months ended September 30, 2014 primarily from higher general industrial, automotive OEM and automotive components, coil and cold forming and aerospace applications, as well as the impact of the acquisition of the remaining 50% interest in a previously unconsolidated joint venture in India in 2013, and higher selling prices. We expect growth for the remainder of 2014 primarily from increased volumes across most markets, particularly in general industry and automotive.

Global Exposure

We operate a geographically diverse business, with 53% of our net sales in 2013 generated from shipments to customers in Europe, 21% to North America (predominantly, the United States), 16% to Asia and 10% to the rest of the world. For a geographic description of the origin of our net sales and location of our long-lived assets, see Item 8. Financial Statements and Supplementary Data - Note 3, Segment Information in

our 2013 Form 10-K.

We have sold to customers in more than 60 countries and currently serve our diverse and extensive customer base with 33 facilities in 17 countries for our continuing operations. Consequently, we are exposed to global economic and political changes, particularly currency fluctuations that could impact our profitability and demand for our products.

Our sales and production costs are mainly denominated in U.S. dollars or Euros. Our consolidated results of operations and financial condition have been historically impacted by the fluctuation of the Euro against our reporting currency, the U.S. dollar. For the three months ended September 30, 2014, the average exchange rate of the Euro against the U.S. dollar was lower compared to the same period in 2013. For the nine months ended September 30, 2014, the average exchange rate of the Euro against the U.S. dollar was higher compared to the same period in 2013. Historically, however, our operating margins have not been significantly impacted by currency fluctuations because, in general, sales and costs of products sold are generated or incurred in the same currency, subject to certain exceptions.

The foreign currency effect is the translation impact of the change in the average rate of exchange of another currency to the U.S. dollar for the applicable period as compared to the preceding period. The impact relates primarily to the conversion of the Euro to the U.S. dollar. Unless otherwise noted, all balance sheet items as of September 30, 2014 which are denominated in Euros are converted at the September 30, 2014 exchange rate of 1.00 = \$1.2631. For the three months ended September 30, 2014 and 2013, and the nine months ended September 30, 2014 and 2013, the average rate of exchange of the Euro to the U.S. dollar is \$1.3249 and \$1.3256, respectively, and \$1.3557 and \$1.3173, respectively.

Table of Contents

Raw Materials

Raw materials constituted approximately 58% of our 2013 cost of products sold and we have a broad raw material base, with the cost of no single raw material representing more than 7% of our cost of products sold in 2013. Nonetheless, the significant price fluctuations our raw materials have experienced in the past during periods of high demand have had an adverse impact on our results of operations. In the first nine months of 2014, lower raw material costs in our Lithium and Surface Treatment segments had a favorable impact on our consolidated results of operations. We cannot accurately predict the impact of any future price increases for raw materials or any raw material shortages on our business as a whole or in specific geographic regions. In addition, we may not be able to pass on raw material price increases to our customers.

Energy Costs

In 2013, energy purchases represented approximately 3% of our costs of products sold. Energy costs were down slightly in the first nine months of 2014 primarily from favorable fuel pricing in Chile in our Lithium segment.

Income Taxes

We recorded an income tax provision of \$39.4 million on income from continuing operations before taxes of \$93.8 million in the three months ended September 30, 2014. The income tax provision was negatively impacted by foreign exchange gains in connection with the repayment of an intercompany loan that was formerly deemed to be of a long-term investment nature, an income tax charge related to a tax rate change in Chile and an unfavorable earnings mix.

Other Charges and Credits

During the periods presented, we incurred certain other charges that included restructuring and other severance costs, acquisition and disposal costs, systems/organization establishment expenses and foreign exchange gains and losses. See Note 4, Segment Information, for a discussion of other charges and credits recorded in the three and nine months ended September 30, 2014.

Note Regarding Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. From time to time in this management's discussion and analysis, we disclose non-GAAP financial measures, such as Adjusted EBITDA, with supporting reconciliations to GAAP financial measures. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2013 Annual Report on Form 10-K for a definition of Adjusted EBITDA, management's uses of Adjusted EBITDA and its

limitations.

Results of Operations

Actual Results of Operations

The following table presents the major components of our operations on an actual basis and Adjusted EBITDA (the reconciliation to net income is set forth in Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. Stockholders to Adjusted EBITDA for the three and nine months ended September 30, 2014 and 2013 within this MD&A section), including as a percentage of net sales, for the periods presented. See Note 4, Segment Information, for segment information and a reconciliation from income (loss) from continuing operations before taxes to Adjusted EBITDA on a segment basis.

Table of Contents

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Statement of operations data:				
Net sales:				
Lithium	\$ 117.2	\$ 120.3	\$ 349.7	\$ 364.5
Surface Treatment	236.3	222.3	714.2	656.1
Other	2.8	3.2	9.2	10.2
Total net sales	356.3	345.8	1,073.1	1,030.8
Gross profit	162.9	152.7	487.8	463.3
	45.7%	44.2%	45.5%	44.9%
Selling, general and administrative expenses	113.8	99.8	333.3	303.0
	31.9%	28.9%	31.1%	29.4%
Equity in earnings of unconsolidated affiliates	(5.1)	(2.3)	(9.9)	(7.4)
Gain on previously held equity investment		(16.0)		(16.0)
Restructuring and other severance costs	1.4	4.6	7.0	13.2
Asset write-downs and other	0.4	(0.7)	2.1	4.0
Operating income (loss):				
Lithium	33.1	30.7	86.0	94.0
	28.2%	25.5%	24.6%	25.8%
Surface Treatment	46.3	55.6	133.6	127.0
	19.6%	25.0%	18.7%	19.4%
Other	(27.0)	(19.0)	(64.3)	(54.5)
Total operating income	52.4	67.3	155.3	166.5
Other income (expenses), net:				
Interest expense, net	(13.5)	(21.2)	(41.3)	(67.9)
Loss on early extinguishment/modification of debt		(15.5)		(15.5)
Foreign exchange gain (loss) on financing activities, net	55.1	(31.2)	60.9	(41.7)
Other, net	(0.2)		(0.2)	
Other income (expenses), net	41.4	(67.9)	19.4	(125.1)
Income (loss) from continuing operations before taxes	93.8	(0.6)	174.7	41.4
Income tax provision (benefit)	39.4	(9.0)	64.5	0.8
Income from continuing operations	54.4	8.4	110.2	40.6
Income (loss) from discontinued operations, net of tax	33.5	(60.9)	4.4	(45.1)
Gain on sale of discontinued operations, net of tax		1,163.8	2.1	1,163.8
Net income	87.9	1,111.3	116.7	1,159.3
Net (income) loss attributable to noncontrolling interest	(2.0)	(0.1)	(4.9)	0.8
Net income attributable to Rockwood Holdings, Inc. stockholders	\$ 85.9	\$ 1,111.2	\$ 111.8	\$ 1,160.1
Adjusted EBITDA from continuing operations:				
Lithium	\$ 53.9	\$ 43.1	\$ 139.8	\$ 139.0
	46.0%	35.8%	40.0%	38.1%
Surface Treatment	57.8	50.9	167.5	145.0
	24.5%	22.9%	23.5%	22.1%
Other	(11.1)	(12.4)	(37.2)	(38.9)
Total Adjusted EBITDA from continuing operations	\$ 100.6	\$ 81.6	\$ 270.1	\$ 245.1

Table of Contents

Three months ended September 30, 2014 compared to three months ended September 30, 2013

Overview

Net sales increased \$10.5 million, or 3.0%, from the prior year primarily due to higher volumes of \$10.1 million and higher selling prices of \$1.9 million, particularly in our Surface Treatment segment, partially offset by the unfavorable impact of currency changes of \$1.5 million. See further discussion by segment below.

