SCIENTIFIC GAMES CORP
Form 10-Q/A
July 20, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q/A

Amendment No. 1

{Mark One}

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

For the quarterly period ended March 31, 2005

OR

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

Commission File number: 0-13063

SCIENTIFIC GAMES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**81-0422894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

750 Lexington Avenue, New York, New York 10022

(Address of principal executive offices)

(Zip Code)

(212) 754-2233

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 ý No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of May 6, 2005:

Class A Common Stock: 89,097,968

Class B Common Stock: None

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER INFORMATION

THREE MONTHS ENDED MARCH 31, 2005

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A filed by Scientific Games Corporation (the Company) amends the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005.

The purpose of the Amendment No. 1 is to expand the disclosure contained in Item 4 of the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 and to provide revised certifications as Exhibits 31.1 and 31.2.

The Company has not updated the information in this Form 10-Q/A to speak as of a date after the filing of the Company s Quarterly Report, and this Form 10-Q/A does not amend or update the information in such Quarterly Report in any way other than to give effect to the amendments and restatements described above, to the extent specified.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share amounts)

		December 31, 2004	March 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	$	66,120	72,886
Short-term investments		52,525	17,050
Accounts receivable, net of allowance for doubtful accounts of $4,818 and $6,133 at December 31, 2004 and March 31, 2005, respectively		105,789	104,800
Inventories		28,062	32,793
Prepaid expenses, deposits and other current assets		41,799	47,583
Total current assets		294,295	275,112
Property and equipment, at cost		544,387	562,460
Less accumulated depreciation		272,961	279,117
Net property and equipment		271,426	283,343
Goodwill, net		311,931	317,622
Operating right, net		14,020	14,020
Other intangible assets, net		80,182	78,632
Other assets and investments		120,169	118,213
Total assets	$	1,092,023	1,086,942
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current installments of long-term debt	$	4,370	4,649
Accounts payable		41,802	38,477
Accrued liabilities		96,999	90,461
Total current liabilities		143,171	133,587
Other long-term liabilities		41,780	44,758
Long-term debt, excluding current installments		606,508	583,986
Total liabilities		791,459	762,331
Commitments and contingencies			
Stockholders equity:			
Class A common stock, par value $0.01 per share, 199,300 shares authorized, 88,414 and 89,076 shares outstanding at December 31, 2004 and March 31, 2005, respectively		884	891
Class B non-voting common stock, par value $0.01 per share, 700 shares authorized, none outstanding			
Additional paid-in capital		405,755	412,181
Accumulated losses		(108,628)	(87,613)
Treasury stock, at cost		(9,403)	(9,403)
Accumulated other comprehensive income		11,956	8,555
Total stockholders equity		300,564	324,611
Total liabilities and stockholders equity	$	1,092,023	1,086,942

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended March 31, 2004 and 2005

(Unaudited, in thousands, except per share amounts)

		2004	2005
Operating revenues:			
Services	$	141,633	155,754
Sales		43,832	28,802
		185,465	184,556
Operating expenses (exclusive of depreciation and amortization shown below):			
Services		75,885	85,249
Sales		30,656	20,274
Amortization of service contract software		1,434	1,623
		107,975	107,146
Gross profit		77,490	77,410
Selling, general and administrative expenses		25,920	27,728
Depreciation and amortization		13,760	12,852
Operating income		37,810	36,830
Other deductions:			
Interest expense		7,390	6,410
Other expense, net		608	399
		7,998	6,809
Income before income tax expense		29,812	30,021
Income tax expense		9,391	9,006
Net income		20,421	21,015
Convertible preferred stock dividend		1,982	
Net income available to common stockholders	$	18,439	21,015
Basic and diluted net income per share:			
Basic net income available to common stockholders	$	0.30	0.24
Diluted net income available to common stockholders	$	0.22	0.23
Weighted average number of shares used in per share calculations:			
Basic shares		61,942	88,616
Diluted shares		91,825	91,968

See accompanying notes to consolidated financial statements.

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2004 and 2005

(Unaudited, in thousands)

		2004	2005
Cash flows from operating activities:			
Net income	$	20,421	21,015
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		15,194	14,475
Change in deferred income taxes		5,999	5,322
Tax benefit from exercise of employee stock options			3,549
Changes in operating assets and liabilities, net of effects of acquisitions		9,810	16,312
Other		652	1,473
Total adjustments		31,655	41,131
Net cash provided by operating activities		52,076	62,146
Cash flows from investing activities:			
Capital expenditures		(6,092)	(6,154)
Wagering systems expenditures		(13,196)	(17,134)
Change in other assets and liabilities, net		(5,733)	(7,792)
Business acquisitions, net of cash acquired		(1,709)	(2,927)
Net cash used in investing activities		(26,730)	(34,007)
Cash flows from financing activities:			
Net repayments under revolving credit facility			(22,000)
Proceeds from issuance of long-term debt		1,377	
Payments on long-term debt		(1,720)	(473)
Dividends paid		(1,982)	
Net proceeds from issuance of common stock		3,184	2,778
Net cash provided by (used in) financing activities		859	(19,695)
Effect of exchange rate changes on cash and cash equivalents		1,570	(1,678)
Increase in cash and cash equivalents		27,775	6,766
Cash and cash equivalents, beginning of period		37,198	66,120
Cash and cash equivalents, end of period	$	64,973	72,886
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$	9,778	2,172
Income taxes	$	4,503	1,709
Convertible preferred stock cash dividends	$	1,982	

See accompanying notes to consolidated financial statements.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except per share amounts)

Notes to Consolidated Financial Statements

(1) Consolidated Financial Statements

Basis of Presentation

The consolidated balance sheet as of March 31, 2005, the consolidated statements of income for the three months ended March 31, 2004 and 2005, and the consolidated condensed statements of cash flows for the three months ended March 31, 2004 and 2005, have been prepared by Scientific Games Corporation (together with its consolidated subsidiaries, we or the Company) without audit. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position of the Company at March 31, 2005 and the results of its operations for the three months ended March 31, 2004 and 2005 and its cash flows for the three months ended March 31, 2004 and 2005 have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2004 Annual Report on Form 10-K. The results of operations for the period ended March 31, 2005 are not necessarily indicative of the operating results for the full year.

The Company has reclassified $27,600 of Auction Rate Securities from Cash and cash equivalents to Short-term investments at March 31, 2004. The cash flows from these investments are presented as operating cash flows for all periods presented.

Basic and Diluted Net Income Per Share

The following represents a reconciliation of the numerator and denominator used in computing basic and diluted net income per share available to common stockholders for the three months ended March 31, 2004 and 2005:

		Three months ended March 31, 2004	2005
Income (numerator)			
Net income available to common stockholders (basic)	$	18,439	21,015
Add back preferred stock dividend		1,982	
Income before preferred dividend available to common stockholders (diluted)	$	20,421	21,015
Shares (denominator)			
Basic weighted average common shares outstanding		61,942	88,616
Effect of dilutive securities-stock options, warrants, preferred shares and deferred shares		29,883	3,352
Diluted weighted average common shares outstanding		91,825	91,968
Basic and diluted per share amounts			
Basic net income per share available to common stockholders	$	0.30	0.24
Diluted net income per share available to common stockholders	$	0.22	0.23

The aggregate number of shares that the Company could be obligated to issue upon conversion of its $275,000 0.75% convertible senior subordinated debentures due 2024 (the Convertible Debentures), which the Company sold in December 2004, is approximately 9,450. The Convertible Debentures provide for net share settlement upon exercise and the Company has purchased a bond hedge to mitigate the potential dilution from conversion. Such shares were excluded from the quarter ended March 31, 2005 calculation as they were anti-dilutive. (See Note 9 the Consolidated Financial Statements for the year ended December 31, 2004 in the Company s 2004 Annual Report on Form 10-K.)

Stock-Based Compensation

The Company has chosen to continue to account for stock-based compensation using the intrinsic-value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* . Accordingly, no stock compensation expense has been recognized for a substantial majority of its stock-based compensation plans. Had the Company elected to recognize compensation cost based on the fair value of the stock options at the date of grant under Statement of Financial Accounting Standards (SFAS) No.123, *Accounting for Stock-Based Compensation* (SFAS 123) as amended by SFAS No.148, *Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123* (SFAS 148), such costs would have been recognized ratably over the vesting period of the underlying instruments and the Company s net income and net income per share would have changed to the pro forma amounts indicated in the table below:

	Three months ended March 31,			
	2004		2005	
Net income available to common stockholders as reported	$	18,439	$	21,015
Add: Stock-based compensation expense included in reported net income, net of related tax effects		47		51
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,128)		(1,871)
Pro forma net income available to common stockholders	$	17,358	$	19,195
Net income available to common stockholders per basic share:				
As reported	$	0.30		0.24
Pro forma	$	0.29		0.22
Net income available to common stockholders per diluted share:				
As reported	$	0.22		0.23
Pro forma	$	0.21		0.21

(2) Acquisitions

On December 31, 2004, the Company acquired all of the outstanding shares of Printpool Honsel GmbH (Honsel), a German company which is the supplier of instant tickets to all of the 16 state operated lotteries in Germany and sells other lottery products, such as bet slips and paper rolls, to customers in approximately 25 countries. The purchase price was approximately $21,000 in cash and additional amounts of up to approximately $10,500 in cash upon achievement of certain performance levels over the next five years. The operating results of Honsel have been included in the Company s consolidated operating results since January 1, 2005. Had the operating results of Honsel been included as if the transaction had been consummated on January 1, 2004, the Company s pro forma operating results for the quarter ended March 31, 2004 would not have been materially different from the actual reported results. The preliminary estimate of goodwill of approximately $12,300 from the acquisition of Honsel is not deductible for tax purposes. Additionally, other assets and liabilities acquired in the transaction, such as certain intangible assets, property and equipment, current assets and liabilities and debt were included in the preliminary purchase price allocation.

(3) **Business Segments**

The following tables represent revenues, profits, depreciation, amortization, and capital expenditures for the three months ended March 31, 2004 and 2005, by business segment. Corporate expenses, interest expense and other (income) deductions are not allocated to business segments.

	Three Months Ended March 31, 2004						
		Lottery Group	Pari-Mutuel Group	Venue Management Group	Telecom-munications Products Group		Totals
Service revenues	$	107,294	19,043	15,296			141,633
Sales revenues		29,565	689		13,578		43,832
Total revenues		136,859	19,732	15,296	13,578		185,465
Cost of service		55,010	9,994	10,881			75,885
Cost of sales		20,247	409		10,000		30,656
Amortization of service contract software		793	641				1,434
		76,050	11,044	10,881	10,000		107,975
Gross profit		60,809	8,688	4,415	3,578		77,490
Selling, general and administrative expenses		16,562	1,839	1,004	1,482		20,887
Depreciation and amortization		9,507	2,820	490	733		13,550
Segment operating income	$	34,740	4,029	2,921	1,363		43,053
Unallocated corporate expense							5,243
Consolidated operating income						$	37,810
Assets at March 31, 2004	$	568,101	84,670	35,894	45,552		734,217
Unallocated assets at March 31, 2004							238,557
Consolidated assets at March 31, 2004						$	972,774
Capital and wagering systems expenditures	$	14,461	4,333	336	158		19,288

	Three Months Ended March 31, 2005					
		Lottery Group	Pari-Mutuel Group	Venue Management Group	Telecom-munications Products Group	Totals
Service revenues	$	123,391	18,031	14,332		155,754
Sales revenues		13,531	357		14,914	28,802
Total revenues		136,922	18,388	14,332	14,914	184,556
Cost of service		63,889	10,369	10,991		85,249
Cost of sales		9,329	415		10,530	20,274
Amortization of service contract software		973	650			1,623
		74,191	11,434	10,991	10,530	107,146
Gross profit		62,731	6,954	3,341	4,384	77,410
Selling, general and administrative expenses		15,614	3,041	874	1,504	21,033
Depreciation and amortization		8,922	2,204	484	967	12,577
Segment operating income	$	38,195	1,709	1,983	1,913	43,800
Unallocated corporate expense						6,970
Consolidated operating income						$ 36,830
Assets at March 31, 2005	$	686,728	78,083	33,610	68,155	866,576
Unallocated assets at March 31, 2005						220,366
Consolidated assets at March 31, 2005						$ 1,086,942
Capital and wagering systems expenditures	$	20,295	2,077	280	636	23,288

The following table provides a reconciliation of consolidated operating income to the consolidated income before income tax expense for each period:

	Three Months Ended March 31,		
		2004	2005
Reported consolidated operating income	$	37,810	36,830
Interest expense		7,390	6,410
Other expense, net		608	399
Income before income tax expense	$	29,812	30,021

(4) Income Tax Expense

The effective income tax rate for the three months ended March 31, 2005 of 30.0% differed from the federal statutory rate of 35% due primarily to benefits from the tax restructuring plan implemented in 2004. The effective income tax rate for the three months ended March 31, 2004 was approximately 31.5%, which differed from the federal statutory rate of 35% due primarily to benefits from the realization of foreign tax credits and the implementation of the extra-territorial income exclusion regime.

