Rockwood Holdings, Inc.
Form 10-Q
November 14, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

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

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 11, 2005, there were 73,778,926 outstanding shares of common stock, par value $0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions except per share amounts; shares in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
NET SALES	$ 771.7	$ 533.6	$ 2,358.8	$ 1,027.9
COST OF PRODUCTS SOLD	538.2	403.0	1,636.7	756.3
GROSS PROFIT	233.5	130.6	722.1	271.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	143.8	106.1	451.5	177.2
RESTRUCTURING CHARGES, net	2.9	0.1	8.7	0.1
MANAGEMENT SERVICES AGREEMENT TERMINATION FEE	10.0		10.0	
OPERATING INCOME	76.8	24.4	251.9	94.3
OTHER INCOME (EXPENSES)				
Interest expense, net	(55.4)	(53.8)	(177.6)	(100.0)
Loss on early extinguishment of debt	(26.6)		(26.6)	
Refinancing expenses		(2.8)		(2.8)
Foreign exchange gain (loss), net	2.1	(43.9)	116.1	(35.3)
Other, net				(4.0)
Net	(79.9)	(100.5)	(88.1)	(142.1)
(LOSS) INCOME BEFORE TAXES AND MINORITY INTEREST	(3.1)	(76.1)	163.8	(47.8)
INCOME TAX PROVISION (BENEFIT)	10.8	(16.5)	52.5	(1.6)
NET (LOSS) INCOME BEFORE MINORITY INTEREST	(13.9)	(59.6)	111.3	(46.2)
MINORITY INTEREST	0.6		2.3	
NET (LOSS) INCOME	$ (13.3)	$ (59.6)	$ 113.6	$ (46.2)
Per share data:				
BASIC (LOSS) EARNINGS PER COMMON SHARE	$ (0.25)	$ (1.50)	$ 2.02	$ (1.80)
DILUTED (LOSS) EARNINGS PER COMMON SHARE	$ (0.25)	$ (1.50)	$ 1.98	$ (1.80)
Weighted average number of basic shares outstanding	61,845	40,354	54,197	27,326
Weighted average number of diluted shares outstanding	61,845	40,354	55,092	27,326

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 133.8	$ 111.3
Accounts receivable, net	477.0	500.9
Inventories	460.5	476.9
Deferred income taxes	36.0	32.5
Prepaid expenses and other current assets	69.7	112.0
Total current assets	1,177.0	1,233.6
PROPERTY, PLANT AND EQUIPMENT, net	1,443.5	1,566.8
GOODWILL	1,647.6	1,805.9
OTHER INTANGIBLE ASSETS, net	555.7	660.1
DEFERRED DEBT ISSUANCE COSTS, net	58.5	86.0
OTHER ASSETS	39.7	47.1
TOTAL ASSETS	$ 4,922.0	$ 5,399.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 274.4	$ 326.1
Income taxes payable	26.4	19.4
Accrued compensation	90.6	84.5
Accrued expenses and other current liabilities	243.7	263.4
Long-term debt, current portion	53.7	47.2
Total current liabilities	688.8	740.6
LONG-TERM DEBT	2,783.7	3,333.4
PENSION AND RELATED LIABILITIES	343.3	375.0
DEFERRED INCOME TAXES	55.9	41.8
OTHER LIABILITIES	127.0	219.2
Total liabilities	3,998.7	4,710.0
MINORITY INTEREST	25.4	31.2
REDEEMABLE CONVERTIBLE PREFERRED STOCK ($0.01 par value, $30.9 aggregate liquidation preference; 50 shares authorized; 25 shares issued and outstanding at December 31, 2004)		34.3
STOCKHOLDERS' EQUITY:		
Common stock ($0.01 par value, 400,000 shares and 75,296 shares authorized, respectively; 73,873 and 50,404 shares issued, respectively, and 73,778 and 50,310 shares outstanding, respectively)	0.7	0.5
Paid-in capital	1,149.9	718.6
Accumulated other comprehensive income	99.2	370.4
Accumulated deficit	(349.8)	(463.4)
Treasury stock, at cost	(1.4)	(1.4)
Other	(0.7)	(0.7)

	September 30, 2005	December 31, 2004
Total stockholders' equity	897.9	624.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,922.0	$ 5,399.5