Operating income decreased \$14.9 million, or 22.1%, from the prior year primarily due to the gain of \$16.0 million recorded in the three months ended September 30, 2013 as a result of revaluing our equity interest to fair value related to the acquisition of the remaining 50% interest in the previously unconsolidated Surface Treatment joint venture in India, increased acquisition and disposal costs of \$9.1 million primarily related to the announced merger between the Company and Albemarle and higher selling, general and administrative expenses in our Surface Treatment segment of \$5.4 million. This was partially offset by the gross margin impact of higher sales volumes of \$6.5 million, lower restructuring and other severance costs of \$3.2 million, increased equity earnings of \$2.8 million and higher selling prices of \$1.9 million.

Adjusted EBITDA from continuing operations increased \$19.0 million, or 23.3%, from the prior year primarily from increased Adjusted EBITDA from our equity in unconsolidated affiliates of \$12.3 million, the gross margin impact of higher sales volumes of \$6.5 million and higher selling prices of \$1.9 million, partially offset by higher selling, general and administrative expenses in our Surface Treatment segment of \$5.4 million.

Net income from continuing operations increased \$46.0 million to \$54.4 million in the three months ended September 30, 2014 due to increased foreign exchange gains on financing activities of \$86.3 million, a loss on extinguishment/modification of debt of \$15.5 million recorded in the three months ended September 30, 2013 and lower interest expense, net of \$7.7 million, partially offset by an increased tax provision of \$48.4 million from higher income before taxes and the reasons noted above.

Income from discontinued operations, net of tax, increased \$94.4 million to \$33.5 million in the three months ended September 30, 2014 primarily from the recording of an expected net loss of \$52.7 million in three months ended September 30, 2013 in connection with the sale of the TiO₂ Pigments and Other Businesses, lower acquisition and disposal costs of \$18.0 million and lower raw material costs of \$13.7 million, particularly for slag and ilmenite..

The gain on sale of discontinued operations, net of tax, of \$1,163.8 million recorded in the three months ended September 30, 2013 relates to the sale of the Advanced Ceramics segment in August 2013.

Net income attributable to noncontrolling interest of \$2.0 million was recorded in the three months ended September 30, 2014 compared to net income attributable to noncontrolling interest of \$0.1 million in the three months ended September 30, 2013. The change from the prior year was primarily related to higher net income recorded by our timber treatment joint venture in the third quarter of 2014.

Net income attributable to Rockwood Holdings, Inc. stockholders decreased \$1,025.3 million to \$85.9 million in the three months ended September 30, 2014 due to the reasons noted above.

Net sales

Lithium. Net sales decreased \$3.1 million, or 2.6%, from the prior year primarily from lower selling prices of \$1.7 million, lower volumes of \$0.8 million and the unfavorable impact of currency changes of \$0.6 million. Lower volumes of organometallic products, mostly driven by butyllithium, were partially offset by higher volumes for lithium battery applications and potash.

Surface Treatment. Net sales increased \$14.0 million, or 6.3%, from the prior year primarily from higher volumes of \$11.3 million, particularly driven by higher automotive OEM and automotive components, aerospace, general industrial and coil and cold forming applications, as well as higher selling prices of \$3.6 million. This was partially offset by the unfavorable impact of currency changes of \$0.9 million.

Gross profit

Gross profit increased \$10.2 million, or 6.7%, from the prior year primarily due to the impact of higher sales in our Surface Treatment segment. Gross profit as a percentage of net sales were 45.7% and 44.2% for the three months ended September 30, 2014 and 2013, respectively.

Selling, general and administrative (SG&A) expenses

SG&A expenses increased \$14.0 million, or 14.0%, from the prior year primarily from increased acquisition and disposal costs of \$9.1

Table of Contents

million primarily for professional fees incurred in connection with the announced merger between the Company and Albemarle and increased SG&A expenses in our Surface Treatment segment of \$5.4 million. SG&A expenses as a percentage of net sales were 31.9% and 28.9% for the three months ended September 30, 2014 and 2013, respectively.

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates of \$5.1 million was recorded in the three months ended September 30, 2014 and was primarily comprised of \$2.5 million from our acquisition of a 49% interest in Talison in May 2014 and \$2.4 million related to joint ventures in China in our Surface Treatment segment. Equity in earnings of unconsolidated affiliates of \$2.3 million was recorded in the three months ended September 30, 2013 and was primarily from our joint ventures in China in our Surface Treatment segment.

Restructuring and other severance costs

See Note 15, Restructuring And Other Severance Costs, for further details.

Gain on previously held equity interest

The gain on previously held equity interest of \$16.0 million recorded in the three months ended September 30, 2013 is from the revaluation of the Company's equity interest to fair value related to the acquisition of the remaining 50% interest in the previously unconsolidated India joint venture.

Operating income

Lithium. Operating income increased \$2.4 million, or 7.8%, from the prior year primarily from higher equity earnings of \$2.6 million primarily related to our acquisition of a 49% interest in Talison in May 2014 and lower restructuring and other severance costs of \$1.3 million. This was partially offset by lower selling prices of \$1.7 million.

Surface Treatment. Operating income decreased \$9.3 million, or 16.7%, from the prior year primarily from the gain of \$16.0 million on a previously held equity interest related to the India joint venture recorded in the three months ended September 30, 2013 and higher selling, general and administrative expenses of \$5.4 million. This was partially offset by the gross margin impact of higher sales volumes of \$6.4 million, higher selling prices of \$3.6 million and lower raw material costs of \$1.5 million.

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

Other. Operating loss increased \$8.0 million, or 42.1%, from the prior year primarily for professional fees incurred in connection with the announced merger between the Company and Albemarle.

Other income (expenses)

Interest expense, net. Interest expense, net decreased \$7.7 million, or 36.3%, compared to the same period in the prior year primarily due to the repayment of all of the outstanding borrowings under the senior secured credit facility in September 2013.

Loss on early extinguishment/modification of debt. For the three months ended September 30, 2013, in connection with the repayment of all outstanding borrowings under the senior secured credit facility in September 2013, we recorded a charge of \$15.5 million consisting of the write-off of deferred financing costs of \$10.3 million and fees of \$5.2 million.