(5) Comprehensive Income

The following presents a reconciliation of net income to comprehensive income for the three-month periods ended March 31, 2004 and 2005:

		Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
Net income	$	20,421	21,015
Other comprehensive income (loss):			
Foreign currency translation		1,384	(3,390)
Unrealized gain (loss) on investments		12	(11)
Unrealized gain on Canadian dollar hedges		1,107	
Other comprehensive income (loss)		2,503	(3,401)
Comprehensive income		22,924	17,614

(6) Inventories

Inventories consist of the following:

		December 31, 2004	March 31, 2005
Parts and work-in-process	$	18,655	22,649
Finished goods		9,407	10,144
	$	28,062	32,793

Point of sale terminals manufactured by the Company may be sold to customers or included as part of a long-term wagering system contract. Parts and work-in-process includes costs for equipment expected to be sold. Costs incurred for equipment associated with specific wagering system contracts not yet placed in service are classified as construction in progress in property and equipment.

(7) Accrued Liabilities

Accrued liabilities consist of the following:

		December 31, 2004	March 31, 2005
Compensation and benefits	$	26,135	20,544
Customer advances		4,579	5,324
Deferred revenue		3,192	7,673
Accrued contract costs		10,958	9,654
Other		52,135	47,266
	$	96,999	90,461

(8) Debt

At March 31, 2005, the Company had approximately $218,700 available for borrowing under the Company s revolving credit facility, which was entered into in December 2004, as part of the Company s senior secured credit facility (the 2004 Facility). There were no borrowings outstanding under the revolving credit facility, but approximately $31,300 in letters of credit were issued and outstanding at March 31, 2005. At December 31, 2004, the Company s available borrowing capacity under the revolving credit facility was $199,900. At March 31, 2005, there was $99,750 in outstanding Term Loans under the 2004 Facility.

The Credit Agreement governing the 2004 Facility (the Credit Agreement) contains certain covenants that, among other things, limit the Company s ability, and the ability of certain of the Company s subsidiaries, to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in sale-leaseback transactions, consummate certain asset sales, effect a consolidation or merger, sell, transfer, lease or otherwise dispose of all or substantially all assets, or create certain liens and other encumbrances on assets. Additionally, the Credit Agreement contains the following financial covenants that are computed quarterly on a rolling four-quarter basis as applicable:

A maximum Consolidated Leverage Ratio of 3.75, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 3.50. Consolidated Leverage Ratio means the ratio of (x) the aggregate stated balance sheet amount of the Company s indebtedness determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

A minimum Consolidated Fixed Charge Coverage Ratio of 1.00 until December 2009. Consolidated Fixed Charge Coverage Ratio means, as of any date of determination, the ratio computed for the Company s four most recent fiscal quarters of (x) Consolidated EBITDA to (y) the sum of (i) total interest expense less non-cash amortization costs included in interest expense, (ii) scheduled payments of principal on indebtedness, (iii) capital expenditures and (iv) all income taxes paid in cash.

A maximum Consolidated Senior Debt Ratio of 2.00, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 1.75. Consolidated Senior Debt Ratio means the ratio of (x) the aggregate stated balance sheet amount of the Company s indebtedness, less the amount of the Company s 12 1/2% senior subordinated notes (the 2000 Notes), the Company s 6.25% senior subordinated notes due 2012 (the 2004 Notes) and the Convertible Debentures determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

For purposes of the foregoing limitations, Consolidated EBITDA means the sum of (i) consolidated net income, (ii) consolidated interest expense with respect to all outstanding indebtedness, (iii) provision for taxes based on income, (iv) total depreciation expense, (v) total amortization expense and (vi) certain adjustments, in each case for the period being measured, all of the foregoing as determined on a consolidated basis for the Company and its subsidiaries in accordance with GAAP.

The Company was in compliance with its loan covenants as of March 31, 2005.

(9) Goodwill and Intangible Assets

The following disclosure presents certain information regarding the Company s acquired intangible assets as of December 31, 2004 and March 31, 2005. Amortizable intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual values.

Intangible Assets	Weighted Average Amortization Period		Gross Carrying Amount	Accumulated Amortization	Net Balance
Balance at December 31, 2004					
Amortizable intangible assets:					
Patents	15	$	4,221	477	3,744
Customer lists	14		20,175	7,597	12,578
Customer service contracts	15		3,781	1,331	2,450
Licenses	15		10,377	3,315	7,062
Lottery contracts	5		31,802	7,910	23,892
			70,356	20,630	49,726
Non-amortizable intangible assets:					
Tradename			32,574	2,118	30,456
Connecticut off-track betting system operating right			22,339	8,319	14,020
			54,913	10,437	44,476
Total intangible assets		$	125,269	31,067	94,202
Balance at March 31, 2005					
Amortizable intangible assets:					
Patents	15	$	4,292	541	3,751
Customer lists	14		19,744	7,941	11,803
Customer service contracts	15		3,624	1,343	2,281
Licenses	15		11,629	4,207	7,422
Lottery contracts	5		32,200	9,281	22,919
			71,489	23,313	48,176
Non-amortizable intangible assets:					
Tradename			32,574	2,118	30,456
Connecticut off-track betting system operating right			22,339	8,319	14,020
			54,913	10,437	44,476
Total intangible assets		$	126,402	33,750	92,652

The aggregate intangible amortization expense for the three-month periods ended March 31, 2004 and 2005 was approximately $2,777 and $2,692, respectively.

The table below reconciles the change in the carrying amount of goodwill, by reporting unit, which is the same as business segment, for the period from January 1, 2005 to March 31, 2005. In 2005, the Company recorded (a) a $2,927 increase in goodwill in connection with the acquisition of certain assets and the assumption of certain liabilities from Promo-Travel International, Inc., in February 2005 and (b) a $2,764 increase in goodwill associated with the Honsel acquisition.

Goodwill		**Lottery Group**	**Pari-mutuel Group**	**Venue Management Group**	**Telecom-munications Products Group**	**Totals**
Balance at December 31, 2004	$	311,444	487			311,931
Adjustments:		5,691				5,691
Balance at March 31, 2005	$	317,135	487			317,622

(10) Pension Plans

The Company has two funded defined benefit pension plans. It has a defined benefit plan for its U.S. based union employees. Retirement benefits under this plan are based upon the number of years of credited service, up to a maximum of 30 years for the majority of the employees. It also has a defined benefit plan for U.K. based employees. Retirement benefits under the U.K. plan are based on an employee s average compensation over the two years preceding retirement. The Company s policy is to fund the minimum contribution permissible by the respective regulatory authorities. The Company estimates that the amount to be funded in year 2005 will approximate $2,500.

In connection with its U.S. based collective bargaining agreements, the Company participates with other companies in a defined benefit pension plan covering union employees. The Company expects to make payments to the multi-employer plan of approximately $250 during the year ending December 31, 2005.

The Company has a 401(k) plan covering all U.S. based employees who are not covered by a collective bargaining agreement. Company contributions to the plan are at the discretion of the Company s Board of Directors. The Company has a 401(k) plan for all union employees which does not provide for Company contributions.

The Company has an unfunded nonqualified Supplemental Executive Retirement Plan (the SERP) and an unfunded nonqualified Deferred Compensation Plan. The SERP provides for retirement benefits for certain senior executives according to a formula based on each participant s compensation and years of service with the Company and the Deferred Compensation Plan permits salary and bonus deferrals and does not provide for Company contributions.

The following table sets forth the combined amount of net periodic benefit cost recognized for the three month periods ended March 31, 2004 and 2005:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
Components of net periodic pension benefit cost:		
Service cost	$ 676	814
Interest cost	641	788
Expected return on plan assets	(448)	(625)
Actuarial loss	295	419
Net amortization and deferral	13	16
Amortization of prior service costs	192	192
Net periodic cost	$ 1,369	1,604

(11) Stockholders Equity

At March 31, 2005, the Company had a total of 2,000 shares of preferred stock, $1.00 par value, authorized for issuance, including 229 authorized shares of Series A Convertible Preferred Stock and 1 authorized share of Series B Preferred Stock. No shares of preferred stock are currently outstanding.

In August 2004, holders of all of the Company s then outstanding Series A Convertible Preferred Stock and Series B Preferred Stock were issued an aggregate of 23,832 shares of the Company s Class A Common Stock in connection with their conversion, representing a conversion price of $5.56 per share. Prior to conversion, the Series A Convertible Preferred Stock required dividend payments at a rate of 6% per annum. Prior to 2004, we satisfied the dividend requirement using additional shares of convertible preferred stock. In March 2004 the Company paid a dividend in cash of $1,982. Prior to 2005, the preferred stock dividend was deducted in determining the amount of the net income available to common stockholders in the consolidated statements of income.

(12) Litigation

On May 9, 2005, Scientific Games Royalty Corporation, a wholly-owned indirect subsidiary of Scientific Games Corporation, filed suit against GTECH Corporation in Federal District Court of Delaware alleging patent infringement of the Company s group participation multiplier patents, U.S. Patent Nos. 6,648,753 and 6,692,354. These patents apply to online lottery games that have an optional bonus wager as a feature of the game. In the event that a player wins a prize in the base game and has chosen to make the bonus wager, all of the player s prizes in the base game, with the exception of the jackpot amount, may be multiplied by a randomly selected multiplier. The Company believes that GTECH currently provides such games that infringe the Company s applicable patents in various jurisdictions in the United States. The Company s lawsuit seeks damages and other relief for such infringement.

On or about April 6, 2005, the Company was served with a complaint in the Texas state court action captioned *GTECH Holdings Corporation and GTECH Corporation v. Scientific Games International, Inc.* previously described in our Annual Report on Form 10-K for the year ended December 31, 2004. The Company continues to believe that the plaintiffs claims lack merit and intends to contest them vigorously.

(13) Subsequent Events

In April 2005, the Company acquired the remaining 35% minority interest in Scientific Games Latin America S.A. (SGLA), a supplier of lottery tickets, pre-paid phone cards and promotional games in Latin America. The Company originally acquired a 65% interest in SGLA in June 2002. Pursuant to the April 2005 transactions, the Company paid approximately $19,600 for the purchase price of the minority interest and additional amounts of approximately $4,300 for the balance of the purchase price for the 2002 acquisition, repayment of a prior loan to the minority shareholders, and the minority shareholders pro-rata share of dividends.

The excess of the additional purchase price over the fair value of the net assets acquired will be recorded as goodwill. The operating results of SGLA have been included in the Company s operating income since the initial acquisition of the 65% interest in 2002, with the minority portion of such earnings included as a deduction in Other expense . Beginning in the second quarter of 2005, this deduction will cease. Had this deduction not been made in the first quarter of 2005, the Company s results of operations would not have been materially different from the actual reported results.

(14) Financial Information for Guarantor Subsidiaries and Non-Guarantor Subsidiaries

The Company conducts substantially all of its business through its domestic and foreign subsidiaries. The 2004 Notes, the Convertible Debentures and the 2004 Facility are fully, unconditionally and jointly and severally guaranteed by substantially all of the Company s wholly owned domestic subsidiaries (the Guarantor Subsidiaries).

Presented below is condensed consolidating financial information for (i) Scientific Games Corporation (the Parent Company), which includes the activities of Scientific Games Management Corporation, (ii) the Guarantor Subsidiaries and (iii) the wholly owned foreign subsidiaries and the non-wholly owned domestic and foreign subsidiaries (the Non-Guarantor Subsidiaries) as of December 31, 2004 and March 31, 2005 and for the three months ended March 31, 2004 and 2005. The condensed consolidating financial information has been presented to show the nature of assets held, results of operations and cash flows of the Parent Company, Guarantor Subsidiaries and Non-Guarantor Subsidiaries, assuming the guarantee structure of the 2004 Facility, the Convertible Debentures and the 2004 Notes were in effect at the beginning of the periods presented. Separate financial statements for Guarantor Subsidiaries are not presented based on management s determination that they would not provide additional information that is material to investors.

The condensed consolidating financial information reflects the investments of the Parent Company in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting. Corporate interest and administrative expenses have not been allocated to the subsidiaries.