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 113.6	$ (46.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	154.7	60.4
Deferred financing costs amortization	8.3	4.5
Refinancing expenses		1.8
Loss on early extinguishment of debt (including $13.4 million of non-cash write-offs on deferred financing costs)	26.6	
Foreign exchange (gain) loss	(116.1)	23.5
Non-cash interest expense on pay-in-kind loans	24.1	24.5
Fair value adjustment of derivatives	(12.6)	(6.8)
Bad debt provision	0.8	1.2
Deferred income taxes	18.5	(12.6)
Minority interest	(2.3)	
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(15.0)	(12.7)
Inventories	(23.1)	32.1
Prepaid expenses and other assets	(4.9)	5.3
Accounts payable	20.6	(13.7)
Income taxes payable	10.7	(1.5)
Accrued expenses and other liabilities	(21.3)	26.8
Other operating activities, net		(0.5)
Net cash provided by operating activities	182.6	86.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees paid, net of cash acquired		(2,058.5)
Post closing purchase price consideration	(16.1)	
Capital expenditures, excluding capital leases	(123.0)	(38.8)
Proceeds on sale of property, plant and equipment	0.2	0.8
Net cash used in investing activities	(138.9)	(2,096.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	435.7	426.5
Proceeds from senior secured credit facilities	331.0	2,307.1
Repayment of senior secured credit facilities	(338.4)	
Long-term debt repayments from IPO proceeds	(370.7)	
Payments on other long-term debt	(26.2)	(583.3)
Redemption of redeemable convertible preferred stock from IPO proceeds	(38.5)	
Costs related to early extinguishment of debt	(13.2)	
Net cash (used in) provided by financing activities	(20.3)	2,150.3
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(0.9)	1.5
NET INCREASE IN CASH AND CASH EQUIVALENTS	22.5	141.4
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	111.3	41.9
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 133.8	$ 183.3

	For the Nine Months Ended September 30,			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Interest paid, net	$	128.6	$	89.3
Income taxes paid, net of refunds	$	24.9	$	12.4
NON-CASH INVESTING ACTIVITIES				
Acquisition of equipment under capital leases	$	4.9	$	

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES
Notes To Condensed Consolidated Financial Statements (Unaudited)

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

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

The Company is controlled by affiliates of Kohlberg Kravis Roberts & Co. L.P. ("KKR") and DLJ Merchant Banking Partners III, L.P. ("DLJMB"), and was formed in connection with an acquisition of certain assets, stock and businesses from Laporte plc ("Laporte") on November 20, 2000.

On July 31, 2004, the Company completed the acquisition of four businesses of Dynamit Nobel from mg technologies ag and Mg North America Holdings, Inc. The businesses acquired are focused on highly specialized markets and consist of: titanium dioxide pigments; surface treatment and lithium chemicals; ceramics; and pharmaceutical intermediates. See Note 3,"Acquisitions" for a more complete description of the Dynamit Nobel Acquisition.

On August 22, 2005, the Company completed an initial public offering ("IPO") of 23,469,387 shares of its common stock, which included 3,061,224 shares issued and sold as a result of the underwriters' exercise of the over-allotment option. See Note 2, "Initial Public Offering" for further details.

Basis of Presentation The accompanying condensed consolidated balance sheets and the related condensed consolidated statements of operations and cash flows of Rockwood are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The interim financial statements included herein are unaudited. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America ("US GAAP"), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with US GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's Registration Statement on Form S-1 (Registration No. 333-122764). In the opinion of management, this information contains all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the periods presented.

The results of operations and cash flows of the businesses acquired in the Dynamit Nobel Acquisition, the Groupe Novasep combination and the pigments and dispersions business of Johnson Matthey Plc. are included in the condensed consolidated financial statements for the three and nine-month periods ended September 30, 2005. The results of the Dynamit Nobel Acquisition prior to the acquisition date of July 31, 2004 are not included in the three and nine-month periods ended September 30, 2004. The results of the Groupe Novasep combination are not included in the three and nine-month periods ended September 30, 2004 as the combination was completed on December 31, 2004. The results of the pigments and dispersions business of Johnson Matthey Plc. prior to the acquisition date of September 2, 2004 are not included in the three and nine-month periods ended September 30, 2004.

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

Effective July 18, 2005, the Company's Board of Directors authorized a 34.22553019-for-one stock split of its common stock. As a result of the stock split, the accompanying condensed consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the

transfer of the additional paid-in-capital to par value. All share amounts have been restated to reflect the retroactive effect of the stock split for all periods presented.

Nature of Operations/ Segment Reporting The Company is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials. The Company operates in various business lines within its seven reportable segments consisting of: (1) Performance Additives, which includes color pigments and services, timber treatment chemicals, clay-based additives, and water treatment chemicals, (2) Specialty Compounds, which consists of plastic compounds, (3) Electronics, which consists of electronic chemicals, wafer reclaim and photomasks, (4) Specialty Chemicals, which includes lithium compounds and chemicals, metal surface treatment chemicals, and synthetic metal sulfides, (5) Titanium Dioxide Pigments, which consists of titanium dioxide pigments, and zinc- and barium-based compounds, (6) Advanced Ceramics, which includes ceramic-on-ceramic ball head and liner components used in hip-joint prostheses systems, ceramic cutting tools and a range of other ceramic components, and (7) Groupe Novasep (formerly known as Custom Synthesis), which includes hazardous chemistry and chiral technologies for the synthesis of pharmaceutical compounds.