Foreign exchange gain on financing activities, net. For the three months ended September 30, 2014, foreign exchange gains of \$55.1 million were primarily related to the impact of a weaker Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity, as well as non-operating Euro-denominated transactions. For the three months ended September 30, 2013, foreign exchange losses of \$31.2 million primarily relate to the impact of a stronger Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity and Euro-denominated intercompany loans.

Income tax benefit/provision

We recorded an income tax provision of \$39.4 million on income from continuing operations before taxes of \$93.8 million in the three

Table of Contents

months ended September 30, 2014, resulting in an effective tax rate of 42.0%. The effective tax rate of 42.0% is higher than the U.S. statutory rate of 35% primarily due to foreign exchange gains in connection with the repayment of an intercompany loan that was formerly deemed to be of a long-term investment nature, an income tax charge related to a tax rate change in Chile and an unfavorable earnings mix.

We recorded an income tax benefit of \$9.0 million on a loss from continuing operations before taxes of \$0.6 million in the three months ended September 30, 2013. This income tax benefit was favorably impacted by the reversal of tax reserves and a beneficial foreign earnings mix.

Adjusted EBITDA

Lithium. Adjusted EBITDA increased \$10.8 million, or 25.1%, from the prior year primarily from Adjusted EBITDA of \$11.2 million from our acquisition of a 49% interest in Talison in May 2014. This was partially offset by lower selling prices of \$1.7 million.

Surface Treatment. Adjusted EBITDA increased \$6.9 million, or 13.6%, from the prior year primarily due to the gross margin impact of higher sales volumes of \$6.4 million, higher selling prices of \$3.6 million and lower raw material costs of \$1.5 million. This was partially offset by higher selling, general and administrative expenses of \$5.4 million.

Nine months ended September 30, 2014 compared to nine months ended September 30, 2013

Overview

Net sales increased \$42.3 million, or 4.1%, from the prior year primarily due to higher volumes of \$29.4 million and higher selling prices of \$10.3 million, particularly in our Surface Treatment segment, as well as the favorable impact of currency changes of \$2.6 million. See further discussion by segment below.

Operating income decreased \$11.2 million, or 6.7%, from the prior year primarily due to the gain of \$16.0 million recorded in the nine months ended September 30, 2013 as a result of revaluing our equity interest to fair value related to the acquisition of the remaining 50% interest in the previously unconsolidated Surface Treatment joint venture in India, higher selling, general and administrative expenses in our Surface Treatment segment of \$15.8 million and increased acquisition and disposal costs of \$7.2 million primarily related to the announced merger between the Company and Albermarle. This was partially offset by higher selling prices of \$10.3 million, the gross margin impact of higher sales volumes of \$8.4 million, lower restructuring and other severance costs of \$6.2 million and increased equity earnings of \$2.5 million.

Adjusted EBITDA from continuing operations increased \$25.0 million, or 10.2%, from the prior year primarily from increased Adjusted EBITDA from our equity in unconsolidated affiliates of \$17.2 million, higher selling prices of \$10.3 million and the gross margin impact of higher sales volumes of \$8.4 million. This was partially offset by higher selling, general and administrative costs in our Surface Treatment

segment of \$15.8 million.

Net income from continuing operations increased \$69.6 million to \$110.2 million in the nine months ended September 30, 2014 due to increased foreign exchange gains on financing activities of \$102.6 million, lower interest expense, net of \$26.6 million and a loss on extinguishment/modification of debt of \$15.5 million recorded in the nine months ended September 30, 2013. This was partially offset by an increased tax provision of \$63.7 million from higher income before taxes and the reasons noted above.

Income from discontinued operations, net of tax, increased \$49.5 million to \$4.4 million in the nine months ended September 30, 2014 due to lower raw material and energy costs of \$72.6 million, particularly for slag and ilmenite, lower acquisition and disposal costs of \$39.1 million and higher production levels resulting in higher fixed cost absorption of \$25.1 million. This was partially offset by the elimination of net income of \$57.1 million from the Advanced Ceramics segment and the Clay-based Additives businesses that was sold in the second half of 2013 and the recording of higher expected net losses of \$48.6 million in connection with the sale of the TiO₂ Pigments and Other Businesses.

The gain on sale of discontinued operations, net of tax, of \$2.1 million recorded in the nine months ended September 30, 2014 relates to the sales of the Advanced Ceramics segment and the Clay-based Additives business in 2013.

Net income attributable to noncontrolling interest of \$4.9 million was recorded in the nine months ended September 30, 2014 compared to a net loss attributable to noncontrolling interest of \$0.8 million in the nine months ended September 30, 2013. The change from the prior year was primarily related to higher net income recorded by our Viance LLC timber treatment joint venture in the nine months ended September 30, 2014 and the acquisition of our Titanium Dioxide Pigments venture partners' 39% interest in February 2013.

Net income attributable to Rockwood Holdings, Inc. stockholders decreased \$1,048.3 million to \$111.8 million in the nine months ended September 30, 2014 due to the reasons noted above.

Table of Contents

Net sales

Lithium. Net sales decreased \$14.8 million, or 4.1%, from the prior year primarily from lower volumes of \$11.9 million, as well as lower selling prices of \$5.5 million. Lower volumes of organometallic products, mostly driven by butyllithium, and potash were partially offset by higher volumes for lithium battery applications. The impact of currency changes of \$2.6 million had a favorable impact on net sales.

Surface Treatment. Net sales increased \$58.1 million, or 8.9%, from the prior year primarily from higher volumes of \$42.5 million (\$15.9 million from the impact of acquisitions, primarily the acquisition of the remaining 50% interest in a previously unconsolidated joint venture in India in 2013), particularly driven by general industrial, automotive OEM and automotive components, coil and cold forming and aerospace applications, as well as higher selling prices of \$15.8 million.

Gross profit

Gross profit increased \$24.5 million, or 5.3%, from the prior year primarily due to the impact of higher sales in our Surface Treatment segment. Gross profit as a percentage of net sales were 45.5% and 44.9% for the nine months ended September 30, 2014 and 2013, respectively.

Selling, general and administrative (SG&A) expenses

SG&A expenses increased \$30.3 million, or 10.0%, from the prior year primarily from increased SG&A expenses in our Surface Treatment segment of \$15.8 million, higher depreciation and amortization costs of \$9.1 million for certain operating sites retained in connection with the sale of the TiO2 Pigments and Other Businesses and increased acquisition and disposal costs of \$7.2 million primarily for professional fees incurred in connection with the announced merger between the Company and Albemarle. SG&A expenses as a percentage of net sales were 31.1% and 29.4% for the nine months ended September 30, 2014 and 2013, respectively.

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates of \$9.9 million was recorded in the nine months ended September 30, 2014 and was primarily comprised of \$6.8 million related to joint ventures in China in our Surface Treatment segment and \$2.4 million from our acquisition of a 49% interest in Talison in May 2014. Equity in earnings of unconsolidated affiliates of \$7.4 million was recorded in the nine months ended September 30, 2013 and was primarily related to joint ventures in China in our Surface Treatment segment.

