

Rockwood Holdings, Inc.
Form 10-K
March 02, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

Or

o

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

100 Overlook Center, Princeton, New Jersey 08540

(Address of principal executive offices) (Zip Code)

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(609) 514-0300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2008 was \$1,798,862,251.

As of February 27, 2009, there were 74,060,917 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Stockholders, to be held on April 23, 2009, is incorporated by reference in Part III to the extent described therein.

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PART I

Forward-Looking Statements

This document contains forward-looking statements. Forward-looking statements 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 terms of similar meaning, including references to assumptions, in 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;
- fluctuations in interest rates, exchange rates and currency values;
- availability and pricing of raw materials;
- fluctuations in energy prices;
- changes in the end-use markets in which our products are sold;
- our ability to access capital markets;
- technological changes affecting production of our materials;
- governmental and environmental regulations and changes in those regulations;
- hazards associated with chemicals manufacturing;
- our high level of indebtedness;
- risks associated with negotiating, consummating and integrating acquisitions;
- risks associated with competition and the introduction of new competing products, especially in the Asia-Pacific region; and
- risks associated with international sales and operations.

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 1. Business.

Unless we indicate otherwise or the context otherwise requires, any references to we, our, us, the Company or Rockwood refer to Rockwood Holdings, Inc. and its consolidated subsidiaries.

Unless otherwise noted, all balances which are denominated in euros are converted at the December 31, 2008 exchange rate of 1.00 = \$1.3971.

General

Rockwood is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes. Rockwood was incorporated in Delaware in September 2000 in connection with an acquisition of certain assets, stock and businesses from Laporte plc (Laporte) on November 20, 2000 (the KKR Acquisition) by affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR). The businesses acquired focused on specialty compounds, iron-oxide pigments, timber-treatment chemicals, clay-based additives, pool and spa chemicals and electronic chemicals in semiconductors and printed circuit boards.

On July 31, 2004, we acquired the specialty chemicals and advanced materials businesses of Dynamit Nobel (the Dynamit Nobel Acquisition), which focused on highly specialized markets and consisted of surface treatment and lithium chemicals, advanced ceramics and titanium dioxide pigments. Through this acquisition, we created a further diversified portfolio of distinct specialty chemicals and advanced materials businesses, combining two companies with similar service-driven cultures focused on high margins; expertise in inorganic chemistry; stable profitability; growth platforms; and proven management teams. In addition, we believe the Dynamit Nobel Acquisition bolstered our leading competitive positions by enhancing our ability to develop innovative products and solutions for our customers, expanding our technological knowledge and further reducing our exposure to any particular raw material or end-use market.

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On January 9, 2007, we completed the sale of our Groupe Novasep subsidiary, which focused on the custom synthesis and production of active ingredients for pharmaceuticals and the development of purifications solutions; on December 31, 2007, we completed the sale of our Electronics business, excluding our European wafer reclaim business; and on October 10, 2008, we completed the sale of our pool and spa chemicals business. In the financial statements contained herein, the Groupe Novasep subsidiary, the Electronics business, excluding the wafer reclaim business, and the pool and spa chemicals business are presented as discontinued operations. Prior period financial statements have been reclassified to reflect discontinued operations for all periods presented. The Groupe Novasep subsidiary and the Electronics business, including the wafer reclaim business, represented two of our reportable segments. See Note 2, Discontinued Operations, for further details.

On September 1, 2008, we completed the formation of a venture with Kemira Oyj (Kemira) that focuses on specialty titanium dioxide pigments. This venture combines the Company's titanium dioxide pigments and functional additives business and Kemira's titanium dioxide business. The Company has consolidated this venture and has reported Kemira's interest as minority interest in the consolidated financial statements. See Note 4, Acquisitions, for further details of this venture and other bolt-on acquisitions made in 2008.

Our products consist primarily of inorganic chemicals and solutions and engineered materials. They are often customized to meet the complex needs of our customers and to enhance the value of their end products by improving performance, providing essential product attributes, lowering costs and/or making them more environmentally friendly. We generally compete in niche markets in a wide range of end-use markets, including metal treatment and general industry, automotive, construction, chemicals and plastics, electronics and telecommunications, and life sciences (including pharmaceutical and medical markets). No single end-use market accounted for more than 17% of our 2008 net sales.

We have a number of growth businesses, which are complemented by a diverse portfolio of businesses that historically have generated stable revenues. Our high margins, diverse customer and end-use market base, capital discipline and ongoing productivity improvements provide us with a platform to capitalize on market growth opportunities.

We operate globally, manufacturing our products in 96 facilities in 26 countries and selling our products and providing our services to more than 60,000 customers, including some of the world's preeminent companies. We believe our products are generally critical to our customers' products performance, but account for a small percentage of the total cost of their products. No single customer accounted for more than 2% of our 2008 net sales. For a geographic description of the origin of our net sales and location of our long-lived assets, see Note 3, Segment Information, in the accompanying consolidated financial statements.

On August 22, 2005, we completed an initial public offering (IPO) of 23,469,387 shares of our common stock, which included 3,061,224 shares issued and sold as a result of the underwriters' exercise of the over-allotment option. Net proceeds of approximately \$435.7 million were primarily used to reduce indebtedness.

On November 16, 2007, funds affiliated with KKR and DLJ Merchant Banking Partners III, L.P. (DLJMB) and certain management stockholders sold an aggregate of 10 million shares of our common stock. On December 7, 2007, these stockholders sold an additional aggregate of 125,915 shares of common stock as a result of the underwriters' partial exercise of the over-allotment option. Prior to this offering, affiliates of KKR owned approximately 50.9% of our common stock on an undiluted basis. As a result of this offering, effective November 16, 2007, affiliates of KKR control less than a majority of the voting power of our outstanding common stock and as a result, we are no longer considered a controlled company under New York Stock Exchange (NYSE) rules. Also, on June 17, 2008, funds affiliated with KKR, DLJMB and certain management stockholders sold an aggregate of 10 million shares of the Company's common stock.

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We operate our business through the following five business segments: (1) Specialty Chemicals; (2) Performance Additives; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics and (5) Specialty Compounds. The following table sets forth net sales of each segment, and the percentage of our net sales for the year ended December 31, 2008, as well as our principal products and our principal end-use markets. For financial information about each segment, see Note 3, Segment Information.

Segment	2008 Net Sales		% of	Principal Products	Principal End-Use Markets
	\$ in Millions		Total		
Specialty Chemicals	\$ 1,232.6		36%	<ul style="list-style-type: none"> • Lithium compounds and chemicals • Metal surface treatment chemicals including corrosion protection/ prevention oils • Synthetic metal sulfides • Maintenance chemicals 	<ul style="list-style-type: none"> • Automotive pre-coating metal treatment and car body pre-treatment • Steel and metal working • Life sciences (pharmaceutical synthesis and polymers) • Polymerization initiators for elastomers

				<ul style="list-style-type: none"> • Steel and metal working • Batteries • Disc brakes • Aircraft industry
Performance Additives	\$	835.6	25%	<ul style="list-style-type: none"> • Iron-oxide pigments • Wood protection products • Inorganic chemicals • Synthetic and organic thickeners • Flocculants
				<ul style="list-style-type: none"> • Residential and commercial construction, coatings and plastics • Coatings • Personal care, paper manufacturing, foundries • Water treatment
Titanium Dioxide Pigments	\$	534.8	16%	<ul style="list-style-type: none"> • Titanium dioxide pigments • Barium compounds • Zinc compounds
				<ul style="list-style-type: none"> • Synthetic fibers for clothing • Plastics • Paper • Paints and coatings • Pharmaceutical contrast media
Advanced Ceramics	\$	505.9	15%	<ul style="list-style-type: none"> • Ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems • Ceramic tapes • Cutting tools • Wear and corrosion • Armor components
				<ul style="list-style-type: none"> • Medical (hip replacement surgery) • Industrial • Electronics • Automotive • Defense (vehicle protection)
Specialty Compounds	\$	261.5	8%	<ul style="list-style-type: none"> • High specification compounds such as polyvinyl chloride (PVC) and
				<ul style="list-style-type: none"> • Voice and data transmission

		thermoplastic elastomer (TPE)	• Cables
			• Food and beverage
			• Packaging
			• Medical applications
			• Footwear
			• Automotive
Corporate and other (a)	\$	9.7	%• Wafer recycling and repair
			• Semiconductors manufacturing
	\$	3,380.1	100 %

(a) Represents our European wafer reclaim business that was not included as part of the sale of our Electronics business in December 2007. Our wafer reclaim business provides semiconductor wafer reclaim services, wafer thinning/grinding services and wafer supply services. This business works on silicon and sapphire substrates with semiconductor and solar cells manufacturers.

Diverse Customer and End-Use Market Base. We operate a diverse portfolio of distinct specialty chemicals and advanced materials businesses. We have more than 60,000 customers worldwide that cover a wide variety of industries and geographic areas. Of our 2008 net sales, 54% were shipments to Europe, 29% to North America (predominantly the United States) and 17% to the rest of the world. No customer accounted for more than 2% of such net sales, and our top ten customers represented only approximately 8% of such net sales. Our largest end-use market represented approximately 17% of such net sales.

The following chart provides a breakdown of our 2008 net sales by end-use markets:

Within these end-use markets, there is further diversification by sector, product and region. For example, within the construction end-use market, our Performance Additives segment companies provide materials for new construction as well as companies that focus on remodeling and renovation. In addition, we serve construction materials clients in both the residential and commercial sectors located in North America, Europe and Asia. Within the life sciences end-use market, we serve a number of sectors, including the medical applications sector through our Specialty Compounds and Advanced Ceramics segments and the pharmaceutical sector through our Specialty Chemicals segment.

Operating Segments

The following describes each of our operating segments, as well as the principal products or principal divisions within each segment.

Specialty Chemicals (36% of 2008 net sales)

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Our Specialty Chemicals segment operates under the *Chemetall* brand name and develops and manufactures metal surface treatment products and services, lithium chemicals and fine chemicals for a wide range of industries and end markets. This segment is comprised of two business lines: (1) Surface Treatment, which supplies surface treatment products and solutions for metal processing industries; and (2) Fine Chemicals, which supplies lithium products across the entire value chain from raw materials to specialty lithium compounds and advanced metal-based specialty chemicals to niche markets. Our Specialty Chemicals segment generated net sales of \$1,232.6 million, \$1,082.9 million and \$918.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 3, Segment Information, for additional financial information regarding our Specialty Chemicals segment.

Surface Treatment

We believe that our Surface Treatment business line is a leading global supplier of surface treatment products and solutions. Surface Treatment products are used for a variety of applications and serve the automotive, aerospace and general industrial markets, including steel and metal-working industries. This business line supplies more than 5,000 different products, many of which are based on proprietary formulations and extensive application know-how, to over 50,000 customers and operates in different locations for

either production or research and development in over 20 countries. Surface Treatment operates in the following core end-markets: Automotive Technologies, Automotive Components, Cold Forming and Coil Coating, General Industry and Aerospace Technologies.

In Surface Treatment, we develop and supply products and solutions for the chemical pre-treatment of metals and other substrates, some of which are customized for individual customers and applications. Our products and solutions are critical to many areas of the metal processing industry because they protect metals from corrosion, facilitate forming and machining, allow parts to be processed in a clean and grease-free environment and ensure good coating adhesion. Other products are used in the cleaning and maintenance of aircraft. As an integrated part of the business, we also offer a full range of customer services, including process control and analysis of chemical baths at clients' facilities.

Surface Treatment competes in markets characterized by significant barriers to entry, proprietary manufacturing technologies and know-how, demanding product-handling requirements, rigorous product quality and performance standards and specifications and longstanding service-intensive customer relationships. In order to remain competitive, we are focused on developing new products, improving process technologies, expanding our customer base and broadening our technology capabilities in existing and new markets through internal research and development and bolt-on acquisitions. For example, in 2008, we increased our marketing efforts in Central/Eastern Europe and Asia (especially by our joint ventures in China and India), increased our market share in European, Japanese and Korean automotive original equipment manufacturers (OEM), grew in General Industry segments and improved our position in the Aerospace OEM Industry. In September 2008, we acquired Nalco's Finishing Technologies business that provided chemicals and services for pre-treating of metal for customers primarily in the General Industry market. This acquisition, as well as an acquisition in December 2007 of a business focused on the pre-treatment of metal surfaces for customers primarily in the coil market, have increased our technology and customer base, predominantly in North America. In 2008, we also undertook a number of research and development projects with industrial partners and scientific institutes that help us fulfill our needs for more cost efficient and environmentally compatible technologies. As a result, new products and improved technologies were launched in 2008 and more are expected in the near future.

The core end-markets that Surface Treatment operates in are as follows:

Automotive Technologies. We provide surface treatment products and solutions for automotive OEMs, including an entire range of products and services for use in the paint shop step of car-body manufacture. The products and services we provide typically represent a low percentage of total car body production costs, but have high value in terms of corrosion protection and surface quality. Major applications include car-body treatment (zinc-phosphating) and paint coagulation. Our services typically include intensive process control and chemical management in the customer's production processes.

Automotive Components. We offer cleaning and pre-treatment products and services to automotive parts manufacturers for use in the making of automotive parts, such as axles, seats and other metal components. We believe that products for the treatment of steel and aluminum wheels, including a new generation of products based on self-assembling molecules, represent an attractive growth area in this market.

Cold Forming and Coil Coating. We provide products and services used to facilitate the cold forming of tubes, wire drawing and cold extrusion of metal. We provide products and services used in forming, cleaning and pre-treating metal sheets used in the production of steel and aluminum coil.

General Industry. General industry includes the largest number of customers among the Surface Treatment businesses. We offer a range of products and services to a broad range of industrial end-markets that have metal surface treatment applications, including cleaning, activation, conversion coating and final rinsing. Our products include cleaners, iron phosphates, coolants, paint strippers and flocculants. The acquisition of Nalco's Finishing Technologies business in September 2008 expanded our product range in North America and China, with products in the field of metalworking fluids. Over the last two years, we have introduced a new generation of iron-phosphating products in the U.S. market, which we expect will provide growth in the next few years, and began offering silane or oxsilan-based systems. The markets in General Industry include household appliances manufacturing, can producers, heating, ventilation, aluminum finishing and other diverse end-markets.

Aerospace Technologies. We provide products and services for Aerospace OEMs, airlines and maintenance companies. Aerospace Technologies focuses on four major application areas: cleaning; corrosion protection; maintenance chemicals; and sealants. Cleaning products, including our Ardox products, are used for the interior and exterior cleaning of airplanes and range from daily cleaning to complete aircraft overhaul. Corrosion protection products include waxes used to protect airframes. Maintenance chemicals for aircraft engines and turbines include high performance cleaners and products for non-destructive testing of engines, while aircraft sealants provide high technology sealing solutions for airplanes and are expected to contribute significantly to growth in the next few years. In the last few years, we introduced further variances of low-density sealants in the market place. This strategy was expanded in 2007 and 2008, resulting in obtaining additional market share for this product range at major aerospace manufacturers. A new production line for sealants was established in 2008 to fulfill increasing demand. Also, we acquired a business in March 2008 that focuses on the non-destructive testing of engines, primarily in the Aerospace business. In addition, we produce specialty products, which are similar to metal surface treatment products, but are used on the glass substrates for glass manufacturers, including specialty cleaners,

polishing products, cutting oils and cooling lubricants.

Competition

We believe that the top five competitors in the global metal surface treatment market held an estimated market share of more than 50% in 2008. We believe that Henkel Surface Technologies is the global market leader, followed by us. The remaining top competitors include Nihon Parkerizing, PPG and Nippon Paint Co., Ltd. Competition in this market is based primarily on customer service, product quality and technological capabilities.