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

Use of Estimates The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. These estimates include, among other things, assessing the collectibility of accounts receivable, the use and recoverability of inventory, the valuation of deferred tax assets, impairment of goodwill as well as property, plant and equipment and other intangible assets, 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. See Note 3, "Acquisitions."

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

Related party transactions Rockwood has engaged in transactions with certain related parties including Rockwood Specialties Group, Inc., KKR, DLJMB and affiliates of each.

Through the date of the Dynamit Nobel Acquisition, KKR provided consulting and management advisory services to Rockwood for an annual fee of $0.6 million. Since the date of the Dynamit Nobel Acquisition, KKR and DLJ Merchant Banking III, L.P. and its affiliates ("DLJMB") provided the Company with consulting and management advisory services for an annual fee of $2.1 million, increasing 5% annually. In connection with the IPO, the parties agreed to terminate the management services agreement for an aggregate consideration of $10.0 million.

Further, the 12% senior discount notes, issued by our indirect subsidiary, Rockwood Specialties International, Inc., were held by affiliates of KKR. As a result of the completion of the IPO, the Company used $89.2 million of the proceeds to redeem the outstanding principal amount of the senior

discount notes (including accreted and unpaid interest). Interest on the senior discount notes was $1.4 million and $2.4 million for the three months ended September 30, 2005 and 2004, respectively, and $6.4 million and $6.9 million for the nine months ended September 30, 2005 and 2004, respectively. As of December 31, 2004, the 12% senior discount notes totaled $82.8 million.

Revenue Recognition The Company recognizes revenue when the earnings process is complete, except for approximately 2% of consolidated revenues derived from long-term contracts accounted for under the percentage of completion method within the Groupe Novasep segment. Product sales are recognized when products are shipped to the customer in accordance with the terms of the contract of sale, title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. Accruals are made for sales returns and other allowances based on the Company's experience. Revenue under service agreements is realized when the service is performed.

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

Accretion on Senior Discount Notes The Company's senior discount notes accrete principal value for a portion of their term. The Company records such accretion as interest expense for financial reporting purposes. As a result of the completion of the IPO, the Company used $89.2 million of the proceeds to redeem the outstanding principal amount of the senior discount notes (including accreted and unpaid interest).

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

Pension, Postemployment and Postretirement Costs Defined benefit costs and liabilities have been determined in accordance with SFAS 87, *Employers' Accounting for Pensions*. Other postretirement benefit costs and liabilities have been determined in accordance with SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Postemployment benefit costs and liabilities have been determined in accordance with SFAS 112, *Employers' Accounting for Postemployment Benefits*.

Income Taxes Income taxes are determined in accordance with SFAS 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts and the corresponding tax carrying amounts of assets and liabilities. Deferred tax assets are also recognized for tax loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence weighted toward evidence that is objectively verifiable. Deferred taxes are not provided on the undistributed earnings of

subsidiaries as such amounts are considered to be permanently invested or could be distributed to the parent company in a tax free manner.

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

- Future reversals of existing taxable temporary differences
- Future taxable income exclusive of reversing temporary differences and carry forwards
- Taxable income in prior carry back year(s) if carryback is permitted under the tax law
- Tax planning strategies that would, if necessary, be implemented to:

(1) Accelerate taxable amounts to utilize expiring carryforwards

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

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

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

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

The Company will also consider the following positive evidence in the above scenarios, if present:

- Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.
- An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset.

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

Comprehensive income is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	($ in millions)			
Net (loss) income	$ (13.3)	$ (59.6)	$ 113.6	$ (46.2)
Foreign currency translation	(5.4)	91.2	(125.0)	81.9
Net investment hedge, net of tax	(10.3)		20.9	
Intercompany foreign currency transactions	(5.3)		(167.1)	
Total comprehensive (loss) income	$ (34.3)	$ 31.6	$ (157.6)	$ 35.7

In November 2004, the Company completed the sale of €375.0 million aggregate principal amount of 7.625% senior subordinated notes and $200.0 million aggregate principal amount of 7.500% senior subordinated notes, both due in 2014 ("2014 Notes"). In connection with the 2014 Notes, the Company entered into cross-currency interest rate swaps with a five-year term and a notional amount of €155.6 million that effectively convert the U.S. dollar fixed-rate debt in respect of the dollar notes sold into euro fixed-rate debt. The Company has designated this contract as a hedge of the foreign currency exposure of its net investment in its euro denominated operations. There was no ineffective portion of the net investment hedge as of September 30, 2005. The Company does not expect any of the loss on the net investment hedge residing in other comprehensive income at September 30, 2005 to be reclassified into earnings during the subsequent twelve months.