Restructuring and other severance costs

See Note 15, Restructuring And Other Severance Costs, for further details.

Gain on previously held equity interest

The gain on previously held equity interest of \$16.0 million recorded in the nine months ended September 30, 2013 is from the revaluation of the Company's equity interest to fair value related to the acquisition of the remaining 50% interest in the previously unconsolidated India joint venture.

Asset write-downs and other

Asset write-downs and other were \$2.1 million and \$4.0 million for the nine months ended September 30, 2014 and 2013, respectively. The asset write-downs and other of \$2.1 million recorded in the nine months ended September 30, 2014 primarily relate to the impairment of a brine pond in Chile in our Lithium segment related to damage from unfavorable weather conditions. The asset write-downs and other of \$4.0 million recorded in the nine months ended September 30, 2013 relate to the write-off of assets from the termination of a geothermal energy project at the Silver Peak, NV lithium facility.

Operating income

Lithium. Operating income decreased \$8.0 million, or 8.5%, from the prior year primarily due to the gross margin impact of lower sales volumes of \$11.6 million and lower selling prices of \$5.5 million. This was partially offset by higher equity earnings of \$2.3 million primarily related to our acquisition of a 49% interest in Talison in May 2014, lower restructuring and other severance costs of \$2.1 million, decreased asset write-offs of \$2.1 million related to the termination of a geothermal energy project at the Silver Peak, NV Lithium facility in 2013 and lower energy and raw material costs of \$1.2 million.

Surface Treatment. Operating income increased \$6.6 million, or 5.2%, from the prior year primarily due to the gross margin impact of

Table of Contents

higher sales volumes of \$20.0 million, higher selling prices of \$15.8 million and lower raw material costs of \$2.0 million. This was partially offset by the gain on previously held equity interest of \$16.0 million related to the India joint venture recorded in 2013 and higher selling, general and administrative expenses of \$15.8 million.

Other. Operating loss increased \$9.8 million, or 18.0%, from the prior year primarily for professional fees incurred in connection with the announced merger between the Company and Albemarle.

Other income (expenses)

Interest expense, net. Interest expense, net decreased \$26.6 million, or 39.2%, compared to the same period in the prior year primarily due to the repayment of all of the outstanding borrowings under the senior secured credit facility in September 2013.

Loss on early extinguishment/modification of debt. For the nine months ended September 30, 2013, in connection with the repayment of all outstanding borrowings under the senior secured credit facility in September 2013, we recorded a charge of \$15.5 million consisting of the write-off of deferred financing costs of \$10.3 million and fees of \$5.2 million.

Foreign exchange loss on financing activities, net. For the nine months ended September 30, 2014, foreign exchange gains of \$60.9 million were primarily related to the impact of a weaker Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity, as well as non-operating Euro-denominated transactions. For the nine months ended September 30, 2013, foreign exchange losses of \$41.7 million primarily relate to the impact of a stronger Euro on U.S. denominated cash equivalents recorded in a Euro-denominated entity and Euro-denominated intercompany loans.

Income tax benefit/provision

We recorded an income tax provision of \$64.5 million on income from continuing operations before taxes of \$174.7 million in the nine months ended September 30, 2014, resulting in an effective tax rate of 36.9%. The effective tax rate of 36.9% is higher than the U.S. statutory rate of 35% primarily due to a tax provision recorded on foreign exchange gains in connection with the repayment of an intercompany loan that was formerly deemed to be of a long-term investment nature, an income tax charge related to a tax rate change in Chile and an unfavorable earnings mix. The higher rate was partially offset by the reversal of tax reserves due to a lapse in statute of limitations.

We recorded an income tax provision of \$0.8 million on income from continuing operations before taxes of \$41.4 million in the nine months ended September 30, 2013 resulting in an effective tax rate of 1.9%. The effective tax rate of 1.9% is lower than the U.S. statutory rate of 35% primarily due to a beneficial foreign earnings mix and the reversal of tax reserves.

Adjusted EBITDA

Lithium. Adjusted EBITDA increased \$0.8 million, or 0.6%, from the prior year primarily due to the gross margin impact of lower sales volumes of \$11.6 million and lower selling prices of \$5.5 million. This was partially offset by increased Adjusted EBITDA of \$14.1 million from our acquisition of a 49% interest in Talison in May 2014, the favorable impact of currency changes of \$1.4 million and lower energy and raw material costs of \$1.2 million.

Surface Treatment. Adjusted EBITDA increased \$22.5 million, or 15.5%, from the prior year primarily due to the gross margin impact of higher sales volumes of \$20.0 million, higher selling prices of \$15.8 million, increased Adjusted EBITDA of \$3.1 million from joint ventures in China and lower raw material costs of \$2.0 million. This was partially offset by the higher selling, general and administrative expenses of \$15.8 million.

Table of Contents**Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. Stockholders to Adjusted EBITDA from Continuing Operations**

Because we view Adjusted EBITDA on both a consolidated basis and a segment basis as an operating performance measure, we use net income as the most comparable U.S. GAAP measure on a consolidated basis. The following table, which sets forth the applicable components of Adjusted EBITDA, presents a reconciliation of net income attributable to Rockwood Holdings, Inc. stockholders to Adjusted EBITDA from continuing operations on a consolidated basis:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income attributable to Rockwood Holdings, Inc. stockholders	\$ 85.9	\$ 1,111.2	\$ 111.8	\$ 1,160.1
Net income (loss) attributable to noncontrolling interest	2.0	0.1	4.9	(0.8)
Net income	87.9	1,111.3	116.7	1,159.3
Income tax provision (benefit)	39.4	(9.0)	64.5	0.8
(Income) loss from discontinued operations, net of tax	(33.5)	60.9	(4.4)	45.1
Gain on sale of discontinued operations, net of tax		(1,163.8)	(2.1)	(1,163.8)
Income from continuing operations before taxes	93.8	(0.6)	174.7	41.4
Interest expense, net	13.5	21.2	41.3	67.9
Depreciation and amortization	24.6	22.8	75.7	68.0
Restructuring and other severance costs	1.4	4.6	7.0	13.2
Equity investment adjustments	9.5		14.7	
Systems/organization establishment expenses	0.7	0.3	2.1	1.5
Acquisition and disposal costs	11.3	2.2	12.9	5.7
Loss on early extinguishment/modification of debt		15.5		15.5
Asset write-downs and other	0.4	(0.7)	2.1	4.0
Gain on previously held equity investment		(16.0)		(16.0)
Foreign exchange (gain) loss on financing activities, net	(55.1)	31.2	(60.9)	41.7
Other	0.5	1.1	0.5	2.2
Total Adjusted EBITDA	\$ 100.6	\$ 81.6	\$ 270.1	\$ 245.1

Liquidity and Capital Resources**Cash Flows**

Operating Activities. Net cash provided by operating activities was \$220.4 million and \$279.6 million for the nine months ended September 30, 2014 and 2013, respectively. This decrease was primarily from lower cash provided from discontinued operations as the sales of Advanced Ceramics and Clay-based additives were completed in 2013. This was partially offset by increased income taxes from higher income before taxes, as well as lower working capital usage related to lower inventory and accounts receivable levels.