Customers

Surface Treatment serves a large customer base that is dependent on the industry served and its specific customer needs. Surface Treatment's largest customers include Daimler AG, ArcelorMittal, Volkswagen AG and European Aeronautic Defense and Space (EADS). The composition of the customer base varies widely among product groups and industries served. The Automotive Technologies business division serves approximately 20 customers, primarily global OEMs, and the Automotive Components business division serves approximately 500 small to large customers. The Cold Forming and Coil Coating business division serves approximately 800 mid-size to large customers and the General Industry business division serves approximately 45,000 small to large customers in a broad range of industries worldwide. The Aerospace Technologies business division serves approximately 4,500 small to large customers worldwide.

Fine Chemicals

Our Fine Chemicals business line consists of our lithium, special metals and metal sulfides product lines. We believe that our Fine Chemicals business line is the leading global producer of basic and specialty lithium compounds and chemicals and advanced metal-based specialty chemicals.

Fine Chemicals develops and manufactures a broad range of basic lithium compounds, including lithium carbonate, lithium hydroxide, lithium nitrate, lithium chloride, and value added lithium specialties and reagents, including butyllithium and lithium aluminum hydride. Lithium is a key component in products and processes used in a variety of applications and industries, which range from lithium batteries, high performance greases, thermoplastic elastomers for car tires, rubber soles and plastic bottles to intermediates in the pharmaceutical industry. In our Fine Chemicals business, we operate our lithium business along the following four business divisions reflecting its core end-markets: (1) Specialities; (2) Lithium Salts; (3) Butyllithium/Lithium Metal and (4) Battery Products.

In addition to developing and supplying lithium compounds, we provide technical service, including training of customers' employees, relating to the handling of reactive lithium products. We also offer our customers recycling services for lithium containing by-products resulting from synthesis with organolithium products, lithium metal and other reagents. We plan to continue to focus on the development of new products and applications. Currently, we are in the process of developing lithium compounds for several near- to medium-term, new and potentially high growth products for various applications, such as pharmaceuticals and batteries for electric vehicles.

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Fine Chemicals also develops and manufactures advanced metal-based specialty chemicals along two business divisions based on its principal product groups: (1) Metal Sulfides, which develops and manufactures natural and synthetic metal sulfides used in brake pads and clutch facings and cutting and grinding wheels and (2) Special Metals, which develops and manufactures cesium products for the chemical and pharmaceutical industries and zirconium, barium and titanium products for various pyrotechnical applications, including airbag igniters. Currently, we are a major supplier of natural and synthetic metal sulfides for use in friction materials. In addition, we hold several key patents, which, we believe gives us a competitive advantage in the fast growing synthetic metal sulfides market. Fine Chemicals is also a major commercial producer of certain cesium compounds which are used for X-ray image intensifiers and displays for digital X-ray technology. In order to further strengthen our competitive position in the metal-based specialty chemicals market, we are focused on the production of new variations of synthetic metal sulfides and new cesium products for organic synthesis. We also continuously monitor our customers' industries for potential new applications for our products. In addition, we plan to expand our business by penetrating growth areas such as India and China.

We believe that demand for synthetic metal sulfides will increase further in the future as a result of the continuing substitution for asbestos-based friction linings, transition from natural sulfides to synthetic sulfides spurred in part by environmental concerns and the transition from drum to disk brakes in Asia and the Americas. We also believe that the market for cesium compounds will grow as a result of new applications being developed in the chemicals industry, the pharmaceutical industry, the defense industry and for use in catalytic applications. As a result of our competitive strengths as a supplier of cesium products for established markets, we believe we are well positioned to take advantage of this market trend.

Principal Business Divisions

Lithium

Specialities. We develop and manufacture lithium compounds and other products for life science applications, such as special reagents for the synthesis of drug intermediates as well as for the flavor and fragrances industry. The two principal products in this business division are butyllithium and lithium aluminum hydride, for which we believe we hold leading market positions. We also produce various other compounds which include lithium metal, grignard reagents and alkoxides. Our research and development team often works closely with research and development departments of pharmaceutical companies, especially in the European market, in order to develop products and solutions tailored for their needs. In addition, broad variations of our specialities are designed to produce liquid crystals for flat screens.

Lithium Salts. We develop and manufacture basic lithium compounds, which serve a wide range of industries and applications. Our products include (1) lithium carbonate, for which the leading application is the production of thin, light weight lithium-ion batteries. It is also used as a fluxing agent for enamels, glass and ceramic production to lower process temperature in aluminum electrolysis, and as a cement additive for construction applications; (2) lithium hydroxide, which is principally used in high performance greases for automotive and industrial applications; (3) lithium nitrate, which is principally used in the rubber industry and (4) lithium chloride, which is principally used in gas and air treatment.

Butyllithium/Lithium Metal. Our main product, butyllithium, is used as a polymerization initiator for synthetic rubber and thermoplastic elastomers and as a reagent for the synthesis of active pharmaceutical ingredients (API s) and Agrochemicals. Lithium metal is used in organic synthesis processes, primarily in the area of steroid chemistry and vitamins. Generally, these products require a high degree of handling, transport and application know-how and customer service due to their high reactivity. We benefit from being a major supplier with butyllithium manufacturing facilities in the United States, Germany and Taiwan.

Battery products. We develop and manufacture lithium products for electronic applications, mainly for the primary (disposable) and secondary (rechargeable) battery industries. Our major product is battery grade lithium metal, which is used as anode material for primary batteries. Lithium ion-based batteries are used extensively in consumer electronics, such as mobile phones, camcorders and laptops. We are currently developing a new generation of conductive lithium salts used for the battery market, which, we believe, has the potential to drive significant growth in the future.

Metal-based Specialty Chemicals

Metal Sulfides. This business division has two major product lines: friction stabilizers and abrasive additives. Friction stabilizers enhance the power and performance of brake pads and clutch facings and primarily serve the automotive supplier industry while abrasive additives are additive compounds. The demand for metal sulfides is driven primarily by the demand in the automotive supplier industry.

Special Metals. We develop and manufacture a unique range of products based on special metal compounds derived from cesium, zirconium, titanium, barium and rubidium. These products are used in highly specialized, technology-driven end-applications such as X-ray diagnostic systems, airbags and vacuum lamps and serve various end-markets, such as chemical, pharmaceutical, metallurgical, automotive, electronics and pyrotechnical industries.

Competition

Lithium. We believe the global lithium market consists of three major producers and a number of other small producers mainly from China. We believe that we are the global market leader in the lithium market. While we offer a diverse range of products from raw materials to specialty lithium compounds, FMC Corporation offers mainly specialty lithium compounds, and Sociedad Quimica y Minera de Chile S.A. (*SQM*) offers a more limited product line focused on basic lithium compounds. Competition in this market is based on product quality, reliability of products and customer service.

Metal-based Specialty Chemicals. We believe that in the metal-based specialty chemicals business, Fine Chemicals holds a leading market position in its niche markets. We have a leading position in friction materials and are the only supplier offering a full product range of friction stabilizers and abrasive additives based on metal sulfides. Key competitors include: Dow Corning Corporation, Catalise Brasil and American Minerals, Inc. in the Metal Sulfides division and Cabot Corporation and Sigma Aldrich-APL in the Special Metals division. Competition in the metal-based specialty chemicals markets in which Fine Chemicals competes is based on product quality and product diversity.

Customers

Fine Chemicals serves approximately 1,000 customers worldwide in its lithium business and 700 customers worldwide in its metal-based specialty chemicals products business. Fine Chemicals' customers of lithium products include Bayer CropScience, Kraton Polymers U.S. LLC, Energizer Holdings, Inc. and DSM N.V.

Performance Additives (25% of 2008 net sales)

Our Performance Additives segment consists of business lines which develop and manufacture a range of specialty chemicals used in industrial and consumer products and processes to enhance performance or create unique characteristics. This segment manufactures and markets products that are based on a focused research and development effort and a strong technology base. Our Performance Additives segment generated net sales of \$835.6 million, \$798.5 million and \$724.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 3, Segment Information, for additional financial information regarding our Performance Additives segment.

Color Pigments and Services

Our Color Pigments and Services business line is a global producer of synthetic iron-oxide and other inorganic pigments in a wide

range of yellow, red, orange, ultramarine blue, black, manganese violet or blended shades, and serves the construction, paints and coatings, plastics, and specialty application markets with powder, granular and liquid grades. Color Pigments and Services focuses on developing and manufacturing high value-added inorganic pigments. The business also offers a number of unique pigment dispensing systems. Color Pigments and Services generates sales from construction applications, which include colorings for concrete products such as paving stones, bricks, concrete blocks, roofing tiles, ready mix, stucco and mortar, paints and coatings and plastics, paper and rubber and for specialty applications including security inks, toners for printers and copiers, catalysts and cosmetics. Our Color Pigments and Services business line has been driven by product innovation, our brand names and our customer and technical service, including customer-specific color blending.

In 2007, we acquired the global color pigments business of Elementis plc, which included its color pigments and specialty paint driers business in North America, Europe and China. In August 2008, we acquired Holliday Pigments, a leading global manufacturer of technical grade ultramarine blue and manganese violet pigments which are used for a wide range of applications, including plastics, cosmetics, coatings and inks. See Note 4, Acquisitions, for additional information on these acquisitions.

Principal Products

Construction Color Pigments and Services. We develop and manufacture principally iron-oxide pigments for manufacturers of construction products for use in the coloring of concrete products, including paving stones, bricks, concrete blocks, roofing tiles, stucco and mortar. Color Pigments and Services major U.S. brand is *Davis Colors* and its key products include *Granufin/Granumat*, *Hydrotint*, *Mix-Ready* and *Chameleon*. *Granufin* is a unique, dry, microgranulated pigment that combines the flow characteristics of a liquid with the storage and handling advantages of a powder. The *Granumat* dispensing system offers a variety of configurations and features designed to accommodate the varying requirements and budgets of concrete product manufacturers. *Granufin* pigments and the *Granumat* system improve product handling and color consistency for our customers. However, the patent on the granulation technology used in *Granufin* expired in 2007. Our *Chameleon* system, which works in combination with our liquid pigments, automatically weighs, blends and conveys colors into a ready-mix truck using a standard personal computer and custom-developed Windows-based software. Color Pigments and Services has an agreement pursuant to which an affiliate of W.R. Grace & Co. sells admixtures and fibers, distributes our liquid pigments and *Chameleon* dispensing systems to ready-mix and pre-cast producers in the concrete industry. Our combined efforts provide ready mix and pre-cast customers with added value in the form of colored, ready-mix concrete.

Paints, Coatings and Colorants. We also develop and manufacture color pigments for the paints, coatings, plastics, paper and rubber end-use markets including the brands *Ferroxide*, *Trans-oxide* and *Colourplex*. We produce a wide variety of pigments for these markets that include synthetic iron-oxides, corrosion inhibitor pigments, complex inorganic color pigments and process natural pigments such as burnt umbers and siennas. The largest application for these products is colorant used in architectural, industrial and special purpose paints and coatings. Color, ease of dispersion and chemical stability are the primary characteristics of our products, which can be used in a wide variety of both solvent and water-borne systems. We believe that a number of Color Pigments and Services products are considered industry standards in the markets in which we compete, such as our Mapico yellow and Copperas red pigments for architectural and industrial applications and our heat stable tans, which can tolerate applications requiring high temperature processing, such as plastic compounding and roofing granules.

Specialties. Our iron-oxide pigments are also used in a wide variety of specialty applications such as toner for large printers and copiers, security inks used to print bank notes, catalysts for styrene production and cosmetics. Each of these markets requires specialized pigments with unique properties which are often as important as the coloring characteristics. For example, printer toners require specific magnetic properties whereas pigments used in cosmetics require color and purity.

Competition

We believe that there are a significant number of producers of iron-oxide pigments across the globe at both the pigment synthesis and finishing levels with whom we compete. We believe these producers include Lanxess Corporation, Cathay Pigments, Interstar, Yipin

Pigments as well as other producers in Japan and China. Competition in this segment is based on customer service, product attributes, such as product form and quality and price. Product quality is critical in the higher end of the business on which Color Pigments and Services focuses, as inconsistent product quality can have an adverse impact on the color consistency of the end-product.

Customers

Color Pigments and Services key customers include Akzo Nobel, Oldcastle (CRH plc), Pavestone Company, The Sherwin-Williams Company, Evonik Degussa, and WR Grace & Co., each of which has been our customer for at least ten years. Color Pigments and Services customer base is highly fragmented.

Timber Treatment Chemicals

The Timber Treatment Chemicals business line is a manufacturer of wood protection products primarily in North America and we market these products through our joint venture with Rohm and Haas Company formed in 2007. Wood protection products enhance the performance of wood by increasing its longevity through protection from decay and fungal or insect attack. Our specialty timber chemicals also add water repellency, fire retardancy, mold inhibition and other properties to wood products. Timber Treatment Chemicals products include wood protection products based on our alkaline copper quaternary, or ACQ technology, which was awarded the Environmental Protection Agency (EPA) Presidential Green Chemistry Challenge Award in 2002, *Ecolife*, our new non-metallic wood preservative technology and chromated copper arsenate, or CCA. In 2008, we commercialized our newest *Ecolife* system which utilizes *Ecovance*, a high-performance non-metallic preservative with enhanced environmental benefits. *Ecovance* was approved for use for wood protection by the EPA in January 2008. We expect *Ecolife* to take advantage of market desire for non-metallic wood protection products and the growth potential in the development and commercialization of the next generation of wood protection products. Other products include Clearwood, our wood protection product for wood windows and doors, as well as a range of specialty additives with fire retardant, water repellent or moldicide properties. Applications for our products include wood protection products used for decking, fencing, playground equipment, garden furniture, house construction materials, utility poles, and other wood constructions.

In addition, Timber Treatment Chemicals provides a broad range of technical expertise and services to its customers. In particular, Timber Treatment Chemicals works closely with its customers to assist them in reducing the total cost of their manufacturing process by supplying timber treatment chemicals as well as treatment equipment along with technical support. We believe that Timber Treatment Chemicals is a leading provider in North America of new generation alternative timber treatment chemicals, such as ACQ and *Ecolife*, which provide enhanced environmental benefits as they do not contain chrome or arsenic.

Our Timber Treatment Chemicals business also manufactures inorganic chemicals such as nitrates and chlorides for various industrial applications including chemicals that are added to concrete as curing accelerants and corrosion inhibitors, chemicals that are used for odor control in water treatment, galvanizing fluxes, micronutrients, pesticides and catalysts used in the manufacture of textile resins.

Many of our Timber Treatment products are registered pesticides and subject to extensive regulation. In February 2002, the EPA announced a voluntary decision by CCA manufacturers, including our subsidiary, to amend their registrations for CCA to limit use of CCA-treated lumber in most residential settings. The EPA amended CCA registrations, effective December 31, 2003, to prohibit CCA-treated wood for use in most residential settings, including play structures, decks, picnic tables, landscaping timbers, residential fencing, patios, walkways and boardwalks. Similar initiatives were enacted in Canada by the Pest Management Regulatory Agency, which imposed similar limitations on the use of CCA-treated wood. The EPA conducted a risk assessment of CCA-treated wood in existing structures and issued a final report in 2008 that

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concluded there are no unacceptable risks to the public for existing CCA-treated wood being used around homes. The use of ACQ and other formulations has increased following the industry-wide voluntary transition to non-arsenic chrome-based wood protection products discussed above.

Likewise, in Japan, the use of arsenic-based chemicals, such as those used in the manufacture of CCA wood protection products, is restricted through legislation limiting the levels of arsenic allowed in rainwater runoff from outdoor wood product storage areas. This legislation created an opportunity for us to supply a significant portion of the Japanese timber treatment chemicals market through our ACQ product line. In European Union markets, restrictions were enacted in mid-2004.