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

Recent Accounting Pronouncements The Company plans to implement the financial accounting standards listed below on January 1, 2006. The Company is still in the process of evaluating SFAS 123R as to its potential impact but does not otherwise expect any significant impact on its financial position, results of operations, or cash flows from the implementation of these standards.

SFAS 151	Inventory Costs
SFAS 153	Exchanges of Nonmonetary Assets
SFAS 154	Accounting Changes and Error Corrections
SFAS 123R	Share Based Payment

SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), requiring that such items be recognized as current-period charges. This statement eliminates a narrow difference between the Financial Accounting Standards Board

("FASB") and International Accounting Standards Board ("IASB") accounting standards to improve the comparability of cross-border financial reporting.

SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement eliminates a narrow difference between the FASB and IASB accounting standards to improve the comparability of cross-border financial reporting.

SFAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and SFAS Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that (1) a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle and (2) correction of errors in previously issued financial statements should be termed a "restatement". This statement eliminates a narrow difference between the FASB and IASB accounting standards to improve the comparability of cross-border financial reporting.

SFAS 123R revises SFAS 123, *Accounting for Stock-Based Compensation,* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which the employee is required to provide services in exchange for the award. This standard eliminates the use of the intrinsic value method of accounting for share based payments as previously provided in APB 25. The Company will apply SFAS 123R on a modified prospective basis.

FASB Interpretation ("FIN") 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 will be effective December 31, 2005 for the Company. The adoption of FIN 47 is not expected to have a material impact on the Company.

In May 2004, the FASB issued FASB Staff Position ("FSP") 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* clarifying the accounting and disclosure requirements for employers with postretirement benefit plans that have been or will be affected by the passage of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act introduced two new features to Medicare that an employer needs to consider in measuring its obligation and net periodic postretirement benefit costs. FSP 106-2 was effective July 1, 2004. The adoption of FSP 106-2 did not have a material impact on the Company.

Redeemable Convertible Preferred Stock During 2003, the Company issued redeemable convertible preferred stock to an affiliate of KKR who controls a majority of directors of the Company. See Note 10, "Redeemable Convertible Preferred Stock." As a result of the completion of the IPO, the Company used $38.5 million of the proceeds to redeem all outstanding shares of the redeemable convertible preferred stock, including a redemption premium and accumulated and unpaid dividends.

Stock-Based Compensation At September 30, 2005, the Company had in place the 2005 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. (the "Plan"). The Company accounts for the Plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee

compensation related to this Plan is reflected in net income, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

If compensation cost for the Company's stock option plans had been determined based on the fair value at grant date consistent with the provisions of SFAS No. 123 as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation Transition and Disclosure,"* the Company's net earnings and earnings per share would have been as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
	($ in millions, except per share amounts)			
Net (loss) income, as reported	$ (13.3)	$ (59.6)	$ 113.6	$ (46.2)
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(0.2)	(0.1)	(0.6)	(0.3)
Pro forma net (loss) income	(13.5)	(59.7)	113.0	(46.5)
Redeemable convertible preferred stock dividends	(2.0)	(1.1)	(4.3)	(3.1)
Pro forma net (loss) income available to shareholders	$ (15.5)	$ (60.8)	$ 108.7	$ (49.6)
(Loss) earnings per common share, as reported:				
Basic	$ (0.25)	$ (1.50)	$ 2.02	$ (1.80)
Diluted	$ (0.25)	$ (1.50)	$ 1.98	$ (1.80)
Pro forma (loss) earnings per common share:				
Basic	$ (0.25)	$ (1.51)	$ 2.01	$ (1.82)
Diluted	$ (0.25)	$ (1.51)	$ 1.97	$ (1.82)

2. INITIAL PUBLIC OFFERING:

On August 22, 2005, the Company completed an initial public offering (IPO) of 23,469,387 shares of its common stock, which included 3,061,224 shares issued and sold as a result of the underwriter's exercise of the over-allotment option. As a result, the Company received net proceeds of approximately $435.7 million (net of underwriting discounts and commissions and estimated offering expenses aggregating $33.6 million). The net proceeds were used as follows:

$61.1 million and €98.3 million ($120.2 million, based on the August 22, 2005 exchange rate of €1.00 = $1.2232) was used to redeem the outstanding principal amounts of the pay-in-kind loans and notes, which were reported as part of long-term debt, and to pay accrued and unpaid interest and a redemption premium;

$89.2 million was used to redeem the outstanding principal amount of the 12% senior discount notes, which were reported as part of long-term debt (including accreted and unpaid interest), which were held by an affiliate of KKR;

$116.2 million of the net proceeds was used to redeem $101.6 million, or 27%, of the 2011 notes, which were reported as part of long-term debt, and pay a redemption premium and accrued and unpaid interest;

$38.5 million was used to redeem all outstanding shares of the redeemable convertible preferred stock, which were held by an affiliate of KKR, including a redemption premium and accumulated and unpaid dividends; and

$10.0 million was used to terminate the management services agreement with affiliates of KKR and DLJMB.