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2004

(unaudited, in thousands)

		Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
ASSETS						
Cash and cash equivalents	$	34,979	14,987	16,154		66,120
Short-term investments		52,525				52,525
Accounts receivable, net			73,236	32,592	(39)	105,789
Inventories			18,245	10,425	(608)	28,062
Other current assets		11,778	17,310	12,681	30	41,799
Property and equipment, net		5,093	206,331	60,633	(631)	271,426
Investment in subsidiaries		771,987	187,019	(36,563)	(922,443)	
Goodwill		183	297,000	14,748		311,931
Intangible assets			79,303	14,899		94,202
Other assets		53,095	59,522	15,777	(8,225)	120,169
Total assets	$	929,640	952,953	141,346	(931,916)	1,092,023
LIABILITIES AND STOCKHOLDERS EQUITY						
Current installments of long-term debt	$	1,000		3,370		4,370
Current liabilities		8,672	91,503	37,426	1,200	138,801
Long-term debt, excluding current installments		603,645		2,863		606,508
Other non-current liabilities		(5,486)	30,503	16,699	64	41,780
Intercompany balances		(124,873)	108,969	17,948	(2,044)	
Stockholders equity		446,682	721,978	63,040	(931,136)	300,564
Total liabilities and stockholders equity	$	929,640	952,953	141,346	(931,916)	1,092,023

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SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2005

(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
ASSETS					
Cash and cash equivalents	$ 27,010	818	45,058		72,886
Short-term investments	17,050				17,050
Accounts receivable, net		71,999	32,840	(39)	104,800
Inventories		19,801	13,417	(425)	32,793
Other current assets	10,962	18,991	17,600	30	47,583
Property and equipment, net	4,933	212,156	66,884	(630)	283,343
Investment in subsidiaries	768,826	187,263	(36,363)	(919,726)	
Goodwill	183	299,927	17,512		317,622
Intangible assets		78,263	14,389		92,652
Other assets	48,936	58,182	17,131	(6,036)	118,213
Total assets	$ 877,900	947,400	188,468	(926,826)	1,086,942
LIABILITIES AND STOCKHOLDERS EQUITY					
Current installments of long-term debt	$ 1,000		3,649		4,649
Current liabilities	5,464	81,928	41,568	(22)	128,938
Long-term debt, excluding current installments	581,395		2,591		583,986
Other non-current liabilities	(3,503)	30,699	17,556	6	44,758
Intercompany balances	(135,335)	96,098	38,580	657	
Stockholders equity	428,879	738,675	84,524	(927,467)	324,611
Total liabilities and stockholders equity	$ 877,900	947,400	188,468	(926,826)	1,086,942

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED STATEMENT OF INCOME

Three Months Ended March 31, 2004

(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Operating revenues	$	153,902	33,840	(2,277)	185,465
Operating expenses		85,266	23,569	(2,294)	106,541
Amortization of service contract software		1,334	100		1,434
Gross profit		67,302	10,171	17	77,490
Selling, general and administrative expenses	5,033	16,845	4,045	(3)	25,920
Depreciation and amortization	210	11,100	2,450		13,760
Operating income (loss)	(5,243)	39,357	3,676	20	37,810
Interest expense	7,154	219	1,139	(1,122)	7,390
Other (income) expense	(275)	(1,359)	1,120	1,122	608
Income (loss) before equity in income of subsidiaries, and income taxes	(12,122)	40,497	1,417	20	29,812
Equity in income of subsidiaries	39,501			(39,501)	
Income tax expense	6,958	1,923	510		9,391
Net income	$ 20,421	38,574	907	(39,481)	20,421

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED STATEMENT OF INCOME

Three Months Ended March 31, 2005

(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Operating revenues	$	141,942	45,104	(2,490)	184,556
Operating expenses		77,506	30,603	(2,586)	105,523
Amortization of service contract software		1,620	3		1,623
Gross profit		62,816	14,498	96	77,410
Selling, general and administrative expenses	6,639	16,248	4,861	(20)	27,728
Depreciation and amortization	275	9,272	3,305		12,852
Operating income (loss)	(6,914)	37,296	6,332	116	36,830
Interest expense	6,197	107	106		6,410
Other (income) expense	(277)	155	(127)	648	399
Income (loss) before equity in income of subsidiaries, and income taxes	(12,834)	37,034	6,353	(532)	30,021
Equity in income of subsidiaries	40,381			(40,381)	
Income tax expense	6,532	1,237	1,237		9,006
Net income (loss)	$ 21,015	35,797	5,116	(40,913)	21,015

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2004

(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net income	$ 20,421	38,574	907	(39,481)	20,421
Depreciation and amortization	210	12,434	2,550		15,194
Deferred income taxes	6,221	(395)	173		5,999
Equity in income of subsidiaries	(39,501)			39,501	
Changes in operating assets and liabilities, net of effects of acquisitions	8,590	6,188	(5,030)	62	9,810
Other non-cash adjustments	566	86			652
Net cash provided by (used in) operating activities	(3,493)	56,887	(1,400)	82	52,076
Cash flows from investing activities:					
Capital and wagering systems expenditures	(18)	(16,072)	(3,198)		(19,288)
Business acquisitions, net of cash acquired		(1,709)			(1,709)
Other assets and investments	(308)	(5,692)	(1,422)	1,689	(5,733)
Net cash provided by (used in) investing activities	(326)	(23,473)	(4,620)	1,689	(26,730)
Cash flows from financing activities:					
Net payments on long-term debt	(1,259)	(293)	1,209		(343)
Net proceeds from issuance of common stock	3,184	1,709		(1,709)	3,184
Preferred stock dividends	(1,982)				(1,982)
Other, principally intercompany balances	28,461	(32,412)	4,013	(62)	
Net cash provided by (used in) financing activities	28,404	(30,996)	5,222	(1,771)	859
Effect of exchange rate changes on cash	1,020	52	498		1,570
Increase (decrease) in cash and cash equivalents	25,605	2,470	(300)		27,775
Cash and cash equivalents, beginning of period	25,443	(4,473)	16,228		37,198
Cash and cash equivalents, end of period	$ 51,048	(2,003)	15,928		64,973

SCIENTIFIC GAMES CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2005

(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated
Net income	$ 21,015	35,797	5,116	(40,913)	21,015
Depreciation and amortization	275	10,892	3,308		14,475
Deferred income taxes	4,357	(396)	1,361		5,322
Equity in income of subsidiaries	(40,381)			40,381	
Changes in operating assets and liabilities, net of effects of acquisitions	36,738	(10,809)	(5,014)	(1,054)	19,861
Other	888	581	4		1,473
Net cash provided by (used in) operating activities	22,892	36,065	4,775	(1,586)	62,146
Cash flows from investing activities:					
Capital and wagering systems expenditures	(8)	(12,467)	(10,813)		(23,288)
Business acquisitions, net of cash acquired		(2,927)			(2,927)
Other assets and investments	790	(4,783)	(4,427)	628	(7,792)
Net cash provided by (used in) investing activities	782	(20,177)	(15,240)	628	(34,007)
Cash flows from financing activities:					
Net payments on long-term debt	(22,250)		(223)		(22,473)
Net proceeds from issuance of common stock	2,778		648	(648)	2,778
Preferred stock dividends					
Other, principally intercompany balances	(11,878)	(21,463)	41,195	(7,854)	
Net cash provided by (used in) financing activities	(31,350)	(21,463)	41,620	(8,502)	(19,695)
Effect of exchange rate changes on cash	(293)	(143)	(10,702)	9,460	(1,678)
Increase (decrease) in cash and cash equivalents	(7,969)	(5,718)	20,453		6,766
Cash and cash equivalents, beginning of period	34,979	6,536	24,605		66,120
Cash and cash equivalents, end of period	$ 27,010	818	45,058		72,886

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

Background

The following discussion addresses our financial condition as of March 31, 2005 and the results of our operations for the three months ended March 31, 2005, compared to the corresponding period in the prior year. This discussion should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2004, included in our 2004 Annual Report on Form 10-K.

We operate in four business segments: Lottery Group, Pari-mutuel Group, Venue Management Group and Telecommunications Products Group. Our Lottery Group provides instant tickets and related services and lottery systems. Instant ticket and related services includes ticket design and manufacturing as well as value-added services, including game design, sales and marketing support, inventory management and warehousing and fulfillment services. Additionally, this division provides lotteries with over 80 licensed brand products, including NASCAR®, Mandalay Bay®, National Basketball Association®, Harley-Davidson®, Wheel-of-Fortune®, Hasbro®, Corvette® and The World Series of Poker®. This division also includes promotional instant tickets and pull-tab tickets that we sell to both lottery and non-lottery customers. Our lottery systems business includes the supply of transaction processing software for the accounting and validation of both instant ticket and online lottery games, point-of-sale terminal hardware sales, central site computers and communication hardware sales, and ongoing support and maintenance services for these products. This business also includes software and hardware and support services for sports betting and operation of credit card processing systems.

On December 31, 2004, we acquired Printpool Honsel GmbH (Honsel), a German company which is the supplier of instant lottery tickets to all of the 16 state operated lotteries in Germany and sells other lottery products, such as bet slips and paper rolls, to customers in approximately 25 countries. We expect that our acquisition of Honsel will enable us to further expand into the European lottery market.

Our Pari-mutuel Group is comprised of our North American and international on-track, off-track and inter-track pari-mutuel wagering services, simulcasting and communications services, and telephone and internet account wagering systems, as well as sales of pari-mutuel systems and equipment.

Our Venue Management Group is comprised of our Connecticut off-track betting operations, which include 11 off-track betting facilities and telephone account wagering for customers in 26 states, and our on-track and off-track betting operations in the Netherlands, which consist of four on-track and 28 off-track betting operations.

Our Telecommunications Products Group is comprised of our prepaid cellular phone cards business.

The first and fourth quarters of the calendar year traditionally comprise the weakest season for our pari-mutuel wagering business. As a result of inclement weather during the winter months, a number of racetracks do not operate and those that do operate often experience missed racing days. This adversely affects the amounts wagered and our corresponding service revenues. Wagering and lottery equipment sales and software license revenues usually reflect a limited number of large transactions, which do not recur on an annual basis. Consequently, revenues and operating results can vary substantially from period to period as a result of the timing of revenue recognition for major equipment sales and software licensing transactions. In addition, instant ticket and prepaid phone card sales may vary depending on the season and timing of contract awards, changes in customer budgets, inventory ticket levels, lottery retail sales and general economic conditions.

Operating results may also vary significantly from period to period depending on the addition or disposition of business units in each period.

Results of Operations: See Note 3 Business Segments

Three Months Ended March 31, 2005 compared to Three Months Ended March 31, 2004

Revenue Analysis

For the quarter ended March 31, 2005, revenues of $184.6 million were down $0.9 million or 0.5% as compared to the prior year quarter, due to a $15.0 million or 34% decrease in sales revenue which was largely offset by a $14.1 million or 10% increase in service revenue.

The increase in service revenue in the quarter ended March 31, 2005 is primarily attributable to a $16.1 million or 15% increase in service revenues in the Lottery Group which results from to continued strong sales of instant lottery tickets and licensed game properties, partially offset by approximately $6.1 million of lower revenues on the Florida lottery contract which ended in January 2005. Pari-mutuel Group service revenues decreased $1.0 million, reflecting lower wagering, and the loss of the New York Racing Association contract. Venue Management Group service revenues decreased $1.0 million due to lower wagering, in part because of the smoking ban instituted in Connecticut in the second quarter of 2004.

The $15.0 million decrease in sales revenue in the quarter ended March 31, 2005 is primarily attributable to $16.0 million of non-recurring systems and equipment sales in the Lottery Group and a $0.3 million of non-recurring system and equipment sales in the Pari-mutuel Group, partially offset by a $1.3 million improvement in revenues in the Telecommunications Products Group, due primarily to higher sales volume and favorable foreign exchange rates, partially offset by lower prices.

Gross Profit Analysis

Gross profit of $77.4 million for the quarter ended March 31, 2005 decreased $0.1 million as compared to the corresponding period in 2004, due to a $4.6 million decrease in sales revenue margins which was mostly offset by a $4.5 million or 7% improvement in service revenue gross margins. Gross margins were 42% in 2005 and 2004. The $1.9 million increase in the Lottery Group gross profit related to higher service revenues. The $1.4 million or 17% decrease in services revenue margins in the Pari-mutuel Group reflects the result of lower service revenues and increases in operating costs. Venue Management Group gross profit decreased $1.1 million or 24% as a result of lower service revenues. Telecommunications Products Group gross profit increased $0.8 million or 23% from the prior year as a result of higher sales revenues, as described above.

Expense Analysis

Selling, general and administrative expenses of $27.7 million for the quarter ended March 31, 2005 were $1.8 million or 7% higher than in 2004. This increase is primarily due to increased sales and marketing costs, compensation and professional service fees.

Depreciation and amortization expense, including amortization of service contract software, of $14.5 million for the quarter ended March 31, 2005 decreased $0.7 million or 5% from the corresponding period in 2004. Interest expense of $6.4 million for the quarter ended March 31, 2005 decreased $1.0 million or 13% from 2004, primarily reflecting the benefits of the debt restructuring completed in December 2004, partially offset by additional borrowings outstanding during the quarter.