Principal Products

We develop and manufacture a broad range of wood protection products, fire retardant and specialty chemicals for use in residential and industrial wood applications. In addition, we provide treatment equipment, which facilitates the handling and treatment of wood and chemicals and we provide comprehensive technical support services to our customers. Timber Treatment Chemicals key brands include *Ecolife*, *Preserve*, *Preserve Plus*, *Ultrawood*, *D-Blaze*, *Clearwood* and *SupaTimber*.

We also develop and manufacture inorganic metallic chemicals for certain specialty markets. These include zinc chloride-based products, other chlorides, and a range of nitrates and other chemicals. Some of these products are manufactured using by-products from other large chemical companies.

Competition

We believe that Timber Treatment Chemicals was one of the leading manufacturers of wood protection products in North America in 2008, along with Arch Chemicals, Inc., Osmose, Inc. and PhibroTech Inc. BASF Group, Kurt Obermeier GmbH & Co. KG and Rutgers AG are other competitors, particularly in Europe. Competition for wood protection products is mainly based on price, customer support services, innovative technology and product range. In the inorganic chemicals market, we operate in niche areas, and therefore have few competitors overall. Competition in the inorganic chemicals market is mainly based on quality, customer support services and price.

Customers

Timber Treatment Chemicals sells its products primarily to wood processors who pressure-treat wood. Major customers include Coos Head Forest Products, Inc., Culpeper Wood Preservers, Envirofor Preservers Ltd., Georgia Pacific Corporation, Jeld-Wen, Inc., Koshii Preserving Co. Ltd., Spartanburg Forest Products, Inc. and Sunbelt Forest Products Corporation. Customers of our inorganic chemicals product line include Evonik Degussa AG, Rohm and Haas Company, Nalco Company and W.R. Grace & Co. Most of these companies have been our customers for at least ten years.

Clay-based Additives

Our Clay-based Additives business develops and manufactures a range of specialty rheology modifiers and additives. These products are used in a wide variety of applications to modify viscosity, thickness and flow characteristics, and keep solids in suspension. End products in which these additives are used include industrial and architectural coatings, oilfield drilling fluids, inks, household care products and composites.

Principal Products

Coatings and Inks. We offer a comprehensive line of additives which modify the viscosity, flow and suspension properties of coatings and inks, including *Claytone* for the manufacture of industrial and special purpose coatings, such as bridge, marine and maintenance paints, architectural coatings and associative thickeners; *Optigel* clays for water-based coatings and *Laponite* for the manufacture of automotive coatings. Our *Garamite* additives are used in the manufacture of high solids, low volatile organic content epoxy coatings for industrial applications.

Paper. We serve the paper industry with a product line that includes bentonite retention aids, which are used in the paper-making process to reduce fiber losses and aid in water drainage from the sheet and an additive, which provides fade-resistant color for carbonless copy paper. We also produce a grade of *Laponite* which is used in the production of clear, flexible and moisture-resistant films and coatings with conductive, anti-static and anti-sticking properties, that are used in the manufacture of specialty photographic and anti-static papers, ink jet papers and anti-static packaging. Our *Fulacolor* clay product range is used in the color developing system for carbonless copy paper.

Consumer and Household Care Products. We develop and manufacture a wide range of natural clay-based rheology modifiers, including *Gelwhite* and *Bentolite*, for the consumer and household care markets. In addition, *Laponite* also has functional properties that improve the performance of a wide range of consumer products, such as personal care products, creams, lotions, cosmetics and hard surface household cleaning products for the kitchen and bathroom.

Oilfield. We offer a line of *Claytone* organoclays, which are a type of specially treated clays, for use in diesel and synthetic oilfield drilling fluids, which help to control viscosity and flow properties. These additives also help to suspend the cuttings in the fluid, so that they can be expelled from the well efficiently. We recently introduced a *Garamite* additive for use in deep well drilling that requires higher performance.

Composites. We developed and introduced the *Cloisite* range of clays for the manufacture of nanocomposite plastics and composites. While the majority of our customers purchase *Cloisite* for developmental products and applications, a key commercial development in 2007 was the introduction of a new, high-strength, lightweight plastic by Yamaha for personal watercraft hulls and deck lids utilizing *Cloisite* nanoclay. The acquisition of Süd-Chemie's *Nanofil* business extended our range of product offerings for nanocomposites, and brings valuable know-how and intellectual property for flame retardant applications. Our *Garamite* range of clays is used in the manufacture of fiberglass composites.

Water Chemistry. We are a leading manufacturer of polyaluminium chloride, or PAC, and polyaluminium nitrate-based flocculants in Central Europe. Flocculants are added to water to improve its purity before, during and after its use in industrial, commercial and municipal applications. PAC flocculants are widely used in public, industrial and swimming pool water treatment and as a process

agent in the paper industry. As discussed, we completed the formation of the Titanium Dioxide Pigments venture in September 2008. The water treatment business, formerly part of the Titanium Dioxide Pigments segment, is now being reported in Clay-based

Additives.

Competition

Clay-based Additives operates in specialty markets, and competes based on its research and development capabilities, its ability to produce innovative high-value product solutions and its sales and technical support. Our direct competitors in these markets include Elementis plc, Laviosa Chimica Mineraria S.p.A., R.T. Vanderbilt Company, Inc., Cytec, Amcol, Feralco AB, Arkema SA and Israel Chemical Ltd. We also compete with manufacturers who produce non-clay-based alternatives to our end-users.

Customers

We supply major coatings manufacturers such as International Paint Limited, BASF Group, E.I. duPont de Nemours and Company, PPG Industries Inc., and The Sherwin-Williams Company; paper chemical and paper-making companies such as Mitsubishi Hi Tec Paper, Sappi Limited, Akzo Nobel, Brenntag AG, LEIPA Georg Leinfelder GmbH and Stora Enso Oyj; ink-makers such as Sun Chemical Corporation and oil drilling and services companies such as M-I SWACO L.L.C.

Titanium Dioxide Pigments (16% of 2008 net sales)

Our Titanium Dioxide Pigments segment operates under the *Sachtleben* brand name and is a leading producer of high quality chemical products with a unique range of small inorganic particles that add significant value to customers' products and reduce the cost of customers' production processes. Titanium Dioxide Pigments comprises two business lines: (1) Titanium Dioxide; and (2) Functional Additives. Our Titanium Dioxide Pigments segment generated net sales of \$534.8 million, \$442.9 million and \$409.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 3, Segment Information, for additional financial information regarding our Titanium Dioxide Pigments segment.

In September 2008, we completed the formation of a venture with Kemira Oyj (Kemira) that focuses on producing and marketing specialty titanium dioxide pigments for the synthetic fiber, packaging inks, cosmetics, pharmaceutical and food industries. This venture combines our existing titanium dioxide pigments and functional additives business and Kemira's titanium dioxide business. See Note 4, Acquisitions, for further details.

Titanium Dioxide

Our Titanium Dioxide business line through the venture is a leading producer of specialty grade titanium dioxide (TiO₂), serving a wide variety of customers in the synthetic fibers, plastics, paints, packaging inks, coatings, cosmetics, pharmaceuticals and paper industries. TiO₂ is a fine white powder that derives its value from its unparalleled whitening strength and opacifying ability, which is commonly referred to as hiding power. Our Titanium Dioxide business line's principal products include TiO₂ in anatase grade, TiO₂ in rutile grade and titanium specialties. This business line also provides recycling services for sulfuric waste acid.

There are two ways of producing TiO₂: the sulfate process and the chloride process. The chloride process permits production of only rutile TiO₂ and is primarily suited for large volume production of standard TiO₂ grades. We believe most of the globally installed TiO₂ capacity uses the chloride process as opposed to the sulfate process. Unlike the chloride process, the sulfate process is capable of producing both the rutile and anatase grade of TiO₂. We employ the sulfate process for TiO₂ production and thus, the output from most of the globally installed TiO₂ production capacity does not compete with our anatase products.

We believe that we have a competitive advantage in fiber anatase production and special sophisticated anatase applications based on our strong technological capabilities, long-term customer relationships and extensive test runs with regular monitoring of product and process parameters. Although it represents a negligible part of the fiber material cost, TiO₂ application know-how and a longstanding application track record of homogeneous anatase crystals, both of which avoid production interruptions and excessive wear or breakdown of our customers' equipment, are critical to our customers. We intend to focus our rutile business on selected markets and applications and to further develop our titanium specialties business. We expect this segment to benefit from sales of newly introduced nano-particle titanium dioxide pigments that are used to provide ultraviolet light protection for cosmetics, plastics and coatings. We also operate a waste sulfuric acid recycling plant in our production facility in Duisburg, Germany.

Principal Products

TiO₂ in Anatase Grade. We develop and manufacture high quality anatase TiO₂ pigments. These pigments are sold primarily to the global synthetic fiber industry, as well as paper, food and pharmaceutical industries. We believe our anatase pigment, sold under the brand name *Hombitan*, is a leading global selling TiO₂ product for applications in the synthetic fiber industry.

TiO₂ in Rutile Grade. We develop and manufacture rutile TiO₂ pigments, which are mainly used in special applications such as selected coatings, paints, packaging inks, plastics and laminated paper production processes. In this product area, we are geographically focused on the European market. Rutile-based TiO₂ pigments generally possess performance characteristics different from anatase-based pigments. Rutile-based pigments significantly improve the weatherability and durability of polymer products by

providing protection against yellowing and preventing embrittlement of the material. Our rutile grades are state of the art products and are used in applications with high technical requirements.

Titanium Specialties. Our titanium specialties products primarily include nano-particles, which are exceptionally fine-particled, transparent and easy-to-use pigment formulations that are used across a large and diverse range of applications in small volumes. For example, the specialty grade TiO₂ products are used as UV-absorbers in sun protection cosmetics. In addition, the new nano-particles form the basis for innovative wood-protection products and innovative color variations by the paints and coatings industry. Other uses include catalysts, gas cleansing, photocatalysts and intermediates for special ceramics.

Competition

Titanium Dioxide Pigments key competitors include: (1) Fuji Titanium Industry Co., Ltd. and Kronos Worldwide, Inc. for anatase-based TiO₂; (2) DuPont Titanium Technologies, Millennium Chemicals, Inc., Tronox Corporation, and Huntsman LLC for rutile-based TiO₂; and (3) Tayca Corporation, Ishihara Corporation and Evonik Degussa for TiO₂ specialties. Competition in the markets in which Titanium Dioxide competes is generally based on technological capabilities, product quality, price in rutile grade and customer service.

Customers

Titanium Dioxide Pigments customers include leading manufacturers of paints, such as BASF Group and E.I. duPont de Nemours and Company; fibers, such as Nan Ya Plastics Corporation and Invista Inc.; plastics, such as Ampacet Corporation and Ineos and paper, such as Munksjo GmbH and Papierfabrik August Koehler AG.

Functional Additives

Our Functional Additives business line is a leading global manufacturer of barium-based and zinc-based inorganic fine white pigments and additives. The main function of these products is to improve brilliance of colors and shine of coatings, improve the mechanical strength of plastic parts and prevent degradation due to exposure to light. Our Functional Additives business line serves diverse end-markets, including the plastics industry, the coatings industry and the pharmaceutical industry.

Principal Products

Barium-based Additives. We produce highly dispersed powders of barium sulfate and are the largest global producer of precipitated synthetic barium sulfates (Blanc Fixe). We provide a unique range of barium-based additives customized for applications in coatings, plastic, colorants, lubricants, PVC stabilizers and thermoplastics, fibers and paper to

improve optical, chemical and mechanical properties. We also produce an X-ray-grade barium sulfate used as a contrast agent in medical applications, such as X-rays for the stomach and intestine area.

Zinc-based Additives. We believe we are also a leading producer of pure zinc sulfide pigments, mainly used in glass fiber reinforced plastic parts and coatings and a leading supplier of Lithopone, a white zinc sulfide pigment which is used in plastics and coatings.

Competition

Key competitors for barium-based additives include Solvay S.A., Gruppo Chimico Dalton S.p.A., Sakai Chemical Industry Co., Ltd. and Chinese barium-producers. Key competitors for zinc-based additives include Chinese Lithopone producers. Competition in the functional additives market is primarily based on application know-how, brand recognition, product quality and, to a certain extent, price.

Customers

Functional Additives customers include E.I. duPont de Nemours and Company, Ampacet Corporation, BASF Group, Akzo Nobel Coatings and A. Schulman Plastics.

Advanced Ceramics (15% of 2008 net sales)

Our Advanced Ceramics segment operates under the *CeramTec* brand name and is a leading global producer of high-performance advanced ceramics materials and products. Advanced Ceramics serves four principal end-markets: (1) medical; (2) electronics; (3) industrial; and (4) automotive, with strong market positions in various niche markets such as medical products, cutting tools and mechanical applications. Our Advanced Ceramics segment generated net sales of \$505.9 million, \$452.5 million and \$389.6 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 3, Segment Information, for additional financial information regarding our Advanced Ceramics segment.

The global ceramics market comprises products and components based on inorganic, non-metallic, microcrystalline materials that are

manufactured at high temperatures. The global ceramics market can be divided into traditional ceramics, such as bricks, tiles and white ware, and high-performance ceramics, which are ceramic materials and products optimized for special purposes. High performance ceramics have superior physical, electrical, chemical or biological properties as compared to traditional ceramics and competing materials, like metals or plastics. Accordingly, they have increasingly replaced plastics and metals as key engineering materials. We compete in the high-performance ceramics segment of the market, offering a wide range of high-performance ceramics products from sealing discs for sanitary fittings to ceramic components for hip joint prostheses. These products serve the market's needs for materials that are light, strong, corrosion-resistant and capable of performing in high-temperature environments.

High-performance ceramics materials include ceramic powders, ceramic additives, structural ceramics and functional ceramics. Ceramic powders and ceramic additives are inputs to the manufacturing processes of structural and functional ceramics. Structural ceramics, also called engineering ceramics, take advantage of the mechanical properties such as hardness and wear-resistance to produce load-bearing or engineered components. Due to their resistance to corrosion and heat properties, structural ceramics are also used to perform under special chemical conditions or at high temperatures. Functional ceramics, also referred to as electronic ceramics, focus on the unique electrical and magnetic properties of ceramics. Ceramic applications in electronic components, such as integrated circuit packages, capacitors and inductors account for the majority of today's high-performance ceramic materials. We believe that increasing demand for electronic components will continue to offer significant growth opportunities for high-performance ceramics, such as piezo ceramics. As a leading supplier of electronic ceramics materials, we believe we are well positioned to take

advantage of these growth opportunities.

We believe that we have achieved success in the Advanced Ceramics segment as a result of our focus on selected segments of the high-performance ceramics market and our close customer relationships. Almost all of Advanced Ceramics' products are made to order, taking into account specific customer requirements. In many cases, our engineers work in close cooperation with our customers during the design and development phase of new products to ensure highest quality and customer satisfaction. Through its extensive experience, Advanced Ceramics has gained detailed expertise and know-how in its applications areas.

Principal Products

Medical. We currently serve the medical applications market with two product groups - ceramic components for hip joint prostheses, such as ball heads and inserts and ceramic glove formers for high-quality latex gloves. The ceramic components for hip joint prostheses are mainly supplied to orthopedic implant manufacturers in the United States and Europe. Besides their high wear resistance and good friction behavior, high-performance ceramics are biologically inert, making them one of the few materials that are durable and stable enough to withstand the corrosive effects of bodily fluids. As a result, we expect high-performance ceramics will increasingly become more common for medical applications, such as for repair and replacement of hips, knees and other human body parts.

We believe that ceramic-on-ceramic hip implants benefit from additional substitution effects as young people and more active elderly people are better suited to use ceramic implants given their numerous attractive properties. Currently, the penetration rate for ceramic-on-ceramic hip implants in Europe is significantly higher than in North America because the first Food and Drug Administration (FDA) approval for ceramic-on-ceramic hip joint prostheses systems was granted in 2003. However, given the relative superior performance and positive early acceptance levels in the United States, we expect the market for ceramic-on-ceramic hip joint prostheses systems to grow significantly in future years. We believe we are well positioned to take advantage of the growing market as we are currently the only manufacturer of ceramic-on-ceramic hip implant components used in FDA-approved hip joint prostheses systems in the United States. Given the difficulties and time involved in obtaining an FDA approval, we believe that we will be the sole supplier in the intermediate term. We also enjoy strong relationships with the largest U.S. and European orthopedics implant manufacturers and are also expanding our focus to possible new

applications in knee joint and intervertebral disc replacements.