Except with respect to the pay-in-kind loans and notes in which repayment became mandatory upon completing the IPO, each of these repayments and redemptions was voluntary.

A total of $137.7 million, or 31%, of the net proceeds were paid to affiliates of KKR and DLJMB consisting of $89.2 million to redeem the 12% senior discount notes held by an affiliate of KKR (including accrued and unpaid interest), $38.5 million (including a redemption premium and accumulated and unpaid dividends) to redeem the redeemable convertible preferred stock held by an affiliate of KKR and $10.0 million to terminate the management services agreement with affiliates of KKR and DLJMB. This amount does not include underwriting discounts and commissions received by Credit Suisse First Boston (CSFB), an affiliate of DLJMB, in its capacity as an underwriter. At the time of the IPO, five of the nine members of the Company's board of directors were affiliated with KKR; two were affiliated with DLJMB; one, the Company's Chairman, is the Company's chief executive officer. On August 1, 2005, the Board appointed Douglas L. Maine to the Board of Directors. The Company determined that Mr. Maine is "independent" pursuant to the rules of the Securities and Exchange Commission and the New York Stock Exchange (NYSE). Prior to the offering and Mr. Maine's appointment, the Company's Board of Directors consisted of eight members who voted unanimously to approve the offering.

The pay-in-kind loans and notes, which were incurred and issued by the Company's direct subsidiary, Rockwood Specialties Consolidated, Inc., accrued interest at the rate of 15% per year and were to mature in 2011 and 2015, respectively. Interest was paid on these loans and notes by increasing the principal amount outstanding rather than making cash payments. The senior discount notes, which were issued by the Company's indirect subsidiary, Rockwood Specialties International, Inc., accrued interest at the rate of 12% per year, but did not require cash interest payments until 2007, and were to mature in 2011. The 2011 notes, which were issued by Rockwood Specialties Group, Inc. ("Group"), accrue interest at the rate of 10 5/8% per year and mature in 2011. The redeemable convertible preferred stock accumulated dividends at 15% per year. See Note 10, "Redeemable Convertible Preferred Stock," for further details.

Pre-tax charges related to the write-off of deferred financing costs associated with debt repaid with IPO proceeds were approximately $13.4 million. This amount is reported in "loss on early extinguishment of debt" in the Condensed Consolidated Statements of Operations.

In connection with the IPO, effective July 18, 2005, the Company's Board of Directors authorized a 34.22553019-for-one stock split of its common stock and increased our authorized shares of common stock to 400 million shares. As a result of the stock split, the accompanying condensed consolidated financial statements reflect an increase in the number of outstanding shares of common stock, authorized shares and the transfer of the additional paid-in-capital to par value. All share amounts have been restated to reflect the retroactive effect of the stock split for all periods presented.

3. ACQUISITIONS:

Dynamit Nobel

On July 31, 2004, the Company consummated the Dynamit Nobel Acquisition. The Company paid approximately €1,635.0 million (or $1,968.5 million) (excluding repayment of certain assumed debt) in cash to mg technologies ag for the businesses acquired. On July 6, 2005, the Company paid $16.1 million of additional cash purchase price consideration (based on the July 6, 2005 exchange rate

of €1.00 = $1.1927) in post-closing adjustments. The four divisions of Dynamit Nobel acquired by Rockwood were (i) Chemetall, or Specialty Chemicals; (ii) Sachtleben Chemie, or Titanium Dioxide Pigments; (iii) CeramTec, or Advanced Ceramics and (iv) DNES Custom Synthesis (consisting of Dynamit Nobel Special Chemistry, Finorga, S.A. and Rohner A.G.), or Custom Synthesis, which is now known as Groupe Novasep. Through this acquisition, the Company believes it has created a portfolio of distinct specialty chemicals and advanced materials businesses, with diversified geographic and end-use markets, strong market positions and margins, and limited exposure to individual raw material fluctuations. The allocation of the purchase price to the identifiable assets acquired is complete.

The excess of the total purchase price over the estimated fair value of the net assets acquired at closing was allocated to goodwill. Goodwill in the transaction totaled $944.8 million at June 30, 2005, at which point the purchase price allocation was complete. This represented a $32.3 million increase to goodwill from the initial allocation of the purchase price contained in the Company's September 30, 2004 balance sheet and was primarily due to: a) refinement and reallocation of identifiable asset valuation estimates by the independent appraiser; b) the recognition of additional liabilities for which management was seeking additional information and did not have sufficient information to record as of September 30, 2004; c) the additional cash purchase price consideration of €13.5 million that represented post-closing adjustments; and d) changes in estimates in liabilities for pension, restructuring program and other liabilities.