Income Tax Expense

Income tax expense of $9.0 million for the quarter ended March 31, 2005 decreased $0.4 million or 4% from 2004. The financial statement income tax provision was 30.0% in 2005 and 31.5% in 2004. The lower effective rate in 2005 primarily reflects the benefits from the tax restructuring plan implemented in 2004.

Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 1 to our 2004 Annual Report on Form 10-K. Critical accounting policies are those that require application of management s most difficult, subjective, or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies for us include revenue recognition on percentage of completion contracts related to lottery development projects and pari-mutuel systems software development projects, capitalization of software development costs, evaluation of the recoverability of assets, the assessment of litigation and contingencies, accounting for stock-based compensation, accounting for derivative instruments and hedging activities, and accounting for income and other taxes. Actual results could differ from estimates.

Liquidity, Capital Resources and Working Capital

As of March 31, 2005, our senior secured credit facility (the 2004 Facility) consists of a $250.0 million revolving credit facility due 2009 and a $99.8 million Term Loan B due 2009. The 2004 Facility contains certain financial covenants which are described below. At March 31, 2005, approximately 18% of our debt, representing approximately $105.7 million of indebtedness, was in variable rate instruments. Consequently, we are exposed to fluctuations in interest rates. The effect of a 0.125% change in interest rates associated with our unhedged variable rate debt will result in a change of approximately $0.1 million per year in our interest expense assuming no change in our outstanding borrowings.

Our financing arrangements as of March 31, 2005 impose certain limitations on our and our subsidiaries operations.

The credit agreement governing the 2004 Facility (the 2004 Credit Agreement) contains certain covenants that, among other things, limit our ability, and the ability of certain of our subsidiaries, to incur additional indebtedness, pay dividends or make distributions or certain other restricted payments, purchase or redeem capital stock, make investments or extend credit, engage in certain transactions with affiliates, engage in sale-leaseback transactions, consummate certain assets sales, effect a consolidation or merger, or sell, transfer, lease or otherwise dispose of all or substantially all assets, and create certain liens and other encumbrances on assets. Additionally, the 2004 Credit Agreement contains the following financial covenants, which are computed quarterly on a rolling four-quarter basis as applicable:

A maximum Consolidated Leverage Ratio of 3.75, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 3.50. Consolidated Leverage Ratio means the ratio of (x) the aggregate stated balance sheet amount of our indebtedness determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

A minimum Consolidated Fixed Charge Coverage Ratio of 1.00 until December 2009. Consolidated Fixed Charge Coverage Ratio means, as of any date of determination, the ratio computed for our four most recent fiscal quarters of (x) Consolidated EBITDA to (y) the sum of (i) total interest expense less non-cash amortization costs included in interest expense, (ii) scheduled payments of principal on indebtedness, (iii) capital expenditures and (iv) all income taxes paid in cash.

A maximum Consolidated Senior Debt Ratio of 2.00, which will be reduced according to the terms of the 2004 Credit Agreement on July 1, 2006, from which date until December 2009 the ratio shall be 1.75. Consolidated Senior Debt Ratio means the ratio of (x) the aggregate stated balance sheet amount of our indebtedness, less the amount of the 2000 Notes, the 2004 Notes and the Convertible Debentures, determined on a consolidated basis in accordance with GAAP as of the last day of the fiscal quarter for which such determination is being made to (y) Consolidated EBITDA for the four consecutive fiscal quarters ended on the last day of the fiscal quarter for which such determination is being made.

For purposes of the foregoing limitations, Consolidated EBITDA means the sum of (i) consolidated net income, (ii) consolidated interest expense with respect to all outstanding indebtedness, (iii) provisions for taxes based on income, (iv) total depreciation expense, (v) total amortization expense and (vi) certain adjustments, in each case for the period being measured, all of the foregoing as determined on a consolidated basis for us and our subsidiaries in accordance with GAAP. Although we were in compliance with our loan covenants at March 31, 2005 and expect to continue to remain in compliance over the next 12 months, no assurances can be provided that we will be able to do so or that we will be able to continue to meet the covenant requirements beyond 12 months.

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At March 31, 2005, we had outstanding letters of credit of $31.3 million, but no outstanding borrowings under the revolving credit facility, leaving us with a total availability of $218.7 million as compared to $199.9 million at December 31, 2004. Our ability to borrow under the 2004 Facility will depend on our remaining in compliance with the limitations imposed by our lenders, including the maintenance of the specified financial covenants. Presently we have not sought and, therefore, do not have any other financing commitments.

Our contractual obligations and commercial commitments principally include obligations associated with our outstanding indebtedness and future minimum operating lease obligations.

In August 2004, the holders of our Series A Convertible Preferred Stock converted all outstanding shares into shares of our Class A Common Stock and we redeemed their holdings of our Series B Preferred Stock for a nominal amount. Prior to conversion, our Series A Convertible Preferred Stock required dividend payments at a rate of 6% per annum. Prior to 2004, we satisfied the dividend requirement using additional shares of convertible preferred stock. From March 2004 until conversion in August 2004, we paid the dividend in cash.

Our pari-mutuel wagering and online lottery systems service contracts require us to, among other things, maintain the central computing system and related hardware in efficient working order, provide added software functionality upon request, provide on-site computer operators, and furnish necessary supplies. Our primary expenditures associated with these services are personnel and related costs, which are expensed as incurred and are included in Operating Expenses Services in the consolidated statements of income. Historically, the revenues we derive from our pari-mutuel wagering and lottery systems service contracts have exceeded the direct costs associated with fulfilling our obligations thereunder. We expect that we will continue to realize positive cash flow and operating income as we extend or renew existing service contracts. We also expect that we will enter into new contracts that are accretive to our cash flow. In addition, through advancements in technology, we are continually deploying more efficient and cost effective methods for manufacturing and delivering our products and services to our customers. We expect that technological efficiencies will continue to positively impact our future cash flows and operating results. We are not party to any other material short-term or long-term obligations or commitments pursuant to these service contracts.

Periodically, we bid on new pari-mutuel and online lottery contracts. Once awarded, these contracts generally require significant up-front capital expenditures for terminal assembly, customization of software, software and equipment installation and telecommunications configuration. Historically we have funded these up-front costs through cash flows generated from operations, available cash on hand and borrowings under our credit facilities. Our ability to continue to procure new contracts will depend on, among other things, our then present liquidity levels and/or our ability to borrow at commercially acceptable rates to finance the initial up front costs. Once operational, long term service contracts have been accretive to our operating cash flow. For fiscal 2005, we anticipate that capital expenditures and software expenditures will be approximately $90.0 million. However, the actual level of expenditures in fiscal year 2005 and beyond will ultimately largely depend on the extent to which we are successful in winning new contracts. Furthermore, our pari-mutuel wagering network consists of approximately 26,000 wagering terminals. Periodically, we elect to upgrade the technological capabilities of older terminals and replace terminals that have exhausted their useful lives. We presently have no commitments to replace our existing terminal base, and our obligation to upgrade the terminals is discretionary. Servicing our installed terminal base requires that we maintain a supply of parts and accessories on hand. We are also required, contractually in some cases, to provide spare parts over an extended period of time, principally in connection with our systems and terminal sale transactions. To meet our contractual obligations and maintain sufficient levels of on-hand inventory to service our installed base, we purchase inventory on an as-needed basis. We presently have no inventory purchase obligations.

At March 31, 2005, our available cash, short-term investments and borrowing capacity totaled $308.6 million compared to $318.6 million at December 31, 2004. The amount of our available cash and short-term investments fluctuates principally based on the timing of collections from our customers, cash expenditures associated with new and existing pari-mutuel wagering and lottery systems contracts, borrowings or repayments under our credit facilities and changes in our working capital position. The increase in our available cash from the December 31, 2004 level principally reflects the net cash provided by operating activities for the three months ended March 31, 2005 of $62.1 million, partially offset by wagering and other capital expenditures of $31.1 million and acquisition related payments of $2.9 million. The $62.1 million of net cash provided by operating activities is derived from net cash provided by operations of $45.8 million plus $16.3 million funded from changes in working capital. The working capital changes occurred principally from decreases in short-term investments, partially offset by increases in inventories and other current assets and decreases in accounts payable and accrued liabilities. Capital expenditures of $6.2 million in the first quarter of 2005 are comparable to similar expenditures totaling $6.1 million in the corresponding period in 2004. Wagering system expenditures, including software expenditures, totaled $21.2 million in the first quarter of 2005 compared to $13.9 million in the corresponding period in 2004. This increase is primarily due to the new lottery contract in Puerto Rico. Cash flow from financing activities p;

Stadeln

X

X

Troisdorf

X

X

X

Uerdingen

X

Italy

Turin

X

The Netherlands

Oss

X

United Kingdom

Barrow-in Furness

X

Birtley

X

United States

Beltsville, MD

X

East St. Louis, IL

X

Easton, PA

X

Harrisburg, NC	
	X
	X
Kings Mountain, NC	
	X

Laurens, SC

X

Middletown, NY

X

X

X

Pineville, NC

X

Silver Peak, NV

X

Sunbright, VA

X

X

Valdosta, GA

X

(a) The Company is currently operating groundwater monitoring and/or remediation systems at these locations.

(b) The Company is currently operating groundwater monitoring and/or remediation systems at these locations for which prior owners or insurers have assumed all or most of the responsibility.

(c) The Company is currently conducting investigations into additional possible soil and/or groundwater contamination at these locations.

(d) The Company has land restoration obligations generally relating to landfill activities or surface mining at these locations.

(e) The Company is responsible for liabilities related to environmental matters at these formerly owned or closed facilities.

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

Although the Company cannot provide assurances in this regard, the Company does not believe that these issues will have a material effect on its financial condition, results of operations or cash flows. Nonetheless, the discovery of contamination arising from present or historical industrial operations at some of the Company s or its predecessor s former and present properties and/or at sites where the Company and its predecessor disposed wastes could expose the Company to cleanup obligations and other damages in the future.

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

The Company s liability estimates are based upon available facts, existing technology, indemnities from third parties, past experience and, in some instances, insurance recoveries where the remediation costs are being paid by its insurers, and are generated by several means, including State-mandated schedules, environmental consultants and internal experts, depending on the circumstances. On a consolidated basis, the Company has accrued $52.9 million and $53.5 million for environmental liabilities as of March 31, 2013 and December 31, 2012, 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 $22.5 million and $22.6 million as of March 31, 2013 and December 31, 2012, respectively. These obligations primarily relate to post-closure reclamation of landfills in the Titanium Dioxide Pigments segment and surface mining and manufacturing sites within the Lithium segment.

The remaining environmental liabilities ($30.4 million and $30.9 million as of March 31, 2013 and December 31, 2012, respectively), represent remediation obligations. The Company estimates that the potential range for such environmental matters (excluding reclamation obligations) as of March 31, 2013 is from $30.4 million to $50.6 million. Of these accruals, $20.0 million and $20.1 million as of March 31, 2013 and December 31, 2012, respectively, represent liabilities discounted using discount rates ranging from 2.8% to 7.0%.

The Company s remediation liabilities are payable over periods of up to 30 years. At a number of the sites described above, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable and could potentially affect the range. For the three months ended March 31, 2013, the Company recorded charges of $0.7 million to increase its environmental liabilities and made payments of $0.2 million for reclamation and remediation costs, which reduced its environmental liabilities. For the three months ended March 31, 2013, the recurring cost of managing hazardous substances for ongoing operations is $11.9 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 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 financial condition, results of operations or cash flows. The Company is unable to estimate the amount or range of any potential incremental charges should facts and circumstances change and may in the future revise its estimates based on new information becoming available.

In the event that manufacturing operations are discontinued at any of the Company s facilities with known contamination, regulatory authorities may impose more stringent requirements on the Company including soil remediation. The Company does not contemplate any such action occurring in the foreseeable future, as these facilities remaining lives are not known. Given the indeterminate useful life of these facilities and the corresponding indeterminate settlement date of any soil remediation obligations, the Company does not have sufficient information to estimate a range of potential settlement dates for its obligations. Consequently, the Company cannot employ a present value technique to estimate fair value and, accordingly, has not accrued for any environmental-related costs to remediate soil at these facilities.

16. 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 Rockwood Specialties Group, Inc. (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;

- 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 combined 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 (c) eliminate the cash overdrafts in intergroup payable, and (d) 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 condensed 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 senior secured credit agreement and 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 2012 Annual Report on Form 10-K for further details.