Electronics. We develop and manufacture substrates, electrical resistor cores and ceramic tapes as carriers for electronic circuits. Substrates are ceramic plates with electrical, thermal and mechanical properties that serve as carriers in electronic applications. These highly specialized products are used in a wide range of industries, such as the automotive, consumer electronics, aeronautics and telecommunications industries. The demand for these products is driven, in large part, by the activity levels of the semiconductor market as well as a positive substitution effect for ceramic applications.

Cutting Tools. We develop and manufacture products used in cutting tools, other tools and tooling systems. Ceramic material properties such as high melting points, excellent hardness and good wear resistance make ceramics an excellent high-speed cutting tool material. In addition, the longer life and faster cutting speeds possible with ceramic tools allow customers to save costs by increasing their throughput and reducing the downtimes for replacing their cutting tools. We believe we are a leading supplier of ceramic cutting tools, other tools and tooling systems for high speed processing in the automotive, metalworking and mechanical engineering industries with automotive OEMs and their suppliers being our main customers.

Mechanical Applications and Systems. We also develop and manufacture high performance ceramic components that are used in mechanical applications and systems. Key product groups in mechanical applications include cutting blades, drawing and forming tools, drawing cones and capstans, guide elements, precision parts, pre-forms, friction discs, ceramic discs and cartridges for faucets.

We primarily supply the general industrial, machinery, metalworking, automotive and textile industries with a large number of products customized to the customer requirements. Mechanical systems include products used in the sanitary fittings and automotive supplier industries in areas where fluids are pumped, compressed or stirred, such as bushings, face seal rings, pump components and valve shims and discs.

Other products. We also produce products used for applications in certain niche markets, such as electrical/thermal and ceramic metal connections and pre-forms for the casting process of piston engines, mainly for diesel engines. Other products, such as piezo ceramic components, may experience growth over the next few years, primarily in the automotive sector. In October 2008, we acquired a business that focuses on solutions for wear and corrosion protection in industrial plants and armor components used in vehicle protection.

Competition

Advanced Ceramics' key competitors are Kyocera Corporation, CoorsTek, Inc., Saint Gobain, The Morgan Crucible Company plc, Ceradyne Corporation and NGK Ceramics Europe S.A. However, each of these competitors has either a different geographical focus or product strategy with respect to small niche applications. Competition in the high performance ceramics market is primarily based on product quality, product specifications and customer service.

Customers

Advanced Ceramics' key customers include Robert Bosch GmbH, Stryker Corporation, EPCOS AG, Siemens AG, De Puy Orthodics, Vishay Europe GmbH, Ideal Standard and Zimmer.

Specialty Compounds (8% of 2008 net sales)

Our Specialty Compounds segment develops and manufactures thermoplastic materials possessing specialized characteristics, such as fire and smoke retardance, reduced weight or barrier properties which are tailored to the specific needs of each customer. These products are grouped into several key end-product areas: wire and cable, consumer performance products, medical applications and regulated packaging. Our Specialty Compounds segment had net sales of \$261.5 million, \$276.6 million and \$251.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 3, Segment Information, for additional financial information regarding our Specialty Compounds segment.

Our Specialty Compounds segment focuses on sales of higher margin products and operates as a global specialty performance plastic compounding business. We developed and commercialized *SmokeGuard*, our specialty compound for use in high-end data and video communication wire and cable, which must meet stringent fire retardant and low smoke generation standards. We also developed a compound for beverage closure seals and caps. This compound prevents ozone from attacking the seal and does not affect the taste of water and carbonated beverages, therefore significantly increasing the shelf life of these beverages. We also focus on thermoplastic elastomer, or TPE, compounds in our consumer performance and automotive products areas. In addition to our product offerings, we provide strong, comprehensive customer service and technical expertise by developing innovative products to satisfy our customers' unique needs.

We have invested in next generation plastic compounding technologies, including the development of fluoropolymer materials and the improvement of our production of zero halogen materials. Specialty Compounds has worked closely with our Clay-based Additives business to create a patented composite material that exhibits superior flame retardancy for wire and cable jacketing and sheathing.

Principal Products

Wire and Cable Compounds. We develop and manufacture low-smoke vinyl and fluoropolymer alloys, such as *SmokeGuard*, which are used in high-end data and video communication, fiber optic and fire alarm wire and cable; halogen-free plastics, such as *Megolon*, which are used in industrial, aerospace, shipboard or oil rig cables as well as in communication cables and a variety of TPE compounds, such as *Garaflex*, which are used in flexible cords, tray cables, booster cables, welding cables and automotive wiring. We believe that there is significant growth potential for the wire and cable product line in Europe as a result of the evolution of a common market standard with higher specifications for wire and cable compounds. European wire and cable standards dictating certain safety specifications such as fire and smoke resistance are expected to be implemented within the next several years, providing significant new market opportunities for the *SmokeGuard* and *Megolon* product lines. *Megolon* is the trade name for a variety of halogen-free wire and cable products and is the leading brand name for such products in Europe.

Consumer Performance Products. We develop and manufacture custom-made plastic compounds for use in products such as moldings, sealing gaskets, tool handles, writing instruments and ladder feet as well as other TPE-based products. Our product line includes *Garaflex*, *Garaflex V*, *Garaflex E*, *GE Series* and *GM Series*. We have also developed a soft-touch compound, *Evoprene*, that

has been approved for a number of applications, including seals for consumer storage devices. We also develop and manufacture compounds for interior and exterior automotive applications such as airbag covers, steering wheel covers, gear shift knobs and boots,

handle grips, body side molding and window gaskets. In addition, we develop and manufacture a broad range of compounds for unit soles, uppers, mid-soles, slippers and heels for the diverse requirements of the footwear market.

Medical Applications Compounds. We develop and manufacture a series of high-quality polyvinyl chloride, or PVC, compounds which are used to manufacture products such as tubing, disposable masks, and extraction resistant compounds used to make products to handle blood and bodily fluids.

Regulated Packaging. Under the *Alphaseal* trademark, we develop and manufacture specialty closure materials for soft drinks, beer, bottled water, juice, and other beverage applications which improve purity in taste and odor and provide reliable carbonation retention.

Competition

Specialty Compounds' key competitors are Colorite Plastics Co., ACTEGA DS, European Vinyls Corporation, Georgia Gulf Corporation, Norsk Hydro ASA, PolyOne Corporation, Teknor Apex Company and W.R. Grace & Co., most of which serve only a subset of Specialty Compounds markets. We believe that only Teknor Apex is active in all of Specialty Compounds' markets. Competition in Specialty Compounds occurs primarily on the basis of quality, product innovation and the ability to meet demanding customer and regulatory specifications.

Customers

Specialty Compounds sells products to a wide range of customers, including Alcoa Inc., Belden/CDT Inc., BerkTek Consolidated, Coleman Worldwide Corporation, CommScope/Systimax, Inc., Corning Incorporated and Judd Wire Inc. Each of these companies has been our customer for at least ten years.

Raw Materials

We purchase raw materials and chemical intermediates from a large number of third parties. We have a broad raw material base with the cost of no single raw material representing more than 3% of our cost of products sold in 2008. Raw materials constituted approximately 52% of our 2008 cost of products sold. The table below lists the ten most significant raw materials in 2008 (in terms of dollars) and the principal products for which the materials were used.

Raw Material	Segment	Products
Titanium-bearing slag	Titanium Dioxide Pigments	Titanium Dioxide
Quaternary amines (quat)	Performance Additives	Organoclays, wood protection products
Plasticizers	Specialty Compounds	Compounds

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Tin	Specialty Chemicals	Metal sulfides
Copper	Performance Additives	Wood protection products
Phosphoric acid	Specialty Chemicals	Metal surface treatment
Iron-oxide	Performance Additives	Iron-oxide pigments
PVC resin	Specialty Compounds	Compounds
Monoethanolamine	Performance Additives	Wood protection products
Zinc/Zinc oxide	Specialty Chemicals, Titanium Dioxide Pigments, Performance Additives	Conversion coating zinc, zinc-based pigments, zinc phosphate, tan iron-oxide

Titanium-bearing slag, our largest raw material, is the most important raw material used in the production of specialty grade titanium dioxide in our Titanium Dioxide business line of our Titanium Dioxide Pigments segment. We purchase Titanium-bearing slag primarily from two suppliers under long-term contracts.

In our Clay-based Additives business line of our Performance Additives segment, quaternary amine is sourced under a long-term contract, which expires at the end of 2009 and is subject to monthly adjustment for the price of tallow, the base component of quat. In our Timber Treatment Chemicals business, we predominantly source quat under a contract that expires in late 2009, with automatic annual renewals subject to termination by either party.

In our Specialty Compounds segment, the plasticizers that are used are generic and considered a commodity product, while other materials are specific and considered specialty products. Our supply contracts for plasticizers do not specify a fixed price, and most of them contain market price and discount adjustments.

In our Specialty Chemicals segment, tin is used in the production of metal sulfides and is purchased from two suppliers under annual supply agreements.

In our Timber Treatment Chemical business, we source copper, a commodity, from several sources. Prices for our copper purchases are tied to market conditions. However, we expect the commercialization of next generation wood protection products to reduce our

exposure to copper prices.

Phosphoric acid is used in our Specialty Chemicals segment and is purchased from various global sources. This raw material is used for metal surface treatment chemicals in our Surface Treatment business. Currently, there are no long-term purchase contracts for this raw material.

Historically, we have received iron-oxide from multiple sources and have not experienced any significant supply shortages. Iron-oxide is used in our Color Pigments and Services business within our Performance Additives segment and is purchased from suppliers in China as a supplement to our iron-oxide production.

PVC resin is a commodity product used in our Specialty Compounds segment and its pricing is directly related to the price of ethylene and chlorine as well as PVC industry operating rates and energy prices.

We source the monoethanolamine used in our Timber Treatment Chemical business from two suppliers under contracts that expire in December 2009 and December 2010, each of which automatically renew on an annual basis, subject to termination by either party.

In our Performance Additives segment, zinc oxide is used in the production of tan iron-oxide and zinc phosphate. In our Specialty Chemicals segment, zinc and zinc oxide are purchased from a few suppliers in Europe and the United States, and we have not experienced any supply shortages. Prices for these purchases are tied to market conditions. In our Titanium Dioxide Pigments segment, zinc is used to produce zinc-based pigments and is purchased from a number of suppliers under long-term contracts. There are no long-term zinc purchase contracts in our Specialty Chemicals or Performance Additives segments.

In addition, lithium brine is a primary raw material source for all lithium chemicals and is found in only a small number of locations, including most significantly for us, the Atacama Desert in Chile. We have a long-term contract with the Chilean government to mine lithium brine in the Atacama Desert in Chile, which we believe provides a secure long-term access to lithium.

Major requirements for our key raw materials and energy are typically satisfied pursuant to contractual agreements and/or medium- or long-term relationships with suppliers. We are not generally dependent on any one supplier for a major part of our raw material requirements, but certain important raw materials are obtained from a few major suppliers. In general, where we have limited sources of raw materials, we have developed contingency plans to minimize the effect of any interruption or reduction in supply, such as sourcing from different facilities and multiple suppliers and utilizing alternative formulations.

Temporary shortages of raw materials may occasionally occur and cause temporary price increases. In recent years, these shortages have not resulted in unavailability of raw materials. However, the continuing availability and price of raw materials are affected by unscheduled plant interruptions occurring during periods of high demand, domestic and world market and political conditions, as well as the direct or indirect effect of governmental regulations. During periods of high demand, our raw materials are subject to significant price fluctuations, and, in the past, such fluctuations have had an adverse impact on the results of operations of our business. The impact of any future raw material shortages on our business as a whole or in specific geographic regions cannot be accurately predicted.

Intellectual Property

Our business is dependent to a large extent on our intellectual property rights, including patents and other intellectual property, trademarks and trade secrets. We believe that our intellectual property rights play an important role in maintaining our competitive position in a number of the markets we serve. We rely on technological know-how and formulation and application expertise in many of our manufacturing processes in order to develop and maintain our market positions. Where appropriate, we protect our new technology, applications and manufacturing processes by seeking patent protection. We have more than 3,000 patents and patent applications in key strategic markets worldwide, reflecting our commitment to invest in technology and covering many aspects of our products and processes for making those products. We also own and register in multiple jurisdictions numerous trade names and trade marks applicable to our business and products which we believe are important to our business. In addition, we have entered into agreements, pursuant to which we license intellectual property from third parties for use in our business and we license certain intellectual property to third parties. For example, we commercialized *Ecolife*, our next generation timber treatment preservative from our Timber Treatment Chemicals business, through our joint venture with Rohm and Haas Company. We also develop intellectual property with third parties as discussed below in Research and Development.

Research and Development

We are committed to further investing in our businesses, through research and development. Our research and development costs were approximately 2% of our net sales in 2008, which include certain expenses related to modifications and improvements in current products. We allocate our research and development resources selectively based on the need and requirements of each business line to develop innovative products. Research and development costs are charged to expense, as incurred. Such costs were \$51.7 million, \$44.0 million and \$39.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The objective of our research and development effort is to develop innovative chemistries and technologies with applications relevant within targeted key markets. Research and development efforts are generally focused on both process development, which is the stage at which products move from development to manufacturing and new product development. Each business line, however, also has

selected long-term strategic projects with the aim to develop new competencies and technologies.

Each of our business lines manages its own research and development effort and has separate research and development facilities dedicated to its specific area. However, where technologically applicable, advances and findings are shared between business lines to foster greater cross-fertilization of ideas and applications.

In certain cases, we conduct research and development efforts with third parties, including universities, customers and other entities. We endeavor to obtain ownership of or license to, on terms favorable to us, the intellectual property developed with a third party.

Seasonality

There is a seasonal effect on a portion of our sales due to the end-use of some of our products. Our Color Pigments and Services and Timber Treatment Chemicals business lines of our Performance Additives segment show some seasonality related to the outdoor construction market. As such, the first quarter has historically been the quarter where we experience the lowest sales. During this quarter, we typically build inventory for our construction related businesses, in anticipation of increased sales during the spring and summer months. Thus, the first quarter is usually the quarter with the highest working capital requirements for us. Other than these seasonal trends in certain end-use markets, our overall results of operations tend to show few seasonal effects.

International Operations

The following table presents net sales based on geographic area (attributed based on seller's location):

(\$ in millions)	Year ended December 31,		
	2008	2007	2006
Net sales:			
Germany	\$ 1,371.0	\$ 1,298.6	\$ 1,140.6
United States	890.2	852.5	842.1
Rest of Europe	799.3	655.1	515.1
Rest of World	319.6	259.0	216.9
	\$ 3,380.1	\$ 3,065.2	\$ 2,714.7

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further details.

The following table presents our long-lived assets located in the regions indicated:

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(\$ in millions)	December 31,	
	2008	2007
Long-lived assets:		
Germany	\$ 791.5	\$ 798.7
Rest of Europe	456.9	261.5
United States	293.4	239.1
Rest of World	210.4	209.2
	\$ 1,752.2	\$ 1,508.5

Sales and Marketing

We sell our products and services globally primarily by using our direct sales forces, although we also sell through distributors in certain of our business lines, such as Color Pigments and Services and Clay-based Additives of our Performance Additives segment or by using third party sales representatives. Each of our direct sales forces is responsible for marketing only one of our business lines, and is administered pursuant to policies established by the management of that business line. Within each business line, these direct sales forces are organized based on geographic regions, end-use applications or sub-business divisions within the business line. As of February 1, 2009, our in-house sales forces consisted of approximately 1,700 personnel worldwide.