Investing Activities. Net cash (used in) provided by investing activities was \$(735.2) million and \$1,474.7 million for the nine months ended September 30, 2014 and 2013, respectively. The decrease was primarily due to net proceeds received of \$2.0 billion from the sale of the Advanced Ceramics segment in August 2013 and the acquisition of a 49% equity interest in Talison in May 2014 for an aggregate amount of

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

\$516.6 million, including professional fees. Capital expenditures from continuing operations for the nine months ended September 30, 2014 and 2013, primarily relate to the expansion of our production capacity for lithium compounds in Chile.

Financing Activities. Net cash used in financing activities was \$322.9 million and \$2,053.6 million for the nine months ended September 30, 2014 and 2013, respectively. In the nine months ended September 30, 2014, we paid dividends to stockholders of \$97.6 million and repurchased common share of Rockwood in the aggregate amount of \$214.7 million. In the nine months ended September 30, 2013, we repaid all of our outstanding borrowings under the term loans under our senior secured credit facility in the aggregate amount of \$911.0 million, repurchased Rockwood common shares in the aggregate amount of \$400 million, acquired the remaining 39% interest in our former Titanium Dioxide Pigments venture from Kemira for a purchase price of 97.5 million (\$130.3 million based on the rate in effect on the date of purchase) and paid dividends to shareholders of \$94.8 million. With regard to financing activities of discontinued operations, we repaid all of our outstanding borrowings under the Titanium Dioxide Pigments facility agreement in the aggregate amount of 394.5 million (\$512.4 million).

Table of Contents

Liquidity

Our primary recurring source of liquidity has been and will continue to be cash generated from the operations of our subsidiaries. In 2014 and future periods, we believe that based on current conditions in our industry and markets, our cash reserves, cash flows from operations and borrowings will be adequate sources of liquidity. However, an economic downturn or recession may have a material adverse impact on our results of operations, cash flows from operations and our liquidity. In addition, we received cash proceeds of \$2.0 billion in August 2013 from the sale of our Advanced Ceramics segment, cash proceeds of \$626.6 million in October 2013 from the sale of our Clay-based Additives business and net cash proceeds of approximately \$950 million before investment banking fees of \$8 million, subject to certain potential post-closing adjustments, in October 2014 from the sale of our TiO₂ Pigments and Other Businesses.

Our primary liquidity requirements are working capital, debt service, capital expenditures, dividend payments and acquisitions. In May 2014, we completed the purchase of a 49% equity interest in Windfield, which is the parent of Talison, thereby creating a joint venture with Tianqi with cash on hand for an aggregate amount of \$516.6 million, which includes the original purchase price of \$475.3 million plus an adjustment for net cash, certain other customary adjustments and professional fees. As part of the transaction, Rockwood Specialties Group GmbH, a wholly-owned subsidiary of Rockwood, granted Tianqi an option to purchase from 20% to 30% of the equity interests in Rockwood Lithium GmbH, which is a wholly-owned subsidiary of Rockwood Specialties Group GmbH. Rockwood Lithium GmbH controls the European and Asian arms of Rockwood's global lithium business. The option is exercisable by Tianqi at any time through December 31, 2016 at an exercise price equal to the trailing 12-month EBITDA of Rockwood Lithium GmbH multiplied by 14, minus the debt of Rockwood Lithium GmbH, calculated based on the (indirect) portion of Rockwood Lithium GmbH that is subject to Tianqi's purchase, subject to adjustments based on the financial condition of Rockwood Lithium GmbH at the time of exercise.

In August 2013, our board of directors increased our quarterly cash dividend to \$0.45 per share. In November 2013, our Board of Directors authorized a new share repurchase program for shares of common stock up to \$500 million to be completed over two years. We began to repurchase these shares in March 2014 and purchased an aggregate amount of \$214.7 million through July 2014. In connection with the proposed merger with Albemarle, we terminated our share repurchase program. See Part II Other Information Item 2. Unregistered Sales of Equity Securities and Use of Proceeds, for a summary of share repurchases in 2014. In addition, see Item 1A. Risk Factors - Dividends and Stock Repurchases There can be no guarantee that we will continue to declare dividends or repurchase our stock in our 2013 Annual Report on Form 10-K.

In addition, our liquidity may be negatively impacted due to funding obligations related to certain pension plans. We have several pension plans located in Germany, the United Kingdom and the United States. We have entered into long-term funding arrangements related to the Dynamit Nobel Pensionskasse multiemployer pension plan located in Germany and our defined benefit pension plans located in the United Kingdom. See Item 8. Financial Statements and Supplementary Data - Note 14, Employee Benefit Plans, of our 2013 Annual Report on Form 10-K for further details for further details. Our funding obligations could change significantly based on the investment performance of the pension plan assets and changes in actuarial assumptions for local statutory funding valuations.

For our continuing operations, our overall unfunded position in our defined benefit plans as of September 30, 2014 is \$251.7 million and the funded status of our plans is 35%. However, 84% of our unfunded position is concentrated in plans mostly in Germany, where funding is neither legally required nor customary. When only the plans that have funding requirements are considered, the unfunded portion is \$39.7 million and the funded status is 77%.

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

The funding of our pension plans was in compliance with local requirements as of September 30, 2014. Almost all of our pension obligations are long-term in nature. Our annual cash outflows to meet funding requirements and benefit obligations historically have not significantly exceeded our pension expense. The measurement of our pension obligations and plan assets is dependent on a variety of actuarial assumptions and investment performance and is assessed annually.

As of September 30, 2014, we had cash and cash equivalents of \$710.0 million of which \$637.7 million was held by our foreign subsidiaries. This does not include proceeds from the sale of the TiO₂ Pigments and Other Businesses that were received on October 1, 2014. We believe that the amount of funds held by our foreign subsidiaries as of such date not readily convertible into Euros or United States dollars was \$3.7 million. Based on our cash balances, domestic cash flows from operations and our other sources of liquidity, we believe we have sufficient access to funds for our expected future domestic liquidity needs. Our intent is to permanently invest foreign funds outside the United States and our current plans do not demonstrate a need to repatriate them to fund our operations or dividends in the United States. Further, if the cash and cash equivalents held by our foreign subsidiaries were needed for our operations or dividends in the United States, such repatriation may require accruals for certain federal taxes, but will not result in cash taxes to the extent of our U.S. net operating loss carryforwards. Among other things, we may use available cash to invest in our business, reduce our debt, pay dividends, repurchase shares or fund acquisitions.