The following tables present the Company s consolidating statement of operations, comprehensive income and cash flows for the three months ended March 31, 2013 and 2012, and the Company s consolidating balance sheet as of March 31, 2013 and December 31, 2012.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$	$	$ 179.7	$ 807.8	$ (52.9)	$ 934.6
Cost of products sold			127.6	585.6	(52.4)	660.8
Gross profit			52.1	222.2	(0.5)	273.8
Selling, general and administrative expenses		0.4	45.5	134.1		180.0
Restructuring and other severance costs			5.3	1.8		7.1
Operating income		(0.4)	1.3	86.3	(0.5)	86.7
Other income (expenses), net:						
Intergroup interest, net		17.5	(3.1)	(14.4)		
Interest expense, net		(22.7)	(0.3)	(6.0)		(29.0)
Loss on early extinguishment/modification of debt				(17.6)		(17.6)
Intergroup other, net			10.7	(10.7)		
Foreign exchange loss on financing activities, net		(13.3)	(0.2)	(1.8)		(15.3)
Other, net				0.1		0.1
Other (expenses) income, net		(18.5)	7.1	(50.4)		(61.8)
(Loss) income from before taxes		(18.9)	8.4	35.9	(0.5)	24.9
Income tax (benefit) provision		(7.9)	4.0	12.1	(0.2)	8.0
Net income before equity in undistributed earnings of subsidiaries		(11.0)	4.4	23.8	(0.3)	16.9
Equity in undistributed earnings of subsidiaries	18.9	29.9	13.9	18.9	(81.6)	
Net income	18.9	18.9	18.3	42.7	(81.9)	16.9
Net loss attributable to noncontrolling interest				2.0		2.0
Net income attributable to Rockwood Holdings, Inc. shareholders	$ 18.9	$ 18.9	$ 18.3	$ 44.7	$ (81.9)	$ 18.9

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED MARCH 31, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income	$ 18.9	$ 18.9	$ 18.3	$ 42.7	$ (81.9)	$ 16.9
Other comprehensive (loss) income	(73.7)	(73.7)	0.1	(97.1)	199.6	(44.8)
Comprehensive (loss) income	(54.8)	(54.8)	18.4	(54.4)	117.7	(27.9)
Comprehensive loss attributable to noncontrolling interest				0.7		0.7
Comprehensive (loss) income attributable to Rockwood Holdings, Inc. shareholders	$ (54.8)	$ (54.8)	$ 18.4	$ (53.7)	$ 117.7	$ (27.2)

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2012

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$	$	$ 202.3	$ 768.7	$ (61.5)	$ 909.5
Cost of products sold			145.7	482.5	(61.5)	566.7
Gross profit			56.6	286.2		342.8
Selling, general and administrative expenses		0.3	43.7	133.1		177.1
Restructuring and other severance costs			1.7	12.5		14.2
Operating income		(0.3)	11.2	140.6		151.5
Other income (expenses), net:						
Intergroup interest, net		18.7	(4.0)	(14.7)		
Interest expense, net		(17.6)		(2.9)		(20.5)
Loss on early extinguishment/modification of debt		(0.3)	(3.4)	(6.0)		(9.7)
Intergroup other, net			9.3	(9.3)		
Foreign exchange loss on financing activities, net			(0.2)	(0.8)		(1.0)
Other income (expenses), net		0.8	1.7	(33.7)		(31.2)
Income from before taxes		0.5	12.9	106.9		120.3
Income tax provision		0.2	1.3	29.1		30.6
Net income before equity in undistributed earnings of subsidiaries		0.3	11.6	77.8		89.7
Equity in undistributed earnings of subsidiaries	75.8	75.5	8.7	75.8	(235.8)	
Net income	75.8	75.8	20.3	153.6	(235.8)	89.7
Net income attributable to noncontrolling interest				(13.9)		(13.9)
Net income attributable to Rockwood Holdings, Inc. shareholders	$ 75.8	$ 75.8	$ 20.3	$ 139.7	$ (235.8)	$ 75.8

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED MARCH 31, 2012

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income	$ 75.8	$ 75.8	$ 20.3	$ 153.6	$ (235.8)	$ 89.7
Other comprehensive income	48.8	48.8	0.9	(25.8)	(19.5)	53.2
Comprehensive income	124.6	124.6	21.2	127.8	(255.3)	142.9
Comprehensive income attributable to noncontrolling interest				(18.3)		(18.3)
Comprehensive income attributable to Rockwood Holdings, Inc. shareholders	$ 124.6	$ 124.6	$ 21.2	$ 109.5	$ (255.3)	$ 124.6

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

MARCH 31, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 110.6	$ 462.7	$ 1,008.9	$ (1,091.1)	$ 491.1
Accounts receivable, net			85.8	467.3		553.1
Intergroup receivable		393.9	167.2	14.3	(575.4)	
Inventories			144.3	675.7	(6.8)	813.2
Deferred income taxes			1.9	8.9	0.8	11.6
Prepaid expenses and other current assets		0.1	9.3	71.4		80.8
Total current assets		504.6	871.2	2,246.5	(1,672.5)	1,949.8
Property, plant and equipment, net			268.0	1,418.8		1,686.8
Investment in subsidiary	1,584.0	1,195.7	452.5	1,584.0	(4,816.2)	
Goodwill			17.1	824.1		841.2
Intergroup receivable	74.9	2,057.8	145.8	55.5	(2,334.0)	
Other intangible assets, net			51.9	367.5		419.4
Deferred financing costs, net		20.6	4.8	5.7		31.1
Deferred income taxes		134.6	12.0	29.1		175.7
Other assets			0.7	65.4		66.1
Total assets	$ 1,658.9	$ 3,913.3	$ 1,824.0	$ 6,596.6	$ (8,822.7)	$ 5,170.1
LIABILITIES						
Current liabilities:						
Accounts payable	$	$	$ 28.2	$ 197.1	$	$ 225.3
Intergroup payable	146.1	2.0	862.3	656.1	(1,666.5)	
Income taxes payable			0.1	28.5		28.6
Accrued compensation			11.1	100.1		111.2
Accrued expenses and other current liabilities		33.4	37.2	102.7		173.3
Deferred income taxes		0.8		6.0	(1.5)	5.3
Long-term debt, current portion		35.0		8.2		43.2
Total current liabilities	146.1	71.2	938.9	1,098.7	(1,668.0)	586.9
Long-term debt		2,126.0		52.8		2,178.8
Pension and related liabilities			21.8	536.8		558.6
Intergroup payable	16.6	120.0	560.6	1,636.8	(2,334.0)	
Deferred income taxes				74.0		74.0
Other liabilities		12.1	27.1	79.9		119.1
Total liabilities	162.7	2,329.3	1,548.4	3,479.0	(4,002.0)	3,517.4
Restricted stock units	16.2					16.2
EQUITY						
Rockwood Holdings, Inc. stockholders equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8
Paid-in capital	1,242.3	1,037.1	501.1	1,681.6	(3,219.8)	1,242.3

Accumulated other comprehensive (loss) income	(88.0)	(86.7)	2.4	(55.3)	139.6	(88.0)
Retained earnings (deficit)	415.7	633.6	(418.5)	1,170.1	(1,385.2)	415.7
Treasury stock, at cost	(90.8)					(90.8)
Total Rockwood Holdings, Inc. stockholders equity	1,480.0	1,584.0	275.6	2,961.1	(4,820.7)	1,480.0
Noncontrolling interest				156.5		156.5
Total equity	1,480.0	1,584.0	275.6	3,117.6	(4,820.7)	1,636.5
Total liabilities and equity	$ 1,658.9	$ 3,913.3	$ 1,824.0	$ 6,596.6	$ (8,822.7)	$ 5,170.1

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2012

(Dollars in millions)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 665.3	$ 299.3	$ 1,258.1	$ (949.1)	$ 1,273.6
Accounts receivable, net			73.3	401.0		474.3
Intergroup receivable		263.0	41.2	9.9	(314.1)	
Inventories			133.1	696.1	(6.3)	822.9
Deferred income taxes			1.9	8.0	0.7	10.6
Prepaid expenses and other current assets			14.6	70.5		85.1
Total current assets		928.3	563.4	2,443.6	(1,268.8)	2,666.5
Property, plant and equipment, net			269.0	1,446.4		1,715.4
Investment in subsidiary	1,645.7	1,223.6	441.7	1,645.8	(4,956.8)	
Goodwill			17.1	847.7		864.8
Intergroup receivable	70.3	1,550.4	146.4	55.5	(1,822.6)	
Other intangible assets, net			55.3	390.5		445.8
Deferred financing costs, net		21.9	5.1	24.7		51.7
Deferred income taxes		130.9	11.9	29.0		171.8
Other assets			0.7	57.0		57.7
Total assets	$ 1,716.0	$ 3,855.1	$ 1,510.6	$ 6,940.2	$ (8,048.2)	$ 5,973.7
LIABILITIES						
Current liabilities:						
Accounts payable	$	$	$ 32.4	$ 200.9	$	$ 233.3
Intergroup payable	30.2		560.8	672.2	(1,263.2)	
Income taxes payable				33.1		33.1
Accrued compensation			16.5	89.0		105.5
Accrued expenses and other current liabilities		20.6	30.8	100.6		152.0
Deferred income taxes		0.7		4.3	(1.4)	3.6
Long-term debt, current portion		30.6		523.1		553.7
Total current liabilities	30.2	51.9	640.5	1,623.2	(1,264.6)	1,081.2
Long-term debt		2,143.5		54.6		2,198.1
Pension and related liabilities			21.8	554.8		576.6
Intergroup payable	16.7	2.1	559.5	1,244.2	(1,822.5)	
Deferred income taxes				72.0		72.0
Other liabilities		11.9	27.7	84.0		123.6
Total liabilities	46.9	2,209.4	1,249.5	3,632.8	(3,087.1)	4,051.5
Restricted stock units	12.5					12.5
EQUITY						
Rockwood Holdings, Inc. stockholders equity:						
Common stock	0.8		190.6	164.7	(355.3)	0.8
Paid-in capital	1,243.1	1,044.0	505.8	1,691.1	(3,240.9)	1,243.1
Accumulated other comprehensive (loss) income	(14.3)	(13.0)	2.3	70.7	(60.0)	(14.3)
Retained earnings (deficit)	428.4	614.7	(437.6)	1,127.8	(1,304.9)	428.4

Treasury stock, at cost	(1.4)					(1.4)
Total Rockwood Holdings, Inc. stockholders equity	1,656.6	1,645.7	261.1	3,054.3	(4,961.1)	1,656.6
Noncontrolling interest				253.1		253.1
Total equity	1,656.6	1,645.7	261.1	3,307.4	(4,961.1)	1,909.7
Total liabilities and equity	$ 1,716.0	$ 3,855.1	$ 1,510.6	$ 6,940.2	$ (8,048.2)	$ 5,973.7

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ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2013

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 18.9	$ 18.9	$ 18.3	$ 42.7	$ (81.9)	$ 16.9
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(18.9)	(29.9)	(13.9)	(18.9)	81.6	
Depreciation and amortization			12.1	54.9		67.0
Deferred financing costs amortization		0.7	0.3	1.6		2.6
Loss on early extinguishment/modification of debt				17.6		17.6
Foreign exchange loss on financing activities, net		13.3	0.2	1.8		15.3
Fair value adjustment of derivatives				(0.9)		(0.9)
Bad debt provision			(0.1)	0.1		
Stock-based compensation			1.9	1.4		3.3
Deferred income taxes		(3.7)	(0.2)	1.6	(0.2)	(2.5)
Asset write-downs and other				0.1		0.1
Excess tax benefits from stock-based payment arrangements				(1.4)		(1.4)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:						
Accounts receivable			(12.5)	(79.0)		(91.5)
Inventories			(11.3)	1.7	0.5	(9.1)
Prepaid expenses and other assets		(0.1)	1.1	(11.2)		(10.2)
Accounts payable			(2.7)	11.2		8.5
Income taxes payable		(4.2)	3.9	(1.9)		(2.2)
Accrued expenses and other liabilities		13.3	1.6	20.4		35.3
Intercompany operating activities, net	115.8	(130.3)	174.3	(17.8)	(142.0)	
Net cash provided by (used in) operating activities	115.8	(122.0)	173.0	24.0	(142.0)	48.8
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital expenditures (a)			(9.7)	(57.9)		(67.6)
Intercompany investing related activity						
Proceeds on sale of assets			0.1	0.1		0.2
Net cash used in investing activities			(9.6)	(57.8)		(67.4)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Issuance of common stock, net of fees	4.7					4.7

Excess tax benefits from stock-based payment arrangements				1.4		1.4
Payments of long-term debt		(13.1)		(513.6)		(526.7)
Proceeds from long-term debt				6.5		6.5
Fees related to early extinguishment/modification of debt				(0.6)		(0.6)
Purchase of noncontrolling interest		(1.0)		(129.3)		(130.3)
Distributions to noncontrolling shareholders				(0.1)		(0.1)
Dividend distributions to shareholders	(31.1)					(31.1)
Share repurchases	(89.4)					(89.4)
Intercompany financing related activity		(417.8)		417.8		
Net cash used in financing activities	(115.8)	(431.9)		(217.9)		(765.6)
Effect of exchange rate changes on cash and cash equivalents		(0.8)		2.5		1.7
Net (decrease) increase in cash and cash equivalents		(554.7)	163.4	(249.2)	(142.0)	(782.5)
Cash and cash equivalents of continuing operations, beginning of period		665.3	299.3	1,258.1	(949.1)	1,273.6
Cash and cash equivalents of continuing operations, end of period	$	$ 110.6	$ 462.7	$ 1,008.9	$ (1,091.1)	$ 491.1