Our direct sales forces interact with our customers to provide both purchasing advice and technical assistance. In general, our sales forces arrange and coordinate contact between our customers and our research and development or technical personnel to provide quality control and new product solutions. In certain of our businesses, such as the Surface Treatment and Fine Chemicals business lines of our Specialty Chemicals segment, most sales managers have a chemical engineering background with advanced degrees and

significant technical experience in applying our products, and they play a critical role in developing client relationships and acquiring new clients. Our close interaction with our customers and tailored solutions have allowed us to develop and maintain strong customer

relationships as well as focus our sales efforts on those customers who we believe will provide us with higher profit margins in recognition of our superior products, service and technical support.

Sales in each of our business lines are generally made on a purchase order basis. However, longer-term arrangements have been established with certain key customers.

Our marketing strategy is generally aimed at working directly with customers to gauge the success of our products, evaluate the need for improvements in product and process technology, and identify opportunities to develop new product solutions for our customers and their end-use markets. We also use media activities and lectures and participate in tradeshow as part of our sales and marketing effort.

FDA Regulation

Our Advanced Ceramics segment and to a lesser extent, our Specialty Chemicals segment, are subject to regulation by the FDA with respect to certain products we produce, including pharmaceutical intermediates and ceramic-on-ceramic ball head and liner components used in hip joint prostheses systems. Foreign, state, local and other authorities also may regulate us and our products. Regulatory agencies have established requirements that apply to the design, manufacture and marketing of pharmaceutical and medical device products. We sell our pharmaceutical intermediates and ceramic-on-ceramic components to other companies that also may be regulated by such authorities.

Premarket Approval. While we are not required to seek FDA approvals for our pharmaceutical intermediates, the customers to whom we supply such products may be subject to FDA approval requirements prior to testing a new drug on humans as well as marketing a new drug for commercial use in the United States. Our customers with FDA approval for a finished drug may also be required to obtain FDA approval of design, manufacturing or labeling changes to the pharmaceutical intermediates used in their finished products.

Medical devices also are subject to extensive regulation by the FDA prior to commercial distribution in the United States, including premarket approval, or PMA, which is required for devices deemed to pose the greatest risk and certain other devices. Our Advanced Ceramics segment currently supplies ceramic-on-ceramic ball head and liner components to manufacturers for incorporation into their total hip prostheses systems, which are subject to the FDA's PMA requirements. In addition, our Advanced Ceramics business or our customers who have obtained PMA approval may be required to obtain FDA approval for changes to the design, manufacturing or labeling of our ceramic-on-ceramic ball head and liner components. Also, any other medical devices which our Advanced Ceramics segment seeks to produce in the future, such as knee replacement products, would likely require FDA approval for sales in the United States.

Compliance Requirements. Once on the market, drug manufacturers and medical device manufacturers are subject to numerous post-market regulations.

Finished device manufacturers such as our customers who manufacture hip prostheses systems are subject to the FDA's Quality System Regulation, or QSR, which requires quality assurance practices and procedures that address, among other things: management responsibility; audits and training; design controls; purchasing controls; identification and traceability of components; production and process controls;

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acceptance activities; handling of nonconforming products; the initiation of corrective and preventive actions; labeling and packaging controls; handling, storage and distribution of products and complaint handling and record keeping. The FDA does not directly require component suppliers of finished medical devices to comply with the QSR. However, because our ceramic-on-ceramic ball head and liner components are critical elements of hip joint prostheses systems, our customers may require us to comply with some or all of the QSR. Moreover, the FDA may in the future take the position that the types of components that we supply meet the definition of a finished device and are thus subject to the QSR. Our current contracts with our customers of ceramic-on-ceramic ball head and liner components require us to comply or assist our customers in complying with various FDA regulatory requirements.

The FDA's inspectional authority extends to component suppliers. Pursuant to this authority, the FDA has the ability to conduct and has conducted inspections at our facilities at which we manufacture our ceramic-on-ceramic ball head and liner components.

If we or our customers violate FDA or other governmental regulatory requirements during either the pre- or post-marketing stages, there may be various adverse consequences. For example, in the United States, the FDA has the authority to impose fines, injunctions, and civil penalties; recall or seize products; impose operating or import restrictions, partial suspension or total shutdown of production; delay its approval or refuse to grant approval of new products; or withdraw the submission of the approved product from the market.

Safety, Health and Environmental Matters

See Note 19, Commitments and Contingencies, for a discussion of our safety, health and environmental matters.

Employees

As of February 1, 2009, we had approximately 10,200 employees, with 67% located in Europe, 18% in the United States and the remaining 15% located in the rest of the world. Of our employees, approximately 3,100, or 30%, are subject to either collective bargaining agreements or other similar arrangements.

We observe local customs, legislation and practice in labor relations and, where applicable, in negotiating collective bargaining agreements. Management believes that its relations with employees and their representatives are good. We have not suffered any material work stoppages or strikes in our worldwide operations in the last five years.

Available Information

Rockwood Holdings, Inc. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any documents we file at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers file electronically with the SEC. The SEC's website is www.sec.gov.

The Company's website is www.rocksp.com. We have made available, free of charge through our website, our annual report on Form 10-K, and will make available our quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company's proxy statement will be available when filed with the SEC.

Item 1A. Risk Factors.

You should carefully consider these risk factors in evaluating our business. In addition to the following risks, there may also be risks that we do not yet know of or that we currently think are immaterial that may also affect our business. If any of the following risks occur, our business, results of operations, cash flows or financial condition could be adversely affected.

Substantial Leverage *Our available cash and access to additional capital may be limited by our substantial leverage*

We are highly leveraged and have significant debt service obligations. As of December 31, 2008, we had \$2,811.2 million of indebtedness outstanding and total stockholders' equity of \$823.5 million. This level of indebtedness could have important negative consequences to us and you, including:

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- we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes;
- we will need to use a substantial portion of our available cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities;
- some of our debt, including borrowings under the senior secured credit facilities, have variable rates of interest, which will expose us to the risk of increased interest rates;
- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;
- our substantial amount of debt and the amount we need to pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt; and
- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could cause our lenders to terminate commitments under our debt agreements, declare all amounts, including accrued interest, due and payable, and enforce their rights in respect of collateral.

Our cash interest expense for the year ended December 31, 2008 was \$164.0 million. At December 31, 2008, we had \$2,007.9 million of variable rate debt. After including the notional amounts of variable to fixed interest rate swaps, the variable amount was \$699.5 million. A 1% increase in the average interest rate would increase future interest expense by approximately \$7.0 million per year. As of December 31, 2008, our debt service for 2009, which represents expected principal payments of our long-term debt and estimated scheduled cash interest payments, was expected to be \$242.6 million. See Item 7, Management's Discussion and Analysis of

Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Contractual Obligations for years beyond 2009.

Additional Borrowings Available *Despite our substantial leverage, we and our subsidiaries may be able to incur more indebtedness. This could further exacerbate the risks described above, including our ability to service our indebtedness.*

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although our indirect, wholly-owned subsidiary, Rockwood Specialties Group, Inc. (Group or Group's) senior secured credit facilities and the indenture governing the senior subordinated notes due 2014 (the 2014 Notes) contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances indebtedness incurred in compliance with such restrictions could be substantial. For example, in connection with the formation of a venture with Kemira in September 2008, the Titanium Dioxide Pigments venture borrowed 250.0 million (\$349.3 million) under a term loan facility agreement. As of December 31, 2008, the revolving credit facility under the senior secured credit facilities provided for additional borrowings of up to \$225.2 million, after giving effect to \$24.8 million of letters of credit issued on our behalf and the revolving credit facility under the Titanium Dioxide Pigments venture provided for additional borrowings of 30.0 million (\$41.9 million). There are no outstanding borrowings under these revolving credit facilities as of December 31, 2008. In addition, the term loans and the availability under the revolving credit facility under the senior secured credit facilities may be increased by up to \$250.0 million in the aggregate, subject to certain exemptions and provided that Group procures lender commitments for such increase. To the extent new debt is added to our debt levels, the substantial leverage risks described above would increase.

Restrictive Covenants in Our Debt Instruments *Our debt instruments contain a number of restrictive covenants which may limit our ability to finance future operations or capital needs or engage in other business activities that may be in our interest.*

Group's senior secured credit agreement and indenture governing the 2014 Notes and the Titanium Dioxide Pigment's venture facility agreement impose, and the terms of any future indebtedness may impose, operating and other restrictions on us. Such restrictions will affect, and in many respects limit or prohibit, among other things, our ability to take certain actions. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources section for further details. In addition, Group's senior secured credit facilities require us and the Titanium Dioxide Pigment's venture facility requires the venture to achieve certain financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control such as a prolonged economic downturn. The restrictions and financial covenants contained in Group's senior secured credit agreement and indenture governing the 2014 Notes and the Titanium Dioxide Pigment's venture facility could adversely affect our ability to finance our operations, acquisitions, investments or strategic plans or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under the facilities described above. If an event of default occurs under any of these facilities, which includes an event of default under the indenture governing the 2014 Notes, the lenders could elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or

- prevent us from making any principal, premium or interest payments;

any of which would result in an event of default. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further financing. If we were unable to repay or otherwise refinance these borrowings when due, our lenders could sell the collateral securing the senior secured credit facilities, which constitutes substantially all of our and our subsidiaries' assets.

Downturns in certain industries and general economic conditions could adversely affect our profitability and liquidity.

In the event that the volatile conditions affecting worldwide financial markets persist or result in a prolonged economic downturn or recession, our results of operations, cash flows and financial position could be materially and adversely affected. Under such circumstances, the demand for our products could decrease, which would adversely affect our results of operations. In addition, our products are used in certain industries, such as the automotive, data and communications and construction industries. Prolonged downturns or bankruptcies in one or more of these industries could severely reduce demand for our products. For example, sales in our Performance Additives business have been adversely impacted by downward trends in commercial and residential construction, housing starts and trends in residential repair and remodeling. Further, a downturn in the automotive industry, particularly in Europe, may adversely affect the results of operations of our Surface Treatment business in our Specialty Chemicals segment. Moreover, if the value of one or more of our businesses deteriorates, we may be required to record additional impairment charges that could adversely affect our results of operations. If we are unable to successfully anticipate or respond to changing economic conditions, our results of operations and financial position may be materially and

adversely affected.

Further, a prolonged economic downturn or recession or further market disruption in the capital and credit markets may adversely impact our future cash flows from operations and our liquidity. For example, the recent deterioration of these markets has had a material and adverse impact on our pension plan assets, which may require us to make certain payments into these plans in the form of a one-time payment or over an extended period, and any further deterioration in the capital markets may require us to fund additional amounts in the future. In addition, if our operating results deteriorate, we may need to use some or all of our available cash to reduce our leverage in order to comply with the leverage ratios in our debt agreements. Any such payments may materially and adversely impact our liquidity. If our sources of liquidity are insufficient to meet our needs, we may need to use other means available to us, such as reduce or delay capital expenditures or other cost cutting measures or seek additional sources of capital such as through additional borrowings, equity issuances or other sources, to satisfy our liquidity needs. The recent unprecedented adverse conditions in the global capital and credit markets may limit our ability to secure capital or obtain it on terms and conditions that are acceptable to us. We cannot predict with any certainty the impact of this or any further disruption in these markets or our ability to access these markets in the future.

Risks Associated with Acquisitions *We may not be able to successfully integrate completed acquisitions or consummate acquisitions we may seek to make in the future.*

The process of combining or acquiring businesses with Rockwood involves risks. We may face difficulty completing the integration of the new operations, technologies, products and services of acquisitions or combinations, and may incur unanticipated expenses related to those integrations. The difficulties of combining operations may be magnified by integrating personnel with differing business backgrounds and corporate cultures. Failure to successfully manage and integrate acquisitions with our existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could affect our financial condition and results of operations. Even if integration occurs successfully, failure of any future acquisition or combination to achieve levels of anticipated sales growth, profitability or productivity comparable with those achieved by our existing operations, or otherwise not perform as expected, may adversely impact our financial condition and results of operations. In addition, certain acquisitions may trigger regulations designed to monitor competition and would therefore require regulatory approval. We cannot predict whether such authorities will approve acquisitions we seek to accomplish in the future.

Currency Fluctuations *Because a significant portion of our operations is conducted in foreign currencies, fluctuations in currency exchange rates may adversely impact our financial condition and results of operations and may affect the comparability of our results between financial periods.*

Our operations are conducted by subsidiaries in many countries. The results of their operations and financial condition are reported in the local currency and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between some of these currencies and the dollar in recent years have fluctuated significantly and may continue to do so in the future. A significant portion of our net sales and cost of products sold is denominated in euros. Approximately 54% of our 2008 net sales were derived from subsidiaries whose local currency is the euro. This increases the impact of the fluctuation of the euro against the U.S. dollar.

Furthermore, because a portion of our debt is denominated in euros, which as of December 31, 2008 equaled an aggregate of 1,069.2 million (\$1,493.8 million), we are subject to fluctuation in the exchange rate between the U.S. dollar and the euro. For example, the dollar-euro noon buying rate announced by the Federal Reserve Bank of New York increased from \$1.00 = 1.065 on December 31, 2000 to \$1.00 = 0.7158 on December 31, 2008. Being subject to this currency fluctuation may have an adverse effect on the carrying value of our debt and may also affect the comparability of our results of operations between financial periods. As of December 31, 2008, a weakening or strengthening of the euro against the U.S. dollar by \$0.01 would decrease or increase, respectively, by \$10.7 million the U.S. dollar equivalent of our total

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euro-denominated debt of 1,069.2 million. In addition, because our consolidated financial statements are reported in U.S. dollars, the translation effect of such fluctuations has in the past significantly impacted, and may in the future, significantly impact the carrying value of our debt and results of operations and may affect the comparability of our results between financial periods. We also incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. We may not be able to effectively manage our currency translation and/or transaction risks and volatility in currency exchange rates may have a material adverse effect on the carrying value of our debt and results of operations.

Regulation of Our Raw Materials, Products and Facilities *Our business could be adversely affected by regulation to which our raw materials, products and facilities are subject.*

Some of the raw materials we handle, and our products and facilities, are subject to government regulation. These regulations affect the manufacturing processes, uses and applications of our products.

In addition, some of our subsidiaries' products contain raw materials, such as arsenic pentoxide, carbon disulfide, lithium carbonate,

tetrahydrofuran, copper, chromic acid, silica, zinc chromate and lead that are deemed hazardous materials in certain situations. The use of these materials is regulated and some of these regulations require product registrations, which also are subject to renewal and potential revocation. These regulations may affect our ability to market certain chemicals we produce.

There is also a risk that other key raw materials or one or more of our products may be found to have, or be recharacterized as having, a toxicological or health-related impact on the environment or on our customers or employees. If such a discovery or recharacterization occurs, the relevant materials, chemicals or products, including products of our customers incorporating our materials or chemicals, may be recalled or banned or we may incur increased costs in order to comply with new regulatory requirements. Change in regulations, or their interpretation, may also affect the marketability of certain of our products. We cannot predict how these and other findings from regulatory agencies may affect our cash flows or results of operations.

Manufacturing Hazards Hazards associated with chemical manufacturing could adversely affect our results of operations.

Due to the nature of our business, we are exposed to the hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes in our manufacturing facilities or our distribution centers, such as fires, explosions and accidents. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on our company as a whole. Other hazards include piping and storage tank leaks and ruptures, mechanical failure, employee exposure to hazardous substances, chemical spills and other discharges or releases of toxic or hazardous substances or gases, inclement weather and natural disasters. These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which could lead to government fines or work stoppage injunctions and lawsuits by injured persons. For example, our subsidiaries were named as defendants in a wrongful death suit filed by the family of an employee who was fatally injured in an accident in our Clay-based Additives facility in Gonzales, Texas. While we are unable to predict the outcome of this case and other such cases, if determined adversely to us, we may not have adequate insurance to cover such claims and, if not, we may not have sufficient cash flow to pay for such claims. Such outcomes could adversely affect our customer goodwill, cash flow and results of operations.