Groupe Novasep Combination

On December 31, 2004, in connection with the combination of the three business lines of the Custom Synthesis segment (now known as the Groupe Novasep segment) with Groupe Novasep SAS, one of Rockwood's subsidiaries acquired 69.4% of the stock of Groupe Novasep SAS for a total purchase price of approximately $139.7 million, including assumed debt of $48.6 million, cash acquired of $14.6 million and the exchange of the remaining 30.6% of the stock of Groupe Novasep SAS for stock in the acquiring subsidiary. As a result of this transaction, the Company owns approximately 79% of the new Groupe Novasep. Management of Groupe Novasep owns the remaining 21%. The Company used cash on hand to finance this transaction.

This combination is accounted for using the purchase method of accounting. The Company has not finalized the estimated fair value of the assets acquired and liabilities assumed although values of inventory, identified intangible assets, and property, plant and equipment are completed. The Company expects to complete its research and fair value estimates on remaining purchase price components during the fourth quarter of 2005. However, significant changes to the preliminary purchase accounting are not expected.

Johnson Matthey Pigments and Dispersions Business

On September 2, 2004, the Company completed the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc. for approximately $50.0 million (including fees and expenses). The acquisition expands the Company's global color pigments and services' business specifically within transparent iron oxide pigments and dispersions, color concentrates and complex inorganic color pigments for the surface and wood coatings, plastics, building materials and printing inks markets. The Company utilized the remaining undrawn funds from the term loan portion of its senior credit facilities to finance this transaction.

This acquisition was accounted for using the purchase method of accounting. The allocation of the purchase price to the identifiable assets acquired is complete.

In this Form 10-Q, the Dynamit Nobel Acquisition, the combination of the three lines of the Custom Synthesis segment (now known as the Groupe Novasep segment) and the acquisition of the Pigments and Dispersions business of Johnson Matthey Plc. are defined as "the Acquisitions made in 2004."

4. SEGMENT INFORMATION:

Items that cannot be readily attributed to individual segments have been classified as "Corporate." Major Corporate components within the reconciliation of net income (loss) to Adjusted EBITDA on a consolidated basis and the reconciliation of income (loss) before taxes and minority interest on a segment basis (described more fully below) include systems/organization establishment expenses such as outside consulting costs for Sarbanes-Oxley initial documentation, tax provision/(benefit) resulting from corporate income/(losses), interest expense on external debt, foreign exchange losses or gains, refinancing expenses related to external debt and initial public offering related expenses. Corporate identifiable assets primarily represent deferred financing costs that have been capitalized in connection with corporate external debt financing and deferred income tax assets and cash balances maintained in accordance with centralized cash management techniques. The corporate classification also includes the results of operations, assets (primarily real estate) and liabilities (including pension and environmental) of legacy businesses formerly belonging to Dynamit Nobel. These operations are substantially unrelated by nature to businesses currently within the Company's operating segments.

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

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
	($ in millions)								
Three months ended September 30, 2005									
Net sales	$ 170.7	$ 57.6	$ 46.9	$ 202.6	$ 106.6	$ 95.3	$ 92.0	$	$ 771.7
Adjusted EBITDA	36.9	6.6	7.7	40.8	21.5	24.5	12.3	(10.3)	140.0
Three months ended September 30, 2004									
Net sales	$ 158.3	$ 52.0	$ 43.2	$ 116.6	$ 68.9	$ 56.6	$ 38.0	$	$ 533.6
Adjusted EBITDA	35.5	7.3	7.6	21.1	14.1	13.3	5.2	(9.0)	95.1
Nine months ended September 30, 2005									
Net sales	$ 520.3	$ 177.8	$ 134.6	$ 642.3	$ 320.3	$ 283.6	$ 279.9	$	$ 2,358.8
Adjusted EBITDA	118.3	21.3	20.5	133.2	64.5	70.0	35.3	(29.4)	433.7
Nine months ended September 30, 2004									
Net sales	$ 470.5	$ 152.5	$ 124.8	$ 116.6	$ 68.9	$ 56.6	$ 38.0	$	$ 1,027.9
Adjusted EBITDA	114.2	22.3	21.6	21.1	14.1	13.3	5.2	(17.5)	194.3

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate(a)	Eliminations(b)	Consolidated
Identifiable assets as of:										
September 30, 2005	$ 967.5	$ 228.4	$ 319.0	$ 1,582.4	$ 635.9	$ 682.1	$ 476.4	$ 267.8	$ (237.5)	$ 4,922.0
December 31, 2004	$ 1,014.1	$ 228.6	$ 332.7	$ 1,632.6	$ 707.4	$ 750.6	$ 656.8	$ 166.6	$ (89.9)	$ 5,399.5

(a) This includes $43.4 million and $65.2 million of assets from the legacy businesses formerly belonging to Dynamit Nobel at September 30, 2005 and December 31, 2004, respectively.