(a) Net of governments grants of $1.5 million.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2012

(Dollars in millions)

(Unaudited)

	Parent Company Guarantor	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 75.8	$ 75.8	$ 20.3	$ 153.6	$ (235.8)	$ 89.7
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(75.8)	(75.5)	(8.7)	(75.8)	235.8	
Depreciation and amortization			13.0	52.8		65.8
Deferred financing costs amortization		0.1	0.2	1.0		1.3
Loss on early extinguishment/modification of debt		0.3	3.4	6.0		9.7
Foreign exchange loss on financing activities, net			0.2	0.8		1.0
Fair value adjustment of derivatives				0.4		0.4
Stock-based compensation			1.6	1.3		2.9
Deferred income taxes		0.5	(0.2)	4.8		5.1
Asset write-downs and other			1.1	10.3		11.4
Excess tax benefits from stock-based payment arrangements				(0.7)		(0.7)
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:						
Accounts receivable			(8.8)	(62.8)		(71.6)
Inventories			(11.9)	(82.0)		(93.9)
Prepaid expenses and other assets		(0.1)	(10.4)	7.5		(3.0)
Accounts payable			(2.1)	(2.1)		(4.2)
Income taxes payable		(0.3)	1.3	15.3		16.3
Accrued expenses and other liabilities	(0.1)	(6.9)	(17.0)	41.4		17.4
Intercompany operating activities, net		(3.8)	(0.8)	4.6		
Net cash (used in) provided by operating activities of continuing operations	(0.1)	(9.9)	(18.8)	76.4		47.6
Net cash used in operating activities of discontinued operations			(1.9)			(1.9)
Net cash (used in) provided by operating activities	(0.1)	(9.9)	(20.7)	76.4		45.7
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital expenditures (a)			(28.7)	(45.5)		(74.2)
Acquisitions				(0.2)		(0.2)
Proceeds on sale of assets				1.3		1.3
Net cash used in investing activities			(28.7)	(44.4)		(73.1)

CASH FLOWS FROM FINANCING ACTIVITIES:						
Issuance of common stock, net of fees	4.5					4.5
Excess tax benefits from stock-based payment arrangements				0.7		0.7
Payments of long-term debt		(538.4)		(1.3)		(539.7)
Proceeds from long-term debt		350.0		5.1		355.1
Deferred financing costs		(7.7)				(7.7)
Fees related to early extinguishment/modification of debt		(6.7)				(6.7)
Intercompany financing related activity		209.7	13.4	(223.1)		
Net cash provided by (used in) financing activities	4.5	6.9	13.4	(218.6)		(193.8)
Effect of exchange rate changes on cash and cash equivalents		3.0	(0.2)	(5.2)		(2.4)
Net increase (decrease) in cash and cash equivalents	4.4		(36.2)	(191.8)		(223.6)
Cash and cash equivalents of continuing operations, beginning of period	42.7		30.1	248.7		321.5
Cash and cash equivalents of continuing operations, end of period	$ 47.1	$	$ (6.1)	$ 56.9	$	$ 97.9

(a) Net of governments grants of $4.3 million.

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

Executive Summary

We are a global developer, manufacturer and marketer of technologically advanced, high value-added specialty chemicals and advanced materials. We serve more than 60,000 customers across a wide variety of industries and geographic areas. We operate through five reportable segments: (1) Lithium; (2) Surface Treatment; (3) Performance Additives; (4) Titanium Dioxide Pigments; and (5) Advanced Ceramics. We are focused on growth, productivity, cost reduction, margin expansion, divestment of non-core businesses, debt reduction, bolt-on acquisitions and increasing stockholder value.

The following table is a summary of our financial highlights:

	Three months ended March 31,	
($ in millions, except per share amounts)	**2013**	**2012**
Net sales	$ 934.6	$ 909.5
Net income	18.9	75.8
Adjusted EBITDA	168.2	234.9
Adjusted EBITDA margin	18.0%	25.8%
Diluted earnings per share attributable to Rockwood Holdings, Inc. shareholders	0.24	0.94

Results First Quarter Review

Total net sales were up in the first quarter of 2013 compared to the same period in the prior year primarily due to higher volumes in Titanium Dioxide Pigments, driven in large part by the acquisition of certain assets of crenox GbmH in July 2012, as well as higher volumes of medical ceramic applications in our Advanced Ceramics segment. This was partially offset by decreased selling prices in Titanium Dioxide Pigments and lower North American oil and natural gas drilling volumes, lower coatings volumes, as well as lower construction volumes in Europe in our Performance Additives segment.

Adjusted EBITDA decreased in the first quarter of 2013 compared to the same period in the prior year primarily in Titanium Dioxide Pigments due to lower selling prices, lower production levels to reduce inventory resulting in lower fixed cost absorption, and higher raw material costs.

Net income and diluted earnings per share were lower in the first quarter of 2013 compared to the same period in the prior year primarily due to the reasons noted above.

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 2012 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.

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. 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 2012, net sales were up primarily from increased selling prices, as well as higher volumes of lithium carbonate used in battery applications and lithium specialties, partially offset by a decline in lithium carbonate technical grade and potash volumes. In the first quarter of 2013, net sales were up primarily from higher selling prices. We expect net sales growth for the remainder of 2013 driven primarily by increased volumes, particularly for lithium carbonate, as well as higher selling prices.

Surface Treatment

- Demand for Surface Treatment products generally follows the activity levels of metal processing manufacturers, including the automotive, steel and aerospace industries. In 2012, net sales were down slightly from lower volumes in Europe across most markets, partially offset by higher selling prices and increased volumes in the U.S. and Asia. In the first quarter of 2013, net sales were down primarily from lower volumes in Europe, partially offset by higher selling prices in Europe and the U.S. We expect net sales growth for the remainder of 2013 primarily from increased volumes across most markets, as well as higher selling prices.

Performance Additives

- Generally, a trend towards the increased use of colored concrete products in the construction market has historically had a positive effect on our Color Pigments and Services business line. However, a general slowdown in the construction market has negatively impacted construction sales. In 2012 and the first quarter of 2013, North American construction volumes were flat. European construction volumes were down in 2012 and the first quarter of 2013. Volumes of coatings and specialties products were down in 2012 and the first quarter of 2013. We expect some net sales growth for the remainder of 2013 primarily from higher selling prices, as well as some volume growth in certain markets. A strengthening of the U.S. housing market could have a favorable impact on 2013 results.

- Demand for our wood protection products is generally driven by both repair and remodeling, as well as new construction. In 2012, net sales were up primarily from higher selling prices. In the first quarter of 2013, net sales were down from lower volumes of alkaline copper quaternary (ACQ) products. In 2013, a shift in the mix of products from ACQ to copper azole and Ecolife is expected to have a favorable impact on results.

- In the Clay-based Additives business, net sales were down in 2012 and the first quarter of 2013 primarily from lower North American oil and natural gas drilling volumes, as well as lower coatings and inks volumes. We expect modest net sales growth for the remainder of 2013 mainly from our specialty growth product lines primarily in our coatings and composites markets.

- In 2013, we announced we are considering all strategic options regarding our Performance Additives segment.

Titanium Dioxide Pigments

• Demand for our titanium dioxide products in anatase grade is driven mainly by demand in the synthetic fiber industry, while demand for titanium dioxide products in rutile grade and our functional additives business are driven by demand in the coatings, printing inks, construction, cosmetics, pharmaceutical, food, paper and plastics industries. In 2012, net sales were down as the negative impact of currency changes and lower volumes were partially offset by higher selling prices. In the first quarter of 2013, net sales were up as increased volumes driven in large part by the acquisition of certain assets of crenox GmbH offset lower selling prices. We expect this trend to continue for the remainder of 2013. Furthermore, we expect weak performance in the first half of the year with results improving in the second half should pricing stabilize and raw material costs decrease.

• Our functional additives sales were down in 2012 as lower volumes were partially offset by increased selling prices. In the first quarter of 2013, functional additives sales were up on higher selling prices. We expect net sales growth for the remainder of 2013 driven primarily by increased volumes.

• In July 2012, our Titanium Dioxide Pigments venture acquired certain business assets, primarily inventory and other production assets, of crenox GmbH, a German titanium dioxide producer.

• On February 15, 2013, we 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, we own 100% of the Titanium Dioxide Pigments business.

- In 2013, we announced we are considering all strategic options available to us regarding our Titanium Dioxide Pigments business.

Advanced Ceramics

- Demand for our ceramic components for medical devices is mainly tied to the aging population in Europe and the United States. Sales of our medical device applications increased in 2012 and the first quarter of 2013 on higher volumes. We expect net sales growth of medical applications for the remainder of 2013 primarily driven by increased volumes in ceramic hip applications.

- In 2012 and the first quarter of 2013, sales volumes of electronic applications and cutting tools were down. Lower volumes of electronic applications were driven by a slowdown in the market for power electronic applications in the energy and semiconductor industries. For the remainder of 2013, we expect ceramic electronic applications to increase from organic growth. For the remainder of 2013, we expect net sales for cutting tools to be slightly lower due to a slowdown of worldwide automotive production. In 2012, sales volumes of mechanical systems were down driven by lower demand for cartridges. In the first quarter of 2013, mechanical systems net sales were up on higher selling prices, as well as increased volumes. For the remainder of 2013, we expect increased net sales for mechanical systems on higher selling prices.

- In 2013, we announced we are considering all strategic options available to us regarding our Advanced Ceramics segment.

Global Exposure

We operate a geographically diverse business, with 54% of our net sales in 2012 generated from shipments to customers in Europe, 24% to North America (predominantly the United States), 15% to Asia and 7% 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 2012 Form 10-K.

We have sold to customers in more than 60 countries and currently serve our diverse and extensive customer base with 80 operating manufacturing facilities in more than 20 countries. 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 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 March 31, 2013, the average exchange rate of the Euro against the U.S. dollar was slightly higher compared to the same period in 2012. As a result, our net sales, gross profit and operating income were positively impacted. 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 March 31, 2013 which are denominated in Euros are converted at the March 31, 2013 exchange rate of 1.00 = $1.2819. For the three months ended March 31, 2013 and 2012, the average rate of exchange of the Euro to the U.S. dollar is $1.3199 and $1.3121, respectively.

Raw Materials

Raw materials constituted approximately 49% of our 2012 cost of products sold. We have a broad raw material base, with the cost of no single raw material representing more than 6% of our cost of products sold in 2012. 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 2012, higher raw material costs in a number of businesses had an unfavorable impact on our results of operations. In the first quarter of 2013, raw material costs were up primarily in our Titanium Dioxide Pigments segment for slag and ilmenite. 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. See details of our ten most significant raw materials (in terms of dollars) in Item 1, Business Raw Materials in our 2012 Annual Report on Form 10-K.

Energy Costs

In 2012, energy purchases represented approximately 8% of our cost of products sold. However, within certain business lines, such as our Titanium Dioxide Pigments segment and the Color Pigments and Services and Clay-based Additives businesses of our Performance Additives segment, energy costs are more significant. Energy costs were up in 2012 and the first quarter of 2013. Natural gas prices in Europe, where our Titanium Dioxide Pigments segment is located, were up in 2012 and in the first quarter of 2013. Natural gas prices in North America were down in 2012 and in the first quarter of 2013.

Income Taxes

We recorded an income tax provision of $8.0 million on income from operations before taxes of $24.9 million in the three months ended March 31, 2013. The income tax provision was favorably impacted by a beneficial foreign earnings mix.

Other Charges and Credits

During the periods presented, we incurred certain other charges that included systems/organization establishment expenses, restructuring and other severance costs, foreign exchange gains and losses, and a loss on early extinguishment/modification of debt. See Items excluded from Adjusted EBITDA section in Note 2, Segment Information, for a discussion of other charges and credits recorded in the three months ended March 31, 2013 and 2012.

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, primarily Adjusted EBITDA. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, in our 2012 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. Shareholders to Adjusted EBITDA for the three months ended March 31, 2013 and 2012 within this MD&A section), including as a percentage of net sales, for the periods presented. See Note 2, Segment Information, for segment information and a reconciliation from income (loss) before taxes to Adjusted EBITDA on a segment basis.