Raw Materials Fluctuations in costs of our raw materials or, our access to supplies of our raw materials could adversely affect our results of operations.

Although no single raw material represented more than 3% of our cost of products sold in 2008, raw material costs generally account for a high percentage of our total costs of products sold. In 2008, raw materials constituted approximately 52% of our cost of products sold. We generally purchase raw materials based on supply agreements linked to market prices and therefore our results of operations are subject to short-term fluctuations in raw materials prices. These fluctuations limit our ability to accurately forecast future raw material costs and hence our profitability.

Many of the raw materials we use are commodities, and the price of each can fluctuate widely for a variety of reasons, including changes in availability, major capacity additions or reductions or significant facility operating problems. Historically, there have been some price increases we have not been able to pass through to our customers. This trend may continue in the future. In addition, titanium-bearing slag used in our Titanium Dioxide Pigments segment, is our largest raw material (in terms of dollars) and is sourced primarily from two suppliers. If one of our suppliers is unable to meet its obligations under our present supply agreement or we are unable to enter into new supply arrangements on competitive terms when our existing short-term supply arrangements expire, we may be forced to pay higher prices to obtain these necessary raw materials. Furthermore, certain of our raw materials, such as cesium and lithium salts, are sourced from countries where political, economic and social conditions may be subject to instability. In addition, one of our raw materials, lithium brine, requires a period of gestation before it can be used to produce lithium compounds. In the event there is an increase in market demand for lithium products, or unfavorable weather conditions at the lithium ponds, as we experienced in early 2006, we may not be able to respond to such market demand on a timely basis. Any interruption

of supply or any price increase of raw materials could result in our inability to meet demand for our products, loss of customer goodwill and higher costs of producing our products.

Energy Costs *Fluctuations in energy costs could have an adverse effect on our results of operations.*

Energy purchases in 2008 constituted approximately 7% of Rockwood's cost of products sold. Fluctuations in the price of energy limit our ability to accurately forecast future energy costs and consequently our profitability. For example, natural gas prices were volatile and continued to increase in 2008, due in part to global political conditions and weather conditions. Rising energy costs may increase our raw material costs and negatively impact our customers and the demand for our products. These risks will be heightened if our customers or production facilities are in locations experiencing severe energy shortages. For example, our lithium facility in Chile has experienced a shortage of natural gas due to the Argentine government's decision to ration its supply of natural gas to Chile. If energy prices fluctuate significantly, or we experience severe energy shortages, our business, in particular, our Titanium Dioxide segment, or results of operations may be adversely affected.

Environmental, Health and Safety Regulation Compliance with extensive environmental, health and safety laws could require material expenditures or changes in our operations.

Our operations are subject to extensive environmental, health and safety laws and regulations at national, international and local levels in numerous jurisdictions. In addition, our production facilities and a number of our distribution centers require operating permits that are subject to renewal. The nature of the chemicals industry exposes us to risks of liability under these laws and regulations due to the production, storage, transportation, disposal and sale of chemicals and materials that can cause contamination or personal injury if released into the environment. In 2008, our capital expenditures for safety, health and environmental matters (SHE) were \$28.1 million. For 2009, we estimate capital expenditures for compliance with SHE laws to be at similar levels. We may be materially impacted in the future by the Registration, Evaluation and Authorization of Chemicals, or REACH, legislation which became effective in the European Union (EU) on June 1, 2007. We estimate our cost of compliance with REACH to be approximately \$5.0 million in 2009 and 2010 and approximately \$3.0 million per year from 2011 through 2018, although we may incur additional costs.

Compliance with environmental laws generally increases the costs of registration/approval requirements, the costs of transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes, and could have a material adverse effect on our results of operations. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, for violations arising under these laws or permit requirements. Furthermore, environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws or their interpretation, or the enactment of new environmental laws, could result in materially increased capital expenditures and compliance costs.

In addition, the discovery of contamination arising from historical industrial operations at some of our former and present properties has exposed us, and in the future may continue to expose us, to cleanup obligations and other damages. For example, soil and groundwater contamination is known to exist at several of our facilities. At December 31, 2008, we had approximately \$55.1 million in reserves for estimated environmental liabilities and estimated the potential range of exposure for such liabilities to be between \$55.1 million and \$96.6 million.

Environmental Indemnities We may be subject to environmental indemnity claims relating to properties we have divested.

The discovery of contamination arising from properties that we have divested may expose us to indemnity obligations under the sale agreements with the buyers of such properties or cleanup obligations and other damages under applicable environmental laws. For example, we have obligations to indemnify the buyers of the former explosives business and automotive ignition systems business of Dynamit Nobel for certain environmental matters. Under such sale agreements, these indemnities are not limited as to amount. In addition, we agreed to indemnify the buyers of our Groupe Novasep subsidiary for three years for certain known and unknown environmental actions which may arise in the future, and the buyer of our former Electronics business for five and seven years, for on-site and off-site environmental liabilities, respectively, related to such business. We may not have adequate insurance coverage or cash flows to make such indemnity payments. Such payments may be costly and may adversely affect our financial condition and results of operations.

Product Liability Due to the nature of our business and products, we may be liable for damages arising out of product liability claims.

The sale of our products involves the risk of product liability claims. For example, some of the chemicals or substances that are used in our businesses, such as arsenic pentoxide, have been alleged to represent potentially significant health and safety concerns. Class action suits had been filed in Louisiana, Florida and Arkansas, for example, naming one of our subsidiaries and a number of competitors of our Timber Treatment Chemicals business line in our Performance Additives segment, as well as treaters and retailers, as defendants.

In addition, our subsidiary has been named as a defendant in personal injury suits in several jurisdictions with retailers and treaters named as other defendants. Furthermore, there are other similar suits, including putative class actions, pending against retailers, treaters and other formulators to which we may be eventually named as a defendant. These suits allege, among other things, product liability claims in connection with the use of timber products treated with CCA, which utilizes arsenic pentoxide as a raw material. Other legal actions in which we participate or which relate to our business include the following:

- a subsidiary in our Advanced Ceramics segment has been named as a defendant in several product liability lawsuits in Europe relating to broken artificial hip joints, which allege negligent manufacturing by our subsidiary of ceramic components used in the production of artificial hip joints.
- a subsidiary in our Specialty Compounds segment has been named in lawsuits relating to compounds we supplied our customers to produce medical products and packaging materials. The suits allege, among other things, contract and tort causes of action.

- our customer has been named in a class action lawsuit in New Jersey relating to a prosthesis hip replacement system using ceramic components. The lawsuit alleges a violation of the Consumer Fraud Act, design defect, breach of warranty and negligence based on our customer's design and manufacture of hip implant systems.
- a subsidiary in our Specialty Chemicals segment has been named as a defendant in several lawsuits in the United States regarding exposure to solvents and other chemicals contained in some of our products.

Also, because many of our products are integrated into our customers' products, we may be requested to participate in or share in the costs of a product recall conducted by a customer. For example, some of our businesses, including those within our Specialty Chemicals, Advanced Ceramics and Specialty Compounds segments, supply products to customers in the automotive industry. In the event one of these customers conducts a product recall that it believes is related to one of our products, we may be asked to participate in or fund in whole or in part such a recall.

We are unable to estimate our exposure, if any, to the above-mentioned lawsuits at this time. We may be subject to future claims with regard to these suits or others like them and we may not be able to avoid significant product liability exposure. A successful product liability claim or series of claims against us for which we are not otherwise indemnified or insured could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations. For example, for policies renewed on or after November 2002, our insurers excluded CCA from our insurance coverage under our general liability policies. We may not have sufficient cash flow from operations or assets to pay a judgment resulting from a product liability claim or product recall, if any, for which there is no or inadequate insurance coverage. Any such judgment or product recall could materially increase our operating costs or prevent such operating subsidiary from satisfying its financial obligations.

Product Liability Due to the nature of our business and products, we may be liable for damages arising out of certain indemnity claims.

We may be subject to indemnity claims for product liability lawsuits relating to products we have sold. For example, our Timber Treatment Chemicals business has entered into indemnity agreements with various customers who purchased CCA-based wood protection products. Pursuant to those agreements, one of our subsidiaries agreed to defend and hold harmless those customers for certain causes of action, based on domestic mammalian, and in some cases, human toxicity, caused by our CCA-based wood protection products, subject to certain conditions. Our Timber Treatment Chemicals business, and several of our customers were named as defendants in several suits, including putative class actions, relating to CCA-based wood protection products. Our Timber Treatment Chemicals business has received and may in the future receive claims for indemnity from customers in connection with litigation relating to CCA-based wood protection products and may be required to pay indemnity claims under such agreements to one or more of its customers. If our Timber Treatment Chemicals business is required to pay one or more indemnity claims, insurance or indemnity arrangements from Evonik Degussa (the successor to Laporte, from which the specialty chemicals business lines that formed Rockwood in the KKR Acquisition were acquired) may not cover such claims and, if not, our subsidiary may not have sufficient free cash flow to pay such claims. We are unable to estimate our exposure, if any, to these claims and lawsuits at this time.

In addition, our Specialty Chemicals segment's subsidiary that formerly manufactured sealants for insulating glass and resins for laminated glass has been named as a defendant in several lawsuits relating to alleged negligent manufacturing of those products. Pursuant to the sale and purchase agreement with respect to the divested glass business, this subsidiary may be required to pay indemnity claims, mainly re-glazing costs. Our insurance may not cover such claims and, in such a case, our subsidiary may not have sufficient cash flow to pay these claims. One or more of these claims could adversely affect our financial condition or results of operations.

FDA Regulation Some of our manufacturing processes and facilities, pharmaceutical customers and medical device customers are subject to regulation by the FDA or similar foreign agencies. These requirements could adversely affect our results of operations.

Regulatory requirements of the FDA are complex. Any failure to comply with them could subject us and/or our customers to fines, injunctions, civil penalties, lawsuits, recall or seizure of products, total or partial suspension of production, denial of government approvals, withdrawal of marketing approvals and criminal prosecution. Any of these actions could adversely impact our net sales, undermine goodwill established with our customers, damage commercial prospects for our products and materially adversely affect our results of operations.

The manufacture and supply of ceramic-on-ceramic ball head and liner components for hip joint prostheses systems by our Advanced Ceramics segment may be subject to the FDA's Quality System Regulation, which imposes current Good Manufacturing Practice requirements on the manufacture of medical devices. Certain lithium compounds manufactured by our Fine Chemicals business line of our Specialty Chemicals segment are subject to FDA regulation.

In addition, medical device customers of our Advanced Ceramics segment to whom we supply our ceramic-on-ceramic ball head and liner components are subject to FDA regulation, including premarket approval of their products and post market compliance

requirements. The FDA may take three years or longer to grant premarket approval, if at all. Once approved, our customers' total hip prostheses systems may be withdrawn from the market either voluntarily by our customers or as a result of the FDA's or a foreign equivalent's withdrawal of marketing approval or removal of such products for a number of reasons including safety, current Good Manufacturing Practice or Quality System Regulation problems with our products or our customers' final products. For example, a customer in our Advanced Ceramics segment initiated a voluntary recall in January 2008 of its hip implant system. These factors could significantly limit our net sales generated by our Advanced Ceramics segment and may have a material adverse effect on our financial condition and results of operations.

Competition Our industry is highly competitive. The end-use markets in which we compete are also highly competitive. This competition may adversely affect our results of operations.

We face significant competition from major international producers as well as smaller regional competitors. Our most significant competitors include major chemicals and materials manufacturers and diversified companies, a number of which have revenues and capital resources exceeding ours. In addition, there is increasing competition from market participants in China.

Within the end-use markets in which we compete, competition between products is intense. Substitute products also exist for many of our products. Therefore, we face substantial risk that certain events, such as new product development by our competitors, changing customer needs, production advances for competing products, price changes in raw materials, our failure to secure patents or the expiration of patents, could result in declining demand for our products as our customers switch to substitute products or undertake manufacturing of such products on their own. If we are unable to develop and produce or market our products to effectively compete against our competitors, our results of operations may materially suffer.

We believe that our customers are increasingly looking for strong, long-term relationships with a few key suppliers that help them improve product performance, reduce costs, or support new product development. To satisfy these growing customer requirements, our competitors have been consolidating within product lines through mergers and acquisitions. We may also need to invest and spend more on research and development and marketing costs to strengthen existing customer relationships, as well as attract new customers. As a result, our substantial debt level could limit our flexibility to react to these industry trends and our ability to remain competitive.

Product Innovation If we are not able to continue our technological innovation and successful commercial introduction of new products, our profitability could be adversely affected.

Our industries and the end-use markets into which we sell our products experience periodic technological change and product improvement. Manufacturers periodically introduce new generations of products or require new technological capacity to develop customized products. Our future growth will depend on our ability to gauge the direction of the commercial and technological progress in all key end-use markets and upon our ability to fund and successfully develop, manufacture and market products in such changing end-use markets. We will have to continue to identify, develop and market innovative products on a timely basis to replace or enhance existing products in order to maintain our profit margins and our competitive position. We may not be successful in developing new products and/or technology, either alone or with third parties, or licensing intellectual property rights from third parties on a commercially competitive basis. Our new products may not be accepted by our customers. If we fail to keep pace with the evolving technological innovations in our end-use markets on a competitive basis, our business, financial condition and results of operations could be adversely affected.

Dependence on Intellectual Property *If our intellectual property were copied by competitors, or if they were to develop similar intellectual property independently, our results of operations could be negatively affected.*

Our success depends to a significant degree upon our ability to protect and preserve our intellectual property rights, which rights we own or use pursuant to licenses granted to us by third parties. The confidentiality and patent assignment agreements we enter into with most of our key employees and third parties to protect the confidentiality, ownership and use of intellectual property may be breached, may not be enforceable, or may provide for joint ownership or ownership by a third party. In addition, we may not have adequate remedies for a breach by the other party, which could adversely affect our intellectual property rights. The use of our intellectual property rights or intellectual property similar to ours by others or our failure to protect such rights could reduce or eliminate any competitive advantage we have developed, adversely affecting our net sales. If we must sue to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in significant costs and diversion of company resources and management attention, and we may not prevail in such action. We are currently involved in a few actions related to misappropriation of our intellectual property by former employees. In addition, when our patents expire, competitors or new market entrants may manufacture products substantially similar to our products previously protected by a patent. For example, our patent in ACQ technology expired in May 2007 and as a result, there has been a new entrant into this market.

We conduct research and development activities with third parties and license certain intellectual property rights from third parties and we plan to continue to do so in the future. For example, in our Timber Treatment Chemicals business, we commercialized Ecolife, our next generation timber treatment preservative from our Timber Treatment Chemicals business, through our joint venture with Rohm and Haas Company. We endeavor to license or otherwise obtain intellectual property rights on terms favorable to us. However, we

may not be able to license or otherwise obtain intellectual property rights on such terms or at all. Our inability to license or otherwise obtain such intellectual property rights could have a material adverse effect on our ability to create a competitive advantage and create innovative solutions for our customers, which will adversely affect our net sales and our relationships with our customers.

The steps we take to protect our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. We have been and currently are subject to oppositions of our patents and trademarks by third parties before regulatory bodies in certain jurisdictions. Our failure to defend these patents or registered trademarks may limit our ability to protect the intellectual property rights that these applications were intended to cover. In addition, a failure to obtain and defend our trademark registrations may impede our marketing and branding efforts and competitive position. A failure to protect our intellectual property rights could have a material adverse effect on demand for our products and our net sales.