As of September 30, 2014, we had actual total indebtedness of \$1,288.3 million, consisting primarily of the 2020 Notes (\$1,249.3 million). See Item 8. Financial Statements and Supplementary Data - Note 10, Long-Term Debt, in our 2013 Annual Report on Form 10-K for a detailed discussion of these borrowings.

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

Table of Contents

2020 Notes. As of September 30, 2014, the outstanding amount of the 2020 Notes was \$1,249.3 million. The indenture governing the 2020 Notes contains certain negative and affirmative covenants. For example, the indenture prohibits us from incurring additional indebtedness, subject to satisfying on a pro forma basis a fixed-charge coverage ratio for which the most recently ended four fiscal quarters is at least 2.00 to 1, subject to certain exceptions. For the four-fiscal-quarter period ended September 30, 2014, the fixed-charge coverage ratio equaled 10.25 to 1. In addition, the indenture prohibits us from making certain restricted payments subject to satisfying a fixed-charge coverage ratio, subject to certain exceptions. See Item 8. Financial Statements and Supplementary Data - Note 10, Long-Term Debt, in our 2013 Annual Report on Form 10-K for further details. In April 2014, we announced that our wholly-owned subsidiary, RSGI, commenced a cash tender offer (the Asset Sale Offer) to purchase up to \$400 million in the aggregate principal amount of its 2020 Notes. The Asset Sale Offer was made pursuant to the indenture governing the 2020 Notes as a result of the Company's sale of its Advanced Ceramics segment and Clay-based Additives business. The Asset Sale Offer expired in May 2014 with \$0.7 million of the principal amount of the Notes tendered and accepted.

As of September 30, 2014, the weighted-average interest rate for the Company is 4.6%, excluding deferred financing costs.

Given our use of Adjusted EBITDA (see Note Regarding Non-GAAP Financial Measures for the definition of Adjusted EBITDA and management's uses of Adjusted EBITDA) as a liquidity measure, the following table presents a reconciliation of net cash provided by operating activities from continuing operations to Adjusted EBITDA from continuing operations:

(\$ in millions)	Nine months ended September 30,	
	2014	2013
Net cash provided by operating activities from continuing operations	\$ 141.5	\$ 91.8
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions	0.9	60.5
Current portion of income tax provision	49.1	2.0
Interest expense, net, excluding amortization of deferred financing costs	39.3	64.2
Restructuring and other severance costs	7.0	13.2
Equity investment adjustments	14.7	
Systems/organization establishment expenses	2.1	1.5
Acquisition and disposal costs	12.9	5.7
Asset write-downs and other	2.1	4.0
Other	0.5	2.2
Total Adjusted EBITDA from continuing operations	\$ 270.1	\$ 245.1

Contractual Obligations

The Company is obligated to make future payments under various contracts such as debt agreements (including scheduled cash interest payments), operating lease agreements, and unconditional purchase obligations. A discussion of these contractual obligations is included in our 2013 Annual Report on Form 10-K. There have been no significant changes to these contractual obligations as of September 30, 2014.

Capital Expenditures

Our capital expenditures for continuing operations include replacements of worn, obsolete or damaged equipment as well as investments in new equipment and plants. For the nine months ended September 30, 2014 and 2013, capital expenditures for continuing operations were \$134.4 million and \$128.7 million, respectively, and were primarily due to the expansion of our production capacity for lithium compounds in Chile. Capital expenditures for discontinued operations were \$126.2 million and \$134.7 million for the nine months ended September 30, 2014 and 2013, respectively, which includes the new iron oxide plant in the Color Pigments and Services business in Augusta, Georgia.

Table of Contents

Capital expenditures for continuing operations for each of our reporting segments are provided in the following table:

(\$ in millions)	Nine Months Ended September 30,			
	2014		2013	
Lithium	\$	115.0	\$	111.7
Surface Treatment		18.5		15.5
Other		0.9		1.5
Total	\$	134.4	\$	128.7

We may incur future costs for capital improvements and general compliance under Safety, Health and Environmental (SHE) laws. For the year ended December 31, 2013, our capital expenditures for continuing operations for SHE matters totaled \$6.0 million, excluding costs to maintain and repair pollution control equipment. For 2014, we estimate capital expenditures for compliance with SHE laws to be at similar levels; however, because capital expenditures for these matters are subject to changes in and new SHE laws, we cannot provide assurance that our recent expenditures will be indicative of future amounts required to comply with any such laws.

Recent Accounting Standards

See Item 1. Financial Statements (Unaudited) - Note 1, Basis of Presentation and New Accounting Standards, for a discussion of recent accounting standards.

Off-Balance Sheet Arrangements

In the normal course of business, we incur obligations which include guarantees related to contract completion, regulatory compliance and product performance. Under certain circumstances, these obligations are supported through the issuance of letters of credit and other bank guarantees. As of September 30, 2014, we had approximately \$24.5 million of letters of credit and other bank guarantees, of which \$22.8 million will expire in 2014 through 2015, and had the ability to issue additional letters of credit up to \$8.1 million. The remaining guarantees have no specified expiration date. Included in the \$24.5 million of letters of credit and the other bank guarantees noted above is \$7.3 million of letters of credit that guarantee existing environmental liabilities recorded on the balance sheet. In the opinion of management, such obligations will not significantly affect our financial position, results of operations or cash flows, as we anticipate fulfilling our performance obligations.

Commitments and Contingencies

See Item 1. Financial Statements (Unaudited) - Note 17, Commitments and Contingencies, for a discussion of the Company's Commitments and Contingencies.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities.

In our 2013 Annual Report on Form 10-K, our significant accounting policies are described in Note 1, Basis of Presentation and Significant Accounting Policies, and the critical accounting policies and estimates are described in the Management's Discussion and Analysis of Financial Condition and Results of Operations section. There have been no significant changes to these critical accounting policies and estimates as of September 30, 2014.

Forward-Looking Statements

This document contains forward-looking statements. Forward-looking statements within the context of the Private Securities Litigation Reform Act of 1995 are not statements of historical fact and may involve a number of risks and uncertainties. Forward-looking statements give our current expectations or forecasts of future events and estimates of amounts not yet determinable. We have used the words anticipate, estimate, expect, project, intend, plan, believe, predict, could, may and other words and terms of similar meaning, including references to assumptions, to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those expressed in or implied by these forward-looking statements. In particular,

Table of Contents

these factors include, among other things:

- completion of the announced transaction with Albemarle Corporation;
- our business strategy;
- our ability to complete our previously announced divestiture;
- our uses of the cash and cash equivalents from the completed divestitures or expected to be completed divestiture;
- the prospects of, and our outlook for, our businesses;
- changes in the general economic conditions in Europe and North America and in other locations in which we currently do business;
- competitive pricing or product development activities affecting demand for our products;
- technological changes affecting production of our materials;
- fluctuations in interest rates, exchange rates and currency values;
- availability and pricing of raw materials;
- governmental and environmental regulations and changes in those regulations;
- fluctuations in energy prices;
- changes in the end-use markets in which our products are sold;
- hazards associated with chemicals manufacturing;
- our ability to access capital markets;
- our high level of indebtedness;
- risks associated with negotiating, consummating and integrating acquisitions;
- risks associated with competition and the introduction of new competing products, especially from the Asia-Pacific region;
- risks associated with international sales and operations; and
- risks associated with information security.