($ in millions)	Three months ended March 31, 2013		Three months ended March 31, 2012	
Statement of operations data:				
Net sales:				
Lithium	$	118.5	$	114.7
Surface Treatment		184.5		188.6
Performance Additives		177.1		196.5
Titanium Dioxide Pigments		273.1		225.1
Advanced Ceramics		142.9		144.6
Corporate and other		38.5		40.0
Total net sales		934.6		909.5
Gross profit		273.8		342.8
		29.3%		37.7%
Selling, general and administrative expenses		180.0		177.1
		19.3%		19.5%
Restructuring and other severance costs		7.1		14.2
Operating income (loss):				
Lithium		31.7		22.4
		26.8%		19.5%
Surface Treatment		28.2		30.9
		15.3%		16.4%
Performance Additives		20.6		21.6
		11.6%		11.0%
Titanium Dioxide Pigments		(9.8)		55.5
		-3.6%		24.7%
Advanced Ceramics		33.1		33.4
		23.2%		23.1%
Corporate and other		(17.1)		(12.3)
Total operating income		86.7		151.5
Other expenses, net:				
Interest expense, net		(29.0)		(20.5)
Loss on early extinguishment/modification of debt		(17.6)		(9.7)
Foreign exchange loss on financing activities, net		(15.3)		(1.0)
Other, net		0.1		
Other expenses, net		(61.8)		(31.2)
Income before taxes		24.9		120.3
Income tax provision		8.0		30.6
Net income		16.9		89.7
Net loss (income) attributable to noncontrolling interest		2.0		(13.9)
Net income attributable to Rockwood Holdings, Inc. shareholders	$	18.9	$	75.8
Adjusted EBITDA:				
Lithium	$	46.9	$	44.4
		39.6%		38.7%
Surface Treatment		39.5		39.7
		21.4%		21.0%
Performance Additives		35.8		38.8
		20.2%		19.7%
Titanium Dioxide Pigments		8.6		75.6
		3.1%		33.6%
Advanced Ceramics		46.5		46.3
		32.5%		32.0%
Corporate and other		(9.1)		(9.9)
Total Adjusted EBITDA	$	168.2	$	234.9

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Overview

Net sales increased $25.1 million, or 2.8%, over the prior year primarily due to higher volumes of $71.3 million, particularly in our Titanium Dioxide Pigments segment related to the acquisition of certain assets of crenox GmbH in July 2012, partially offset by lower selling prices of $44.9 million. See further discussion by segment below.

Operating income decreased $64.8 million, or 42.8%, and Adjusted EBITDA decreased $66.7 million, or 28.4%, over the prior year primarily due to lower selling prices of $44.9 million, lower production levels to reduce inventory resulting in lower fixed cost absorption of $27.2 million and higher raw material costs of $16.6 million. This was partially offset by the gross margin impact of higher sales volumes of $16.2 million.

Net income decreased $72.8 million, or 81.2%, over the prior year due to the reasons noted above. In addition, we recorded a charge of $17.6 million in the first quarter of 2013 in connection with the repayment of the outstanding borrowings under the Titanium Dioxide Pigments facility agreement and recorded a charge of $9.7 million in the first quarter of 2012 in connection with the redemption of our 2014 Notes. Also, foreign exchange losses were up $14.3 million over the prior year due to an increase in intercompany Euro-denominated loans put in place to fund the prepayment of the titanium dioxide pigments facility agreement. See further discussion below.

Net loss attributable to noncontrolling interest of $2.0 million was recorded in the first quarter of 2013 compared to net income attributable to noncontrolling interest of $13.9 million in the first quarter of 2012. The change from the prior year was primarily related to lower net income generated by our Titanium Dioxide Pigments venture and the acquisition of our Titanium Dioxide Pigments venture partners   39% interest in February 2013. See further discussion below.

Net income attributable to Rockwood Holdings, Inc. shareholders decreased $56.9 million, or 75.1%, over the prior year due to the reasons noted above.

Net sales

Lithium. Net sales increased $3.8 million, or 3.3%, over the prior year primarily on increased selling prices of $4.2 million in most product lines, as well as increased volumes of $0.6 million, partially offset by the negative impact of currency changes of $1.0 million. Volumes were up slightly as higher volumes of potash were partially offset by lower volumes of battery products, and, to a lesser extent, butyllithium applications.

Surface Treatment. Net sales decreased $4.1 million, or 2.2%, over the prior year primarily from lower volumes of $6.4 million, particularly in Europe driven by general industrial, coil and cold forming applications, as well as the negative impact of currency changes of $1.2 million. This was partially offset by higher selling prices of $3.5 million in Europe and the U.S, as well as increased volumes of automotive OEM and aerospace applications.

Performance Additives. Net sales decreased $19.4 million, or 9.9%, over the prior year primarily due to lower North American oil and natural gas drilling volumes, lower coatings volumes, as well as lower construction volumes in Europe.

Titanium Dioxide Pigments. Net sales increased $48.0 million, or 21.3%, over the prior year primarily from higher volumes of $102.6 million, driven in large part by the acquisition of certain assets of crenox GmbH in July 2012. This was partially offset by lower selling prices of $56.4 million.

Advanced Ceramics. Net sales decreased $1.7 million, or 1.2%, over the prior year primarily from lower volumes of $3.4 million, partially offset by increased selling prices of $1.0 million and the favorable impact of currency changes of $0.7 million. Volumes were down as lower volumes in most product applications were offset by higher volumes of medical ceramics.

Other. Net sales decreased $1.5 million, or 3.8%, over the prior year primarily due to lower volumes in our metal sulfides business.

Gross profit

Gross profit decreased $69.0 million, or 20.1%, over the prior year from lower selling prices of $44.9 million, lower production levels to reduce inventory resulting in lower fixed cost absorption of $27.2 million and higher raw material prices of $16.6 million primarily in our Titanium Dioxide Pigments segment. This was partially offset by the gross margin impact of higher sales volumes of $16.2

million. Gross profit as a percentage of net sales were 29.3% and 37.7% for the three months ended March 31, 2013 and 2012, respectively.

Selling, general and administrative expenses

SG&A expenses as a percentage of net sales were 19.3% and 19.5% for the three months ended March 31, 2013 and 2012, respectively. SG&A expenses increased $2.9 million, or 1.6%, over the prior year.

Restructuring and other severance costs

We recorded restructuring and other severance costs of $7.1 million for the three months ended March 31, 2013, primarily related to the closure of a lithium manufacturing facility in the U.S. and organizational changes in the Surface Treatment and Performance Additives segments. Restructuring and other severance costs of $14.2 million recorded in the three months ended March 31, 2012 primarily relates to the write-off of a trade name of $10.3 million in the Lithium segment related to the reorganization of our former Specialty Chemicals segment. See Note 13, Restructuring And Other Severance Costs, for further details.

Operating income

Lithium. Operating income increased $9.3 million, or 41.5%, over the prior year primarily due to lower restructuring and other severance costs of $7.4 million and higher selling prices of $4.2 million. This was partially offset by higher raw material costs of $1.0 million.

Surface Treatment. Operating income decreased $2.7 million, or 8.7%, over the prior year primarily due to the gross margin impact of lower volumes of $3.7 million, higher restructuring and other severance costs of $1.4 million and higher selling, general and administrative costs of $1.3 million, partially offset by higher selling prices of $3.5 million.

Performance Additives. Operating income decreased $1.0 million, or 4.6%, over the prior year primarily due to the gross margin impact of lower volumes of $8.7 million, partially offset by higher selling prices of $2.5 million, lower raw material and energy costs of $1.8 million and lower restructuring and other severance costs of $1.4 million.

Titanium Dioxide Pigments. Operating income decreased $65.3 million, or 117.7%, over the prior year primarily due to lower selling prices of $56.4 million, lower production levels to reduce inventory resulting in lower fixed cost absorption of $27.2 million and higher raw material and energy costs of $22.0 million. This was partially offset by the gross margin impact of higher volumes of $27.7 million and lower costs of $8.5 million, particularly for labor and maintenance.

Advanced Ceramics. Operating income decreased $0.3 million, or 0.9%, over the prior year primarily from higher selling, general and administrative costs of $1.4 million and higher raw material and energy costs $1.0 million. This was partially offset by the gross margin impact of sales volumes of $1.2 million related to increased medical ceramic volumes and increased selling prices of $1.0 million.

Corporate. Operating loss increased $4.8 million, or 39%, over the prior year primarily from higher professional fees incurred in connection with exploring strategic options.

Other income (expenses)

Interest expense, net. Interest expense, net increased $8.5 million, or 41.5%, compared to the prior year primarily due to the issuance of the 2020 Notes in September 2012.

Loss on early extinguishment/modification of debt. For the three months ended March 31, 2013, we recorded a charge of $17.6 million related to the write off of deferred financing costs in connection with the repayment of the outstanding borrowings under the Titanium Dioxide Pigments facility agreement. For the three months ended March 31, 2012, we recorded a charge of $9.7 million in connection with the redemption of our 2014 Notes in March 2012 (comprised of redemption premiums of $6.7 million and the write off of $3.0 million of deferred financing costs).

Foreign exchange, net. For the three months ended March 31, 2013, foreign exchange losses of $15.3 million were primarily reported in connection with intercompany Euro-denominated loans put in place to fund the repayment of the outstanding borrowings under the Titanium Dioxide Pigments facility agreement. For the three months ended March 31, 2012, foreign exchange losses of $1.0 were reported in connection with non-operating Euro-denominated transactions.

Income tax benefit/provision

We recorded an income tax provision of $8.0 million on income before taxes of $24.9 million in the three months ended March 31, 2013 resulting in an effective tax rate of 32.1%. The effective tax rate of 32.1% is lower than the U.S. statutory rate of 35% primarily due to the beneficial foreign earnings mix of 12.6%, partially offset by a deferred tax asset write-off of 8.9%.

We recorded an income tax provision of $30.6 million on income before taxes of $120.3 million in the three months ended March 31, 2012 resulting in an effective tax rate of 25.4%. The effective tax rate of 25.4% is lower than the U.S. statutory rate of 35% primarily due to a beneficial foreign earnings mix of 6.4% and certain domestic income that was not tax effected due to a valuation allowance of 1.1%.

Adjusted EBITDA

Lithium. Adjusted EBITDA increased $2.5 million, or 5.6%, over the prior year primarily due to higher selling prices of $4.2 million, partially offset by higher raw material costs of $1.0 million.

Surface Treatment. Adjusted EBITDA decreased $0.2 million, or 0.5%, over the prior year primarily due to the gross margin impact of lower volumes of $3.7 million, partially offset by higher selling prices of $3.5 million.

Performance Additives. Adjusted EBITDA decreased $3.0 million, or 7.7%, over the prior year primarily due to the gross margin impact of lower volumes of $8.7 million, partially offset by higher selling prices of $2.5 million and lower raw material and energy costs of $1.8 million.

Titanium Dioxide Pigments. Adjusted EBITDA decreased $67.0 million, or 88.6%, over the prior year primarily due to lower selling prices of $56.4 million, lower production levels to reduce inventory resulting in lower fixed cost absorption of $27.2 million, and higher raw material and energy costs of $22.0 million. This was partially offset by the gross margin impact of higher volumes of $27.7 million and lower costs of $8.5 million, particularly for labor and maintenance.

Advanced Ceramics. Adjusted EBITDA increased $0.2 million, or 0.4%, over the prior year primarily from the gross margin impact of sales volumes of $1.2 million related to increased medical ceramic volumes, increased selling prices of $1.0 million, as well as the favorable impact of currency changes of $0.3 million. This was partially offset by higher selling, general and administrative costs of $1.4 million and higher raw material and energy costs of $1.0 million.

Corporate. Adjusted loss before interest, taxes, depreciation and amortization decreased $0.8 million, or 8.1%, over the prior year primarily from lower variable compensation costs.

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Reconciliation of Net Income Attributable to Rockwood Holdings, Inc. Shareholders to Adjusted EBITDA

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. shareholders to Adjusted EBITDA on a consolidated basis:

($ in millions)	Three months ended March 31, 2013	2012
Net income attributable to Rockwood Holdings, Inc. shareholders	$ 18.9	$ 75.8
Net (loss) income attributable to noncontrolling interest	(2.0)	13.9
Net income	16.9	89.7
Income tax provision	8.0	30.6
Income from continuing operations before taxes	24.9	120.3
Interest expense, net	29.0	20.5
Depreciation and amortization	67.0	65.8
Restructuring and other severance costs	7.1	14.2
Systems/organization establishment expenses	0.6	1.6
Acquisition and disposal costs	6.1	
Loss on early extinguishment/modification of debt	17.6	9.7
Foreign exchange loss on financing activities, net	15.3	1.0
Other	0.6	1.8
Total Adjusted EBITDA	$ 168.2	$ 234.9

Liquidity and Capital Resources

Cash Flows

Operating Activities. Net cash provided by operating activities was $48.8 million and $45.7 million for the three months ended March 31, 2013 and 2012, respectively. This increase was primarily due to lower working capital usage related to lower inventory levels in our Titanium Dioxide Pigments segment resulting from working capital initiatives. This was partially offset by lower net income.