Risk of Intellectual Property Litigation *Our products or processes may infringe the intellectual property rights of others, which may cause us to pay unexpected litigation costs or damages or prevent us from selling our products.*

Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, our processes and products may infringe or otherwise violate the intellectual property rights of others. We may be subject to legal proceedings and claims, including claims of alleged infringement by us or our licensees of the patents, trademarks and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our businesses. If we were to discover or be notified that our processes or products potentially infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from these parties or substantially re-engineer our products and processes in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

International Operations *As a global business, we are exposed to local business risks in different countries which could have a material adverse effect on our financial condition or results of operations and the value of our common stock.*

We have significant operations in many countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in countries such as Brazil, Chile, China, Czech Republic, India, Malaysia, Poland, Portugal, Singapore, South Africa, South Korea, Taiwan and Turkey. Of our total net sales in 2008 of \$3,380.1 million, approximately 71% were generated by shipments to countries outside North America. Our operations are affected directly and indirectly by global regulatory, economic and political conditions, including:

- new and different legal and regulatory requirements in local jurisdictions;
- managing and obtaining support and distribution for local operations;

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- increased costs of, and availability of, transportation or shipping;
- credit risk and financial conditions of local customers and distributors;
- potential difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- potential imposition of restrictions on investments;
- potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;
- capital controls; and
- local political, economic and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

In addition, our facilities may be targets of terrorist activities that could result in full or partial disruption of the activities of such facilities. We may not succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where we do business. Our failure to do so could limit our ability to sell products, compete or receive payments for products sold in such locations.

Furthermore, our subsidiaries are subject to the export controls and economic embargo rules and regulations of the United States, violations of which may carry substantial penalties. These regulations limit the ability of our subsidiaries to market, sell, distribute or

otherwise transfer their products or technology to prohibited countries or persons. Failure to comply with these regulations could subject our subsidiaries to fines, enforcement actions and/or have an adverse affect on our reputation and the value of our common stock.

Retention of Key Personnel *If we lose certain key personnel or are unable to hire additional qualified personnel, we may not be able to execute our business strategy.*

Our success depends, in part, upon the continued services of our highly skilled personnel involved in management, research, production, sales and distribution, and, in particular, upon the efforts and abilities of our executive officers and key employees. Although we believe that we are adequately staffed in key positions and that we will be successful in retaining key personnel, we may not be able to retain such personnel on acceptable terms or at all. Furthermore, if we lose the service of any executive officers or key employees, we may not be able to execute our business strategy. We do not have key-person life insurance covering any of our employees.

Relations with Employees *We are subject to stringent labor and employment laws in certain jurisdictions in which we operate, and our relationship with our employees could deteriorate, which could adversely impact our operations.*

A majority of our full-time employees are employed outside the United States, particularly in Germany where many of our businesses are located. In certain jurisdictions where we operate, particularly in Germany, labor and employment laws are relatively stringent and, in many cases, grant significant job protection to certain employees, including rights on termination of employment. In addition, in certain countries where we operate, including Germany, our employees are members of unions or are represented by a works council as required by law. We are often required to consult and seek the consent or advice of these unions and/or respective works councils. These regulations and laws coupled with the requirement to consult with the relevant unions or works councils could significantly limit our flexibility in managing costs and responding to market changes.

Furthermore, with respect to our employees that are subject to collective bargaining arrangements or similar arrangements (approximately 30% of our full-time employees as of February 1, 2009), we may not be able to negotiate labor agreements on satisfactory terms and actions by our employees may disrupt our business. If these workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations and/or higher ongoing labor costs. In addition, if our other employees were to become unionized, we could experience a significant disruption of our operations and/or higher ongoing labor costs.

Tax Liabilities *If mg technologies ag (now known as GEA Group Aktiengesellschaft) or Degussa UK Holdings, Ltd. fail to satisfy their contractual obligations, we may be subject to increased tax exposure resulting from pre-acquisition periods.*

Under the terms of certain purchase agreements, third party sellers have agreed to substantially indemnify us for tax liabilities pertaining to the pre-acquisition periods. To the extent such companies fail to indemnify or satisfy their obligations, or if any amount is not covered by the terms of the indemnity, we would be required to record an adjustment to goodwill to satisfy any such liabilities and could be negatively impacted in future periods through increased tax expense.

Net Loss *We have experienced losses in the past and may experience losses in the future and cannot be certain that our net operating loss carryforwards will continue to be available to offset our tax liability.*

We have incurred net losses in the past and we may incur net losses in the future. We may not generate cash flow sufficient to meet debt service obligations and other capital requirements, such as working capital and maintenance capital expenditures. As of December 31, 2008, we had deferred tax assets of \$53.1 million related to worldwide net operating loss carryforwards. Additionally, at December 31, 2008, we had a total valuation allowance of \$84.7 million. If our operating performance deteriorates in the future in certain tax jurisdictions, we may be unable to realize these net operating loss carryforwards and we may be required to record an additional valuation allowance.

Anticipated Capital Expenditures Our required capital expenditures may exceed our estimates.

Our capital expenditures, excluding capital leases, for the year ended December 31, 2008 were \$224.0 million, which consisted of expenditures to maintain and improve existing equipment and substantial investments in new equipment. For 2009, we expect capital expenditures to be below 2008 levels. However, future capital expenditures may be significantly higher, depending on the investment requirements of each of our business lines, and may also vary substantially if we are required to undertake actions to compete with new technologies in our industry. We may not have the capital necessary to undertake these capital investments. If we are unable to do so, we may not be able to effectively compete in some of our markets.

Control A conflict may arise between our interests and those of KKR.

Affiliates of KKR own approximately 29.9% of our common stock on an undiluted basis. Although affiliates of KKR no longer hold a majority of our outstanding common stock, they continue to have a significant impact on the vote in any election of directors. In

addition, representatives of KKR occupy two of the seven seats on our board of directors. As a result, even though representatives of KKR do not occupy a majority of the seats on our board of directors, affiliates of KKR have substantial influence over our decisions to enter into any corporate transaction and whether any transaction that requires the approval of the stockholders is approved. For example, affiliates of KKR could seek to cause us to sell revenue-generating assets, which could impair our long-term ability to declare dividends or grow our business. Additionally, KKR is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We are an international business, serving customers worldwide. To service our customers efficiently, we maintain 96 manufacturing facilities in 26 countries around the world with a strategy of global, regional and local manufacturing to optimize our service offering and minimize production cost to our customers. We believe these facilities are suitable and adequate for their intended use. The table below presents summary information with respect to these facilities:

Segment	Country	Locations	Leased/Owned	Major Applications/Industry
Specialty Chemicals				
Surface Treatment	Australia	Bayswater North	Owned	Automotive and other pre-treatment technologies
		Girraween	Leased	Aerospace and general industry
	Brazil	Diadema-São Paulo	Leased	Automotive and other pre-treatment technologies
	Canada	Bramalea, Ontario	Owned	Pre-treatment technologies and aerospace
	China	Changchun (JV)	Leased	Automotive and other pre-treatment technologies
		Chongqing (JV)	Leased	Automotive and other pre-treatment technologies
		Shanghai (JV)	Leased	Automotive and other pre-treatment technologies
	France	Sens	Owned	Automotive and other pre-treatment technologies
		Soissons	Owned	Aerospace
	Germany	Mönchengladbach	Owned	General industry
		Langelsheim (1)	Owned	Automotive technologies, other pre-treatment technologies and aerospace (sealants)

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India	Chennai (JV)	Leased	Automotive and other pre-treatment technologies
	Kalyan (JV)	Owned	Automotive and other pre-treatment technologies
	Pune (JV)	Owned	Automotive and other pre-treatment technologies
Italy	Giussano	Owned	Automotive and other pre-treatment technologies
	Roveredo in Piano	Leased	General industry
Mexico	El Marqués, Querétaro	Leased	Automotive technologies, other pre-treatment technologies and aerospace
The Netherlands	Oss	Owned	Automotive and other pre-treatment technologies

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	Poland	Warsaw	Leased	Automotive and other pre-treatment technologies
	Singapore	Singapore	Leased	Advanced technologies and non-automotive pre-treatment technologies
	South Africa	Boksburg	Owned	Automotive and other pre-treatment technologies
	Spain	Canovelles	Owned	Automotive and other pre-treatment technologies
	Sweden	Bålsta	Owned	Automotive and other pre-treatment technologies
	Switzerland	Dintikon	Leased	Pre-treatment technologies
	Turkey	Gebze	Owned	Automotive and other pre-treatment technologies
	United Kingdom	Bletchley	Owned	Automotive technologies, other pre-treatment technologies and aerospace
	United States	Jackson, MI	Owned	General industry
		La Mirada, CA	Leased	Pre-treatment technologies and aerospace
		Romulus, MI	Owned	Automotive technologies, other pre-treatment technologies and aerospace
Fine Chemicals	Austria	Arnoldstein	Leased	Metal sulfides
	Chile	La Negra	Owned	Lithium-carbonate and lithium chloride
		Salar de Atacama	Owned	Lithium brine and Potash
	Germany	Langelsheim (1)	Owned	Butyllithium, lithium-chloride, specialty products, lithium metal, lithium-hydrides, cesium, and special metals
	Taiwan	Taichung	Owned	Butyllithium
	United States	Kings Mountain, NC	Owned	Metal and battery
		New Johnsonville, TN	Owned	Butyllithium and specialty products
		Pasadena, TX	Owned	Butyllithium
		Phoenix, AZ	Leased	Zirconium products
		Silver Peak, NV	Owned	Lithium-carbonate and lithium hydroxide
Performance Additives				
Color Pigments and Services	China	Shenzhen	Owned	Coatings and construction
		Taicang	Owned	Coatings and specialties
		Xinzhuang, Changshu	Leased	Construction

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France	Comines	Owned	Coatings
Germany	Hainhausen	Owned	Construction and coatings
	Walluf	Owned	Construction and coatings
Italy	Turin	Owned	Coatings, specialties and construction
United Kingdom	Birtley	Owned	Driers
	Kidsgrove	Owned	Coatings and specialties

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		Sudbury	Owned	Coatings and specialties
	United States	Beltsville, MD	Owned	Coatings, specialties and construction
		Cartersville, GA	Owned	Construction
		East St. Louis, IL	Owned	Specialties
		Easton, PA	Owned	Coatings, specialties and construction
		Harleyville, SC	Owned	Construction
		King of Prussia, PA	Owned	Construction
		Los Angeles, CA	Owned	Coatings, specialties and construction
		Ocala, FL	Owned	Coatings, specialties and construction
		St. Louis, MO	Owned	Coatings, specialties and construction
Timber Treatment Chemicals	United Kingdom	Barrow-in-Furness	Leased	Wood protection products and treatment
	United States	Freeport, TX	Owned	Construction and other industrial markets
		Harrisburg, NC	Owned	Wood protection products and treatment
		Valdosta, GA	Owned	Wood protection products and treatment
Clay-based Additives	Germany	Duisburg (2)	Owned	Flocculants
		Ibbenbueren	Leased	Flocculants
		Moosburg	Leased	Paints and inks
		Schwarzheide	Leased	Flocculants
	United Kingdom	Widnes, Cheshire	Owned	Paper-making, consumer and household care and coatings and paper
	United States	Gonzales, TX	Owned	Paints, inks and oilfields and paper-making
		Louisville, KY	Owned	Paints and inks
Titanium Dioxide Pigments				
Titanium Dioxide	Finland	Pori	Owned	Plastics, paints, packaging inks, coatings and paper
	Germany	Duisburg (2) (3)	Owned	Fibers, plastics, paints, coatings and paper
		Oberhausen	Leased	Cosmetics
	United States	Lawrence, MA	Leased	Cosmetics
		Northvale, NJ	Leased	Cosmetics
Functional Additives	Germany	Duisburg (2) (3)	Owned	Coatings, plastics, fibers, paper, pharmaceuticals, PVC stabilizers and glass fiber reinforced plastics
Advanced Ceramics				
	Brazil	Nova Odessa	Leased	Automotive
	China	Suzhou	Leased	General industry
	Czech Republic	Sumperk	Owned	General industry
		Dolni Rychnov	Owned	Electronics

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Germany

Ebersbach

Owned

Automotive and general industry

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		Lauf	Owned	Automotive, electronics and general industry
		Lohmar	Owned, partly leased	Ballistic protection, wear/corrosion protection
		Marktredwitz	Owned	Electronic, automotive, medical and general industry
		Plochingen	Owned	Medical, automotive and general industry
		Wilhermsdorf	Leased	Automotive
		Wittlich	Leased	General industry
	Malaysia	Seremban	Owned	Medical and general industry
	Mexico	Puebla	Owned	Automotive
	Poland	Gorzyce	Leased	Automotive
	South Korea	Suwon	Leased	Electronics
	United Kingdom	Colyton	Owned	Electronics
	United States	Birmingham, AL	Owned	Wear/corrosion protection
		Laurens, SC	Owned	Automotive, electronics and general industry

Specialty Compounds

	Canada	Stoney Creek, Ontario	Owned	Footwear, automotive and consumer products
	Italy	Azeglio	Owned	Rubber compounds
	United Kingdom	Melton Mowbray	Owned	TPE/Consumer products, packaging, medical, automotive and wire and cable sheathing products
	United States	Leominster, MA	Owned	Wire and cable sheathing, consumer goods, footwear, automotive and industrial products
		Pineville, NC	Owned	Wire and cable sheathing, packaging, medical, consumer goods, footwear, automotive and industrial products

Corporate and other

Wafer Reclaim	France	Greasque	Owned	Wafer reclaim
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- (1) This facility is shared by both business divisions of the Specialty Chemicals segment.
- (2) This facility is shared by both the Performance Additives segment and the Titanium Dioxide Pigments segment.
- (3) This facility is shared by the two business divisions of the Titanium Dioxide Pigments segment.

Item 3. 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. However, we do not believe that there is any other individual, governmental, legal proceeding or arbitration that is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition. We cannot predict the outcome of any litigation or the potential for future litigation.

In April 2005, Hospira Incorporated filed suit in Mecklenburg County, North Carolina Superior Court against one of our wholly-owned subsidiaries in our Specialty Compounds segment alleging claims for negligence, negligent misrepresentation, estoppel, fraud, third party beneficiary breach of contract and unfair trade practices as a result of our subsidiary providing PVC compound to its customer. Hospira is seeking damages of approximately \$16.0 million for costs allegedly related to its recall and destruction of intravenous administration kits that incorporated components made with this compound, and further seeks treble damages of approximately \$48.0 million, plus attorneys' fees and interest, under the North Carolina unfair trade practice statute. The Court dismissed Hospira's negligence and estoppel claims, but initially denied our subsidiary's motion to dismiss the other claims. Following discovery, our subsidiary filed a motion for summary judgment to dismiss the remaining claims and, on November 9, 2007, the trial court granted our motion for summary judgment and dismissed all of the plaintiff's claims. The plaintiff appealed this decision and, in early 2009, the appellate court affirmed on all counts with the exception of the negligence claim, which it reversed and remanded to the trial court. We will continue to vigorously defend this matter. While we believe our subsidiary has meritorious defenses against Hospira's claims and do not believe that resolution of this matter will have a material adverse effect on our business or financial condition, we cannot predict the ultimate outcome of this litigation and resolution of this claim may have a material adverse effect on our results of operations or cash flows in any quarterly or annual reporting period.

In addition, a subsidiary in our Specialty Chemicals segment that formerly manufactured sealants for insulating glass and resins for laminated glass has been named as a defendant in several lawsuits in Europe relating to alleged negligent manufacturing of those products. Pursuant to the sale and purchase agreement with respect to the divested glass business, this subsidiary may be required to pay indemnity claims related to these lawsuits. Although we expect our subsidiary to have coverage under its product liability insurance policies should damages ultimately be awarded or agreed to, in such an event, its insurance may not cover such claims and, if not, our subsidiary may not have sufficient cash flow to pay these claims. Although we do not believe that resolution of these matters will have a material adverse effect on our business or financial condition, we cannot predict the ultimate outcome of this litigation, and the resolution of one or more of these claims may have a material adverse effect on our results of operations or cash flows in any quarterly or annual reporting period.