You should keep in mind that any forward-looking statements made by us in this document or elsewhere speak only as of the date on which we make them. New risks and uncertainties come up from time to time, including those contained in our Form 10-K and as updated herein, and it is impossible for us to predict these events or how they may affect us. We disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are primarily exposed to market risk from changes in foreign currency exchange rates and commodity prices. We manage our exposure to these market risks through regular operating and financing activities and, in certain cases, through the use of derivatives. When used, derivatives are employed as risk management tools and not for trading purposes. A discussion and analysis of the Company's market risk is included in our 2013 Annual Report on Form 10-K. There have been no significant changes to these market risks as of September 30, 2014.

Item 4. Controls and Procedures

Our disclosure controls and procedures are designed to ensure that (a) information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive and principal financial officer), to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive and principal financial officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014 and concluded that, as of September 30, 2014, our disclosure controls and procedures are effective to accomplish their objectives at the reasonable assurance level.

There were no changes in our internal control over financial reporting during the third quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in legal proceedings from time to time in the ordinary course of our business, including with respect to product liability, intellectual property and environmental matters. In addition, we may be required to make indemnity payments in connection with certain product liability and environmental claims. See Item 1, Business, and Item 1A, Risk Factors, Indemnities We may be subject to indemnity claims and liable for other payments relating to properties or businesses we have divested ; Product Liability Due to the nature of our business and products, we may be liable for damages arising out of product liability claims ; and Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims in our 2013 Annual Report on Form 10-K.

Shareholder Litigation

On July 22, 2014, a putative class action complaint was filed in the Chancery Division of the Superior Court of New Jersey, Mercer County relating to the Merger. On July 24, 2014, an additional putative class action complaint was filed in the Chancery Division of the Superior Court of New Jersey, Mercer County relating to the Merger. Both suits name the same plaintiff but were filed by different law firms. On August 1, 2014 and August 12, 2014, three additional putative class action complaints were filed in the Court of Chancery of the State of Delaware relating to the Merger. The lawsuits filed in New Jersey, Thwaites v. Rockwood Holdings Inc., et al., (Thwaites I) and Thwaites v. Rockwood Holdings, Inc., et al. (Thwaites II), and the lawsuits filed in Delaware, Rudman Partners, L.P. v. Rockwood Holdings, Inc., et al., Riley v. Rockwood Holdings, Inc., et al., and North Miami Beach Police Officers & Firefighters Retirement Plan v. Rockwood Holdings, Inc., et al., each name Rockwood, its directors and Albemarle as defendants. Thwaites II and the cases filed in Delaware also name Merger Sub as a defendant. The lawsuits (collectively the Actions), which contain substantially similar allegations, include allegations that the Rockwood board of directors breached their fiduciary duties in connection with the Merger by failing to ensure that Rockwood shareholders will receive the maximum value for their shares, failing to conduct an appropriate sale process and putting their own interests ahead of Rockwood shareholders. Rockwood and Albemarle are alleged to have aided and abetted the alleged fiduciary breaches. The lawsuits seek a variety of equitable relief, including enjoining the Rockwood board of directors from proceeding with the proposed Merger unless and until they have acted in accordance with their fiduciary duties to maximize shareholder value and rescission of the Merger to the extent implemented, in addition to damages arising from the defendants alleged breaches and attorneys fees and costs. On August 12, 2014, the plaintiff in Thwaites I filed a Notice of Voluntary Dismissal Without Prejudice as to all defendants. On August 27, 2014, the Delaware Court of Chancery ordered the three Delaware cases consolidated and appointed co-lead counsel. The court also ordered that no response to the complaints shall be due until after plaintiffs in the cases filed in Delaware file an amended consolidated complaint. Plaintiffs in the cases filed in Delaware have yet to file an amended consolidated complaint. On September 19, 2014, the plaintiff in Thwaites II filed an amended complaint including additional allegations that the registration statement failed to disclose material information. On October 6, 2014, the parties in Thwaites II filed a stipulation whereby the plaintiff agreed to extend the time for defendants to answer or otherwise move to dismiss the amended complaint to December 8, 2014, and the defendants agreed to provide certain limited discovery without prejudice to any and all defenses prior to answering or otherwise moving to dismiss the amended complaint.

On November 6, 2014, the defendants entered into a memorandum of understanding (the MOU) with the plaintiffs providing for the settlement of all claims in the Actions. Under the MOU, and subject to court approval and definitive documentation, the plaintiffs and the putative class settle and release, against the named defendants and their affiliates and agents, all claims in the Actions and any potential claim related to (i) the Merger or the Merger Agreement, (ii) any deliberations or negotiations in connection with the Merger or the Merger Agreement, including the process of deliberation or negotiation by the defendants, and any of their respective officers, directors, principals, partners or advisors, (iii) the consideration to be received by class members in connection with the Merger, (iv) the Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission by the Company on October 1, 2014, or any other disclosures made available or filed relating to the

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

Merger, (v) the statutory or fiduciary obligations of the defendants and certain related persons in connection with the Merger, (vi) the fees, expenses or costs incurred with prosecuting, defending or settling the Actions, or (vii) any of the allegations in any complaint or amendment(s) thereto filed in the Actions.

Table of Contents

While the Company and Albemarle believe that no supplemental disclosure is required under applicable laws, in order to avoid the risk of the putative stockholder class actions delaying or adversely affecting the Merger and to minimize the expense of defending such actions, the Company and Albemarle have agreed, pursuant to the terms of the MOU, to make certain supplemental disclosures related to the proposed Merger. The MOU contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to the Company's stockholders. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Superior Court of New Jersey, Mercer County will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the proposed Merger, the Merger Agreement and any disclosure made in connection therewith, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel will file a petition in the Superior Court of New Jersey, Mercer County for an award of attorneys' fees and expenses to be paid by the Company or its successor. The settlement, including the payment by the Company or any successor thereto of any such attorneys' fees, is also contingent upon, among other things, the Merger becoming effective under Delaware law. There can be no assurance that the Superior Court of New Jersey, Mercer County will approve the settlement contemplated by the MOU. In the event that the settlement is not approved and such conditions are not satisfied, the defendants will continue to vigorously defend against the allegations in the Actions, which the defendants believe are without merit.

We do not believe that any individual legal proceeding, government action or arbitration is likely to have a material effect on our financial condition, results of operations or cash flows. However, we cannot predict the outcome of any such actions or the potential for such future actions, and cannot predict whether the resolution of such actions could have a material effect on our financial condition, results of operations or cash flows in any quarterly or annual reporting period. See Note 17, "Commitments and Contingencies," in this Form 10-Q and Item 3, Legal Proceedings in our 2013 Annual Report on Form 10-K.