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

The summary of segment information above includes "Adjusted EBITDA," a financial measure used by the chief decision maker, who is the Company's Chief Executive Officer, to evaluate the operating performance of each segment.

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Items excluded from Adjusted EBITDA

The process of refocusing and restructuring the businesses acquired in the KKR Acquisition and establishing the post-acquisition corporate entity, along with the impact of the Dynamit Nobel Acquisition and the Company's initial public offering, resulted in a number of charges that have affected Rockwood's historical results. These charges, along with certain other items, are added to or subtracted from income (loss) before taxes and minority interest to derive Adjusted EBITDA, as defined below. The more significant of these items include the following:

Restructuring and related charges. Restructuring charges were recorded during the three and nine months ended September 30, 2005 and 2004, for miscellaneous restructuring activities. For the three months ended September 30, 2005 and 2004, and the nine months ended September 30, 2005 and 2004, these charges were $2.9 million and $0.1 million, respectively, and $9.2 million (including $0.5 million of charges recorded in cost of products sold in the condensed consolidated statements of operations) and $0.1 million, respectively.

CCA litigation defense costs. Costs of $1.4 million were incurred during the nine months ended September 30, 2005 in connection with litigation defense costs related to the Company's Timber Treatment Chemicals business line of the Performance Additives segment, specifically, its wood protection products based on chromated copper arsenate, or CCA.

Systems/organization establishment expenses. For the three months ended September 30, 2005 and 2004, and for the nine months ended September 30, 2005 and 2004, expenses of $1.4 million and $1.5 million, respectively, and $3.3 million and $2.5 million, respectively, were recorded related to the integration of businesses acquired primarily in the Dynamit Nobel Acquisition, as well as professional fees incurred regarding systems and internal control documentation in connection with the Sarbanes-Oxley Act of 2002. These expenses are reflected in the "Corporate" column when Rockwood's results are presented on a segment basis.

Cancelled acquisition and disposal costs. For the nine months ended September 30, 2005 and 2004, costs of $0.6 million and $0.1 million, respectively, were recorded in connection with non-consummated acquisitions and dispositions.

Inventory write-up reversal. Under SFAS 141, *Business Combinations*, all inventories acquired in an acquisition must be revalued to "fair value." In connection with the Groupe Novasep combination, the Company allocated a portion of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit of $3.1 million for the nine months ended September 30, 2005 as the inventory was sold in the normal course of business. In connection with the Dynamit Nobel Acquisition, the Company allocated approximately $49.7 million of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. This resulted in a consequential reduction in gross profit of $34.2 million in the three and nine-month periods ended September 30, 2004, as the inventory was sold in the normal course of business. Also included in the three and nine month periods ended September 30, 2004 was the impact of inventory step-ups from certain acquisitions in the Performance Additives segment.

Foreign exchange gain (loss), net. The Company records foreign exchange gains or losses primarily related to its long-term debt less cash. These amounts reflect the non-cash translation impact on euro-denominated debt held by certain U.S. and U.K. entities resulting from the strengthening or weakening of the euro against the U.S. dollar and the strengthening or weakening of the euro against the U.K. pound during the applicable periods. For the three months ended September 30, 2005 and 2004, gains of $2.1 million and losses of $43.9 million, respectively, were recorded. For the nine months ended September 30, 2005 and 2004, gains of $116.1 million and losses of $35.3 million, respectively, were recorded. The losses recorded in

the three and nine-months ended September 30, 2004 included a $10.9 million mark-to-market realized loss on certain foreign currency call options.

Stamp duty tax. In June 2004, the Company paid a stamp duty tax of $4.0 million on certain assets transferred to the United Kingdom in connection with the KKR acquisition.

Management services agreement termination fee. In connection with the IPO, an expense of $10.0 million was recorded in the third quarter of 2005 to terminate the management services agreement with affiliates of KKR and DLJMB.

Loss on early extinguishment of debt. In the third quarter of 2005, the Company paid a redemption premium of $13.2 million to redeem long-term debt and wrote off $13.4 million of deferred financing costs associated with the debt repaid in connection with the IPO.

Refinancing expenses. In July 2004, the Company wrote off $2.8 million of deferred financing costs primarily related to previous long-term debt that was repaid as part of the Dynamit Nobel Acquisition.

On a segment basis, the Company defines Adjusted EBITDA as operating income excluding depreciation and amortization, certain non-cash gains and charges, certain other special gains and charges deemed by our senior management to be non-recurring gains and charges and certain items deemed by senior management to have little or no bearing on the day-to-day operating performance of its business segments and reporting units. The adjustments made to operating income directly correlate with the adjustments to net income in calculating Adjusted EBITDA on a consolidated basis pursuant to the senior secured credit agreement. The indentures governing the 2011 Notes and the 2014 Notes exclude certain adjustments permitted under the senior credit agreement. Senior management uses Adjusted EBITDA on a segment basis as the primary measure to evaluate the ongoing performance of the Company's business segments and reporting units.