Investing Activities. Net cash used in investing activities was $67.4 million and $73.1 million for the three months ended March 31, 2013 and 2012, respectively. The decrease was primarily due to lower capital expenditures.

Financing Activities. Net cash used in financing activities was $765.6 million and $193.8 million for the three months ended March 31, 2013 and 2012, respectively. In the three months ended March 31, 2013, we prepaid all of our outstanding borrowings under our Titanium Dioxide Pigments facility agreement. The aggregate amount prepaid was 394.5 million ($512.4 million), consisting of 190.0 million ($246.8 million) of term loan A, 200.0 million ($259.8 million) of term loan B and a 4.5 million ($5.8 million) revolving credit facility. In addition, in the three months ended March 31, 2013, we acquired the remaining 39% interest in the 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), repurchased Rockwood common shares in the aggregate amount of $89.4 million and paid dividends to shareholders of $31.1 million. In the three months ended March 31, 2012, we issued a new tranche of term loan A under our existing senior secured credit facility in the amount of $350.0 million and used the proceeds along with cash on hand to redeem all of our 2014 Notes (250.1 million and $200.0 million, or $534.1 million in the aggregate based on the exchange rate in effect on the date of payment) in March 2012 and paid applicable redemption premiums of $6.7 million.

Liquidity

Our primary source of liquidity has been and will continue to be cash generated from the operations of our subsidiaries. Our primary liquidity requirements are working capital, debt service, capital expenditures, dividend payments, share repurchases and acquisitions. Our debt service requirements in future years are significant. In 2013 and future periods, we believe that based on current conditions in our industry and markets, our cash reserves, cash flows from operations and borrowings available under our revolving credit facility 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. See Item 1, Business, and Item 1A, Risk Factors in our 2012 Annual Report on Form 10-K.

In June 2012, our board of directors initiated a quarterly cash dividend program of $0.35 per share. In February 2013, we announced that our board of directors has increased the quarterly cash dividend to $0.40 per share. In addition, in January 2013, we announced that our board of directors has authorized us to repurchase shares of Rockwood common stock up to an aggregate amount of $400 million. We began to repurchase these shares in February 2013 and purchased an aggregate amount of $89.4 million in the three months ended March 31, 2013. See Part II Other Information Item 2. Unregistered Sales of Equity Securities and Use of Proceeds, for a summary of share repurchases in the first quarter of 2013. 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 2012 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, Finland, 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 U.K. See Item 8. Financial Statements and Supplementary Data - Note 14, Employee Benefit Plans, of our 2012 Annual Report on Form 10-K 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.

Our overall unfunded position in our defined benefit plans as of March 31, 2013 is $568.6 million and the funded status of our plans is 31%. However, 75% 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 $142.6 million and the funded status is 63%. The funding of our pension plans was in compliance with local requirements as of March 31, 2013. 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. Such cash outflows were less than pension expense in 2012 and the first three months of 2013, and are expected to remain so for the remainder of the year. As of March 31, 2013, we have an outstanding bank guarantee of 25.5 million ($32.7 million) related to a Titanium Dioxide Pigments defined benefit pension obligation in Finland.

As of March 31, 2013, we had cash and cash equivalents of $491.1 million of which $366.0 million was held by our foreign subsidiaries. We believe that the amount of funds held by our foreign subsidiaries as of such date not readily convertible into Euros or U.S. dollars was $4.5 million. Based on our cash reserves, domestic cash flows from operations and our other sources of liquidity, including the availability under our revolving credit facility, 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 U.S. and our current plans do not demonstrate a need to repatriate them to fund our operations or dividends in the U.S. Further, if the cash and cash equivalents held by our foreign subsidiaries were needed for our operations or dividends in the U.S., we do not believe we would be required to accrue and pay taxes in the U.S. to repatriate these funds as sufficient funds could be repatriated by recalling certain intercompany loans we have with our foreign subsidiaries. Among other things, we may use available cash to invest in our business, reduce our term debt, pay dividends, repurchase shares or fund bolt-on acquisitions.

As of March 31, 2013, we had actual total indebtedness of $2,222.0 million, consisting primarily of the 2020 Notes ($1,250.0 million) and the term loans under our senior secured credit facility ($911.0 million). See Item 8. Financial Statements and Supplementary Data - Note 10, Long-Term Debt, in our 2012 Annual Report on Form 10-K for a detailed discussion of these borrowings.

Senior secured credit facilities. As of March 31, 2013, the senior secured credit agreement consists of term loan A in an aggregate principal amount of $323.7 million maturing in February 2017, term loan B in an aggregate principal amount of $587.3 million maturing in February 2018 and a revolving credit facility in an aggregate principal amount of $180.0 million, made available in U.S. dollars, Euros and/or pounds sterling, maturing in February 2016. As of March 31, 2013, the availability under our revolving credit facility is $155.1 million, net of outstanding letters of credit of $24.9 million.

The senior secured credit agreement also contains the following financial covenants that are determined based on our Adjusted EBITDA (including certain adjustments for, among other items, acquisitions and related synergies), which reflects management s interpretations thereof:

- a leverage ratio: for the twelve-month period ended March 31, 2013, net senior secured debt (senior secured debt plus capital lease obligations, minus cash up to a maximum of $200.0 million) to Adjusted EBITDA must be less than 2.75 to 1; for such period, our ratio equaled 1.02 to 1; and

- an interest coverage ratio: for the twelve-month period ended March 31, 2013, Adjusted EBITDA to cash interest expense (interest expense, net excluding deferred debt issuance cost amortization and the movements in the mark-to market value of our interest rate derivatives) must be at least 2.50 to 1; for such period, our ratio equaled 8.87 to 1.

We were in compliance with the above covenants as of March 31, 2013.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Definitions of Adjusted EBITDA, for a discussion of the definition of Adjusted EBITDA used in calculating our financial covenants.

2020 Notes. As of March 31, 2013, the outstanding amount of the 2020 Notes was $1.25 billion. The indenture governing the 2020 Notes contains certain negative and affirmative covenants. For example, the indenture prohibits us from incurring additional indebtedness, up to an amount not to exceed the greater of: i) $2,250.0 million and ii) an amount such that the net secured leverage ratio shall not exceed 2.50 to 1.00 and prohibits us from making certain restricted payments subject to satisfying a fixed charge coverage ratio, which is the ratio of Adjusted EBITDA (as defined therein) to fixed charges (as defined therein), which for the most recently ended four fiscal quarters is to be at least 2.00 to 1. For the four-fiscal quarter period ended March 31, 2013, the fixed charge coverage ratio equaled 8.87 to 1.

Titanium Dioxide Pigments term loans, revolving credit facility and other debt. In March 2013, the Company prepaid all of its outstanding borrowings under its Titanium Dioxide Pigments facility agreement. The aggregate amount repaid was 394.5 million ($512.4 million), consisting of 190.0 million ($246.8 million) of term loan A, 200.0 million ($259.8 million) of term loan B and a 4.5 million ($5.8 million) revolving credit facility. The interest rate on term loan A and the revolving credit facility was Euribor plus 3.75% and the interest rate on term loan B was Euribor plus 4.00%. The U.S. dollar amounts above were all based on the exchange rate in effect on the date of payment.

As of March 31, 2013, the weighted average interest rate for the Company is 4.10%, 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:

	Three months ended March 31,	
($ in millions)	**2013**	**2012**
Net cash provided by operating activities from continuing operations	$ 48.8	$ 47.6
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions	67.2	125.5
Current portion of income tax provision	10.5	25.5
Interest expense, net, excluding amortization of deferred financing costs and unrealized losses/gains on derivatives	27.3	18.8
Restructuring and other severance costs	7.1	14.2
Systems/organization establishment expenses	0.6	1.6
Acquisition and disposal costs	6.1	
Other	0.6	1.7
Total Adjusted EBITDA from continuing operations	$ 168.2	$ 234.9

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 2012 Annual Report on Form 10-K. As noted above, in March 2013, the Company repaid all of its outstanding borrowings under its Titanium Dioxide Pigments facility agreement, in the aggregate amount of 394.5 million ($512.4 million).

Capital Expenditures

Rockwood s capital expenditures for the three months ended March 31, 2013 includes replacements of worn, obsolete or damaged equipment as well as investments in new equipment and plants. For the three months ended March 31, 2013, capital expenditures, net of government grants received, were $67.6 million and included the expansion of our production capacity for lithium compounds in Chile. For the three months ended March 31, 2012, our capital expenditures, net of government grants received, were $74.2 million.

Capital expenditures for the remainder of 2013 are expected to increase, primarily in our Lithium segment due to the ongoing expansion of our lithium carbonate capacity, particularly in Chile, and for a new iron oxide plant in our Color Pigments and Services business in Augusta, Georgia.

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

	Three months ended March 31,			
($ in millions)	**2013**		**2012**	
Lithium	$	34.5	$	25.4
Surface Treatment		4.4		9.8
Performance Additives		6.2		10.7
Titanium Dioxide Pigments		13.3		16.5
Advanced Ceramics		8.8		9.4
Corporate and other		0.4		2.4
Total	$	67.6	$	74.2

We may incur future costs for capital improvements and general compliance under Safety, Health and Environmental (SHE) laws. For the year ended December 31, 2012, our capital expenditures for SHE matters totaled $32.5 million, excluding costs to maintain and repair pollution control equipment. For 2013, 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 law.

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, the Company incurs 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 March 31, 2013, the Company had approximately $32.2 million of letters of credit and other bank guarantees, of which $30.2 million will expire in 2013 through 2017. The remaining guarantees have no specified expiration date. This amount includes outstanding letters of credit of $24.9 million that reduced our availability under our senior secured credit facility. In the opinion of management, such obligations will not significantly affect the Company s financial position, results of operations or cash flows, as the Company anticipates fulfilling its performance obligations.

Commitments and Contingencies

See Item 1. Financial Statements (Unaudited) - Note 15, 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 2012 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 March 31, 2013.

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 ass this report 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, these factors include, among other things:

- our business strategy;
- changes in the general economic conditions in North America and Europe 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 and divestitures;
- 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, 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 exposed to market risk from changes in interest rates, 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 2012 Annual Report on Form 10-K. There have been no significant changes to these market risks as of March 31, 2013.

As discussed in See Item 1. Financial Statements (Unaudited) Note 4, Financial Instruments and Fair Value Measurements, in connection with the repayment of all borrowings under the Titanium Dioxide Pigments facility agreement in March 2013 in the aggregate amount of 394.5 million ($512.4 million), interest rate swaps with a notional amount of 400 million ($519.6 million based on the exchange rate in effect on the date of payment) were terminated resulting in a payment of 3.0 million ($3.9 million based on the exchange rate in effect on the date of the payment).

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, 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, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013 and concluded that, as of March 31, 2013, 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 first quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, Environmental Indemnities We may be subject to environmental indemnity claims relating to properties 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 2012 Annual Report on Form 10-K.

Inspector General Subpeona

In March 2013, Osmose filed an amended complaint. The Company cannot estimate the loss or possible range of loss, if any, in connection with this matter and intends to vigorously defend this matter.

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 15, Commitments and Contingencies, in this Form 10-Q and Item 3, Legal Proceedings in our 2012 Annual Report on Form 10-K.

Item 1A. Risk Factors.

A discussion of the Company s risk factors is included in our 2012 Annual Report on Form 10-K. There have been no material changes to these risk factors.

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 March 31, 2013:

	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Tota 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)
January 1, 2013 - January 31, 2013		$		$ 400.0
February 1, 2013 - February 28, 2013	1,111,027	60.70	1,111,027	332.6
March 1, 2013 - March 31, 2013	342,504	64.10	342,504	310.6
	1,453,531		1,453,531	

(a) In January 2013, we announced that our board of directors has authorized us to repurchase shares of Rockwood common stock up to an aggregate amount of $400 million and began repurchasing these shares in February 2013. The authorization does not have a set expiration date.

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 amounts available to us to pay cash dividends are restricted by our subsidiaries debt agreements. Under the senior secured credit agreement, RSGI s, our 100% owned indirect subsidiary, ability to pay dividends to us is limited to $600 million, plus additional amounts subject to satisfying certain leverage ratios. Accordingly, our ability to obtain cash to pay dividends and repurchase our shares is generally subject to the same limitations. In addition, 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.

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.

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/ SEIFI GHASEMI Seifi Ghasemi Chairman and Chief Executive Officer Date: May 1, 2013

ROCKWOOD HOLDINGS, INC.

By:	/s/ ROBERT J. ZATTA Robert J. Zatta Senior Vice President and Chief Financial Officer Date: May 1, 2013

Exhibit Index

Exhibit No.	Description of Exhibit
10.1*	Amendment to the 2009 Rockwood Holdings, Inc. Stock Incentive Plan.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive 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.
32.2	Section 1350 Certification of 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

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* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.