Item 1A. Risk Factors.

A discussion of the Company's risk factors is included in our 2013 Annual Report on Form 10-K. There have been no material changes to these risk factors, except for the following related to the announced proposed Merger between Rockwood and Albemarle:

We cannot provide any assurance that our Merger with Albemarle will be completed.

Completion of our Merger with a wholly-owned subsidiary of Albemarle is subject to customary closing conditions described in the Merger Agreement, including, among others, (i) adoption by Rockwood stockholders of the Merger Agreement, (ii) approval by Albemarle stockholders of the issuance of shares of Albemarle common stock to be issued in the Merger and (iii) obtaining antitrust and other regulatory approval in the United States and certain other jurisdictions.

Although Rockwood and Albemarle have agreed in the Merger Agreement to use reasonable best efforts to take or cause to be taken all actions necessary, proper or advisable to comply promptly with all legal requirements which may be imposed on such party or its subsidiaries with respect to the Merger, these and other conditions to the Merger may fail to be satisfied. In addition, satisfying the

Table of Contents

conditions to the Merger may take longer than, and could cost more than, Rockwood expects. Any delay in completing the Merger may adversely affect the benefits that Rockwood and Albemarle expect to achieve from the Merger and the integration of their businesses.

Failure to complete the Merger could materially adversely impact our financial condition, results of operations and stock price.

As described in the preceding risk factor, the conditions to the completion of the Merger may not be satisfied. If the Merger is not completed for any reason, we may be subject to several risks, including the following:

- being required to pay significant transaction costs relating to the Merger, including under certain circumstances a termination fee of \$180 million to Albemarle, and financial advisory, legal and accounting fees and expenses;
- having had the focus of our management diverted from day-to-day operations and other opportunities that could have been beneficial to us; and
- our customers and suppliers may seek to modify their relationships with us and our ability to attract new employees and retain existing employees may be harmed by uncertainties associated with the Merger.

Any such events could have a material adverse impact on our financial condition, results of operations and stock price.

The Merger Agreement restricts the conduct of our business prior to the completion of the Merger and limits our ability to pursue an alternative acquisition proposal to the Merger.

Under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Merger which may adversely affect our ability to exercise certain of our business strategies. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to the completion of the Merger or termination of the Merger Agreement.

In addition, the Merger Agreement prohibits us from (A) soliciting or, subject to certain exceptions set forth in the Merger Agreement, knowingly facilitating or encouraging any inquiry or proposal relating to alternative business combination transactions, or (B) subject to certain exceptions set forth in the Merger Agreement, engaging in discussions or negotiations regarding, or providing any nonpublic information in connection with, proposals relating to alternative business combination transactions. The Merger Agreement also requires us to pay Albemarle a termination fee of \$180 million if the Merger Agreement is terminated under certain circumstances, including if we terminate to enter into an agreement that provides for a Superior Company Proposal (as defined in the Merger Agreement). These provisions limit our ability to pursue offers from third parties that could result in greater value to our stockholders than the value resulting from the Merger. The termination fee may also discourage third parties from pursuing an alternative acquisition proposal with respect to us.

Because the market value of Albemarle common stock that our stockholders will receive in the Merger may fluctuate, our stockholders cannot be sure of the market value of the Albemarle stock portion they will receive in the Merger.

The stock portion of the Merger Consideration that Rockwood stockholders will receive is a fixed number of shares of Albemarle common stock; it is not a number of shares with a particular fixed market value. The market value of Albemarle common stock and Rockwood common stock at the effective time of the merger may vary significantly from their respective values on the date the Merger Agreement was executed or at other later dates, including the date on which Rockwood stockholders vote on the adoption of the Merger Agreement. Because the exchange ratio relating to the stock portion of the Merger Consideration will not be adjusted to reflect any changes in the market value of Albemarle common stock or Rockwood common stock, the market value of the Albemarle common stock issued in connection with the Merger and the Rockwood common stock converted in connection with the Merger may be higher or lower than the values of those shares on earlier dates. Stock price changes may result from a variety of factors, including changes in the business, operations or prospects of Albemarle or Rockwood, regulatory considerations, and general business, market, industry or economic conditions.

If the Merger is completed, the combined company may not be able to successfully integrate the business of Rockwood and Albemarle and therefore may not be able to realize the anticipated benefits of the Merger.

Because a portion of the Merger Consideration consists of Albemarle common stock, realization of the anticipated benefits in the Merger will depend, in part, on the combined company's ability to successfully integrate the business and operations of Albemarle and Rockwood. The combined company will be required to devote significant management attention and resources to integrating its business practices, operations and support functions. The diversion of management's attention and any delays or difficulties encountered in connection with the Merger and the integration of the two companies' operations could have an adverse effect on the business, financial results, financial condition or stock price of Albemarle (as the combined company following the Merger). The integration process may

Table of Contents

also result in additional and unforeseen expenses. There can be no assurance that the contemplated synergies anticipated from the Merger will be realized.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

The following table summarizes our repurchases of equity securities for the three month period ended September 30, 2014:

	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (a)	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (\$ in millions) (b)
July 1, 2014 - July 31, 2014	6,469	\$ 74.87	6,469	\$
August 1, 2014 - August 31, 2014				
September 1, 2014 - September 30, 2014				
	6,469		6,469	

(a) In November 2013, we announced that our board of directors authorized the repurchase of up to an aggregate amount of \$500 million of Rockwood common stock over two years, and began repurchasing these shares in March 2014.

(b) In connection with the proposed merger with Albemarle, we terminated our share repurchase program in July 2014.

Rockwood's operations are conducted through its subsidiaries and its ability to make payments on any obligations it may have is dependent on the earnings and the distribution of funds from its subsidiaries. As a result, we are dependent upon cash dividends and distributions and other transfers from our subsidiaries to make dividend payments on our common stock. The indenture governing the 2020 Notes limits the ability of RSGI to make payments to us for regularly cash quarterly dividends on our common stock to an amount not to exceed \$0.45 per share, and limits our ability to repurchase shares of our common stock, subject to certain exceptions.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503 (a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 of this quarterly report. There were no items to report for the period ended September 30, 2014.

Item 5. Other Information.

None.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page to this report. Such Exhibit Index is hereby incorporated by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKWOOD HOLDINGS, INC.

By:

/s/ ROBERT J. ZATTA

Robert J. Zatta

Chief Executive Officer and Chief Financial Officer
(principal executive and principal financial officer)

Date: November 7, 2014

Table of Contents

Exhibit Index

Exhibit No.	Description of Exhibit
2.1 (A)	Agreement and Plan of Merger, dated July 15, 2014, between Rockwood Holdings, Inc., Albemarle Corporation and Albemarle Holdings Corporation.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.
95.1*	Mine Safety Disclosure Exhibit
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF.XBRL	XBRL Taxonomy Extension Definition Linkbase

* Filed herewith.

(A) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 18, 2014.