The Company uses Adjusted EBITDA on a segment and consolidated basis to assess its operating performance. In addition, management uses Adjusted EBITDA on a consolidated basis as the most significant criterion in the calculation of performance-based bonuses under its short-term incentive plan and the determination of whether certain performance-based stock options vest.

Rockwood believes this financial measure on a consolidated basis is helpful in highlighting trends in its overall business because Adjusted EBITDA excludes those items that have little or no bearing on day-to-day operating performance.

Because the Company views Adjusted EBITDA on both a segment basis and consolidated basis as an operating performance measure, the Company uses income (loss) before taxes and minority interest as the most comparable GAAP measure on a segment basis and net income (loss) as the most

comparable GAAP measure on a consolidated basis. The following table presents a reconciliation of income (loss) before taxes and minority interest to Adjusted EBITDA on a segment GAAP basis:

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
					($ in millions)				
Three months ended September 30, 2005									
Income (loss) before taxes and minority interest	$ 19.2	$ 5.3	$ 2.9	$ 25.0	$ 4.9	$ 8.2	$ (0.8)	$ (67.8)	$ (3.1)
Interest expense, net	6.9	(0.7)	1.5	5.2	7.8	8.3	4.0	22.4	55.4(a)
Depreciation and amortization	7.9	1.4	4.2	9.8	8.8	7.4	9.1	0.9	49.5
Restructuring and related charges	1.5		0.1	0.5		0.6	0.2		2.9
CCA litigation defense costs								(0.1)	(0.1)
Systems/organization establishment expenses	0.3							1.1	1.4
Management services agreement termination fee								10.0	10.0(b)
Loss on early extinguishment of debt	1.1	0.6	0.3					24.6	26.6(b)
Foreign exchange (gain) loss			(1.3)	0.3			(0.2)	(0.9)	(2.1)
Other								(0.5)	(0.5)
Total Adjusted EBITDA	$ 36.9	$ 6.6	$ 7.7	$ 40.8	$ 21.5	$ 24.5	$ 12.3	$ (10.3)	$ 140.0
Three months ended September 30, 2004									
Income (loss) before taxes and minority interest	$ 19.9	$ 6.1	$ 0.2	$ (1.9)	$ 5.2	$ (5.7)	$ (4.6)	$ (95.3)	$ (76.1)
Interest expense, net	6.8	(0.1)	1.2	2.7	1.1	0.8	2.0	39.3	53.8(a)
Depreciation and amortization	7.7	1.3	5.2	6.3	3.5	3.8	4.2	0.2	32.2
Restructuring and related charges	0.2			(0.1)					0.1
Systems/organization establishment expenses								1.5	1.5
Inventory write-up reversal	0.5			12.7	4.3	14.4	2.8		34.7
Refinancing expenses								2.8	2.8
Loss from disposed businesses							0.8		0.8
Foreign exchange (gain) loss	0.4		1.0					42.5	43.9
Other				1.4					1.4
Total Adjusted EBITDA	$ 35.5	$ 7.3	$ 7.6	$ 21.1	$ 14.1	$ 13.3	$ 5.2	$ (9.0)	$ 95.1
Nine months ended September 30, 2005									
Income (loss) before taxes and minority interest	$ 66.3	$ 17.2	$ 4.4	$ 69.0	$ 12.9	$ 20.7	$ (7.0)	$ (19.7)	$ 163.8
Interest expense, net	20.6	(0.8)	4.0	27.0	24.1	26.4	11.8	64.5	177.6(a)
Depreciation and amortization	24.6	4.3	12.5	33.8	27.5	22.2	27.1	2.7	154.7
Restructuring and related charges	4.7		2.1	1.6		0.6	0.2		9.2(c)
CCA litigation defense costs	1.3							0.1	1.4
Systems/organization establishment expenses	0.3							3.0	3.3
Cancelled acquisition and disposal costs	0.2							0.4	0.6
Inventory write-up reversal							3.1		3.1
Management services agreement termination fee								10.0	10.0(b)
Loss on early extinguishment of debt	1.1	0.6	0.3					24.6	26.6(b)

	Performance Additives	Specialty Compounds	Electronics	Specialty Chemicals	Titanium Dioxide Pigments	Advanced Ceramics	Groupe Novasep	Corporate	Consolidated
Foreign exchange (gain) loss	(0.8)		(2.8)	1.8		0.1	0.1	(114.5)	(116.1)
Other								(0.5)	(0.5)
Total Adjusted EBITDA	$								