Item 4. Submission of Matters to a Vote of Security Holders.

During the fourth quarter of the year ended December 31, 2008, no matters were submitted to a vote of security holders.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the New York Stock Exchange under the ticker symbol ROC. As of February 27, 2009, there were approximately 102 holders of record of the Company's common stock.

The following table summarizes the Company's quarterly common stock information:

2008		High		Low
First	\$	34.76	\$	26.82
Second		43.71		32.61

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Third	39.97	24.04
Fourth	25.66	5.37

2007	High	Low
First	\$ 28.41	\$ 24.12
Second	37.06	27.48
Third	39.32	29.16
Fourth	40.00	31.00

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 Group's senior secured credit facilities and indenture governing the 2014 Notes, Group is generally restricted from making dividends or other distributions to us. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. See further discussion in liquidity section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

There were no repurchases of any of the Company's common stock by or on behalf of the Company during the fourth quarter of 2008

and no sales of unregistered equity securities by the Company during the fiscal year ended December 31, 2008.

Stock Performance Graph

The following graph compares the performance through December 31, 2008 of a hypothetical \$100 investment made on August 17, 2005 in (a) our common stock, (b) the S&P 500 Index ® and (c) the S&P Supercomposite Specialty Chemicals Index (S15SPCH).

Item 6. Selected Financial Data.

The following selected consolidated financial data of the Company's five most recent years ended December 31, 2008 should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data. The Statement of Operations data set forth below with respect to the three years in the period ended December 31, 2008 and the Balance Sheet data as of December 31, 2008 and 2007, are derived from the Company's audited financial statements included elsewhere in this document. The Statement of Operations data for the years ended December 31, 2005 and 2004 and the Balance Sheet data as of December 31, 2006, 2005 and 2004 are derived from audited consolidated financial statements not included herein. As previously discussed, all periods presented have been reclassified to account for the sale of the Groupe Novasep segment, the Electronics business sold, excluding the European wafer reclaim business, and the sale of the pool and spa chemicals business as discontinued operations.

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Year Ended December 31,

(\$ in millions, except per share data; shares in thousands)	2008	2007	2006	2005	2004
Statement of operations data:					
Net sales:					
Specialty Chemicals	\$ 1,232.6	\$ 1,082.9	\$ 918.3	\$ 842.0	\$ 321.1
Performance Additives	835.6	798.5	724.8	648.9	586.0
Titanium Dioxide Pigments	534.8	442.9	409.1	399.2	162.2
Advanced Ceramics	505.9	452.5	389.6	369.6	146.3
Specialty Compounds	261.5	276.6	251.0	237.5	200.4
Corporate and other	9.7	11.8	21.9	24.4	28.0
Total net sales	3,380.1	3,065.2	2,714.7	2,521.6	1,444.0
Cost of products sold	2,365.8	2,089.1	1,859.0	1,723.4	1,047.2
Gross profit	1,014.3	976.1	855.7	798.2	396.8
Selling, general and administrative expenses	661.3	597.6	540.4	481.6	276.9
Impairment charges (1)	809.5		2.2	0.4	11.0
Restructuring and other severance costs (2)	35.3	12.0	4.9	15.2	1.1
Management services agreement termination fee (3)				10.0	
Gain on sale of assets and other (4)	(2.4)	(4.7)	(0.3)	(4.4)	
Operating (loss) income	(489.4)	371.2	308.5	295.4	107.8
Other expenses, net:					
Interest expense (5)	(231.1)	(219.3)	(199.9)	(221.5)	(165.0)
Interest income	6.0	11.5	2.4	9.9	2.0
Gain (loss) on early extinguishment of debt (6)	4.0	(18.6)		(26.2)	
Refinancing expenses (7)		(0.9)		(1.0)	(27.0)
Foreign exchange (loss) gain (8)	(32.3)	7.8	8.6	112.2	(124.8)
Other, net (9)	0.7		1.8	2.6	(2.8)
Other expenses, net	(252.7)	(219.5)	(187.1)	(124.0)	(317.6)
(Loss) income from continuing operations before taxes and minority interest	(742.1)	151.7	121.4	171.4	(209.8)
Income tax (benefit) provision	(23.9)	62.3	61.3	55.6	21.4
(Loss) income from continuing operations before minority interest	(718.2)	89.4	60.1	115.8	(231.2)
Minority interest in continuing operations (10)	83.6	(7.9)			
Net (loss) income from continuing operations	(634.6)	81.5	60.1	115.8	(231.2)
Income (loss) from discontinued operations, net of tax (11)	3.3	25.3	48.1	(23.0)	15.1
Gain on sale of discontinued operations, net of tax (12)	42.9	210.4			
Minority interest in discontinued operations (13)		(0.1)	(5.2)	3.0	
Net (loss) income	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 95.8	\$ (216.1)
Net (loss) income from continuing operations applicable to common shareholders - basic and diluted (14)					
	\$ (634.6)	\$ 81.5	\$ 60.1	\$ 111.5	\$ (235.4)
Net (loss) income applicable to common shareholders - basic and diluted (14)					
	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 91.5	\$ (220.3)
(Loss) earnings per common share data (15):					
Basic (loss) earnings per common share:					
(Loss) earnings from continuing operations	\$ (8.58)	\$ 1.10	\$ 0.81	\$ 1.89	\$ (7.12)
Earnings (loss) from discontinued operations, net of tax	0.63	3.20	0.59	(0.34)	0.46
Basic (loss) earnings per share	\$ (7.95)	\$ 4.30	\$ 1.40	\$ 1.55	\$ (6.66)
	73,983	73,817	73,782	59,133	33,054

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Weighted average number of shares
outstanding

Diluted (loss) earnings per common share:										
(Loss) earnings from continuing operations	\$	(8.58)	\$	1.07	\$	0.80	\$	1.86	\$	(7.12)
Earnings (loss) from discontinued operations, net of tax		0.63		3.09		0.57		(0.34)		0.46
Diluted (loss) earnings per share	\$	(7.95)	\$	4.16	\$	1.37	\$	1.52	\$	(6.66)
Weighted average number of shares outstanding		73,983		76,279		75,044		60,002		33,054

Cash flow data:

Net cash provided by operating activities	\$	296.6	\$	368.5	\$	302.6	\$	257.6	\$	162.3
Net cash (used in) provided by investing activities		(295.5)		377.6		(248.8)		(276.6)		(2,232.9)
Net cash provided by (used in) financing activities		104.7		(411.8)		(102.7)		8.9		2,134.4
Effect of exchange rate changes on cash		12.8		(10.3)		(13.8)		1.0		5.6
Net increase (decrease) in cash and cash equivalents	\$	118.6	\$	324.0	\$	(62.7)	\$	(9.1)	\$	69.4

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(\$ in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Other data:					
Depreciation and amortization	\$ 258.9	\$ 211.7	\$ 174.4	\$ 156.7	\$ 90.3
Capital expenditures, excluding capital leases	224.0	193.2	165.1	159.4	73.9
EBITDA (16)	(258.1)	571.2	493.3	539.7	43.5
Non-cash charges and (gains) included in EBITDA (17)	841.8	(3.7)	(6.4)	(98.8)	149.9
Other special charges included in EBITDA (18)	55.2	34.9	19.0	38.3	79.7

(\$ in millions)	As of December 31,				
	2008	2007	2006	2005	2004
Balance sheet data:					
Cash and cash equivalents	\$ 468.7	\$ 350.1	\$ 27.7	\$ 100.5	\$ 91.3
Working capital (19)	987.5	818.3	857.1	779.1	934.3
Property, plant and equipment, net	1,752.2	1,508.5	1,296.3	1,156.8	1,236.8
Total assets	5,177.3	5,514.9	5,219.9	4,816.5	5,388.6
Total long-term debt, including current portion	2,811.2	2,581.4	2,838.7	2,761.2	3,280.5
Redeemable convertible preferred stock					34.3
Stockholders' equity	823.5	1,571.6	1,120.5	834.7	624.0

(1) As part of our annual goodwill impairment review, we recorded a goodwill impairment charge of \$809.5 million in the fourth quarter of 2008 (See Note 7, Goodwill, for further details). We recorded impairment charges of \$2.2 million related to the write-down of property, plant and equipment in 2006 within our Specialty Chemicals segment and \$0.4 million related to the write-down of property, plant and equipment in 2005 within our Performance Additives segment. As part of our impairment testing in 2004, we determined that there were goodwill impairments of \$4.0 million in the wafer reclaim business in our former Electronics segment. We also determined that there was a property, plant and equipment impairment of \$7.0 million in 2004 in the wafer reclaim business in our former Electronics segment.

(2) Restructuring and other severance costs include certain expenses incurred in connection with severance charges and asset write-offs related to consolidations and cessations of certain of our operations. In 2008, we recorded \$35.3 million of restructuring and other severance costs primarily related to headcount reductions throughout the Company. See Note 16, Restructuring And Other Severance Costs, for further details.

(3) In connection with the IPO, we recorded an expense of \$10.0 million in the third quarter of 2005 to terminate the management services agreement with affiliates of KKR and DLJMB.

(4) We recorded net gains of \$2.4 million, \$4.7 million, \$0.3 million and \$4.4 million for the years ended December 31, 2008, 2007, 2006 and 2005, respectively, related to asset sales. The gain recorded for the year ended December 31, 2008 primarily relates to the sale of land that was acquired as part of the acquisition of Dynamit Nobel in 2004, partially offset by the liquidation of a joint venture in the Titanium Dioxide Pigments segment. The gain recorded for the year ended December 31, 2007 primarily relates to the sale of the U.S. wafer reclaim business that was part of the former Electronics segment.

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(5) For the years ended December 31, 2008, 2007, 2006, 2005 and 2004, interest expense included (losses) gains of \$(51.5) million, \$(32.2) million, \$7.2 million, \$22.4 million and \$6.0 million, respectively, representing the movement in the mark-to-market valuation of our interest rate and cross-currency swaps for the periods. In addition, for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, interest expense, net includes \$9.6 million, \$9.2 million, \$9.5 million, \$10.6 million and \$7.2 million, respectively, of amortization expense related to deferred financing costs.

(6) In the fourth quarter of 2008, we redeemed 11.0 million of our 2014 Notes at a discount and recorded a gain of \$4.0 million. In the second quarter of 2007, we paid a redemption premium of \$14.5 million and wrote off \$4.1 million of deferred financing costs associated with the redemption of the 2011 Notes on May 15, 2007. In the third quarter of 2005, we paid a redemption premium of \$13.2 million to redeem long-term debt and wrote off \$13.0 million of deferred financing costs associated with the debt repaid in connection with the IPO.

(7) In March 2007, we expensed \$0.9 million related to the fourth amendment of the senior secured credit agreement to refinance all outstanding borrowings under the tranche F term loans with new tranche G term loans. In December 2005, we expensed \$1.0 million in connection with the third amendment under the senior secured credit facilities. In 2004, we wrote off \$27.0 million of deferred financing costs in connection with debt repayment and refinancing.

(8) Foreign exchange (loss) gain represents the translation impact on non-operating euro denominated transactions and intercompany financing arrangements. In 2004, this amount also included a \$10.9 million mark-to-market realized loss on foreign currency derivative agreements that we entered into in connection with the Dynamit Nobel Acquisition.

- (9) The Company recorded \$1.8 million of income in 2006 primarily related to the correction of an error related to a previously unrecorded asset in the Titanium Dioxide Pigments segment. The effect of this adjustment to our consolidated financial statements for the year ended December 31, 2005 is not material. In 2005, we recorded \$2.6 million of income primarily related to the reversal of a bad debt reserve of \$2.9 million related to a note receivable from the buyer in connection with the sale of a business by Dynamit Nobel prior to the Dynamit Nobel Acquisition for which the cash was collected from the buyer in 2005. In 2004, the loss of \$2.8 million primarily relates to a stamp duty tax paid on certain assets transferred in the United Kingdom in connection with the KKR Acquisition.
- (10) Minority interest in continuing operations represents the total of the minority party's interest in certain investments (principally the Viance, LLC joint venture and the Titanium Dioxide Pigments venture). In 2008, minority interest includes the goodwill impairment charge recorded in the Titanium Dioxide Pigments venture.
- (11) As noted above, we sold our Groupe Novasep subsidiary in January 2007, our Electronics business, excluding our European wafer reclaim business, in December 2007 and our pool and spa chemicals business in October 2008. The results of these businesses have been accounted for as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented (see Note 2, Discontinued Operations, for further details).

An impairment charge of \$44.7 million was recorded in 2005 primarily related to the write-down of property, plant and equipment in conjunction with the downsizing of the Rohner facility within our former Groupe Novasep segment. In addition, in March 2006, we sold Rohner AG and recorded a pre-tax loss of \$11.5 million. These items were recorded in discontinued operations.

- (12) Primarily related to a gain of \$40.5 million (net of tax) in 2008 on the sale of the pool and spa chemicals business and gains in 2007 of \$115.6 million (net of tax) on the sale of Groupe Novasep and \$94.8 million (net of tax) on the sale of the Electronics business.
- (13) Represents the minority interest in discontinued operations related to the Groupe Novasep subsidiary.
- (14) Represents the net income (loss) applicable to common shareholders after reducing net income (loss) by the amount of accumulated and unpaid dividends and the accretion to the redemption value of the redeemable convertible preferred stock for the respective period. See Note 14, Earnings Per Share.
- (15) Net earnings (loss) per share is calculated by dividing net income (loss) applicable to common shareholders by the weighted average shares outstanding.
- (16) EBITDA is defined as net income (loss) plus interest expense, net, income tax provision (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income (loss) as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

The amounts shown for EBITDA differ from the amounts calculated under the definition of consolidated EBITDA used in our debt agreements. The definition of EBITDA used in our debt agreements permits further adjustments for certain cash and non-cash charges and gains; the indenture governing the 2014 Notes and the facility agreement governing the Titanium Dioxide Pigments venture exclude certain adjustments permitted under the senior secured credit agreement. Consolidated EBITDA as adjusted (Adjusted EBITDA) is used in our debt agreements to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain payments. In addition to covenant compliance, our management also uses Adjusted EBITDA to assess our operating performance and to calculate performance-based cash bonuses and determine whether certain performance-based stock options vest, as both such bonuses and options are tied to Adjusted EBITDA targets. For a discussion of the adjustments, uses and the limitations on the use of Adjusted EBITDA, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Note Regarding Non-GAAP Financial Measures.

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The following table sets forth a reconciliation of net income (loss) to EBITDA for the periods indicated:

(\$ in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Net (loss) income	\$ (588.4)	\$ 317.1	\$ 103.0	\$ 95.8	\$ (216.1)
(Income) loss from discontinued operations, net of tax	(3.3)	(25.3)	(48.1)	23.0	(15.1)
Gain on sale of discontinued operations, net of tax	(42.9)	(210.4)			
Minority interest in discontinued operations		0.1	5.2	(3.0)	
Net (loss) income from continuing operations	(634.6)	81.5	60.1	115.8	(231.2)
Minority interest in continuing operations (a)	(83.6)	7.9			
(Loss) income from continuing operations before minority interest	(718.2)	89.4	60.1	115.8	(231.2)
Income tax (benefit) provision	(23.9)	62.3	61.3	55.6	21.4
Interest expense	231.1	219.3	199.9	221.5	165.0
Interest income	(6.0)	(11.5)	(2.4)	(9.9)	(2.0)
Depreciation and amortization	258.9	211.7	174.4	156.7	90.3
EBITDA	\$ (258.1)	\$ 571.2	\$ 493.3	\$ 539.7	\$ 43.5

(a) Minority interest in continuing operations represents the total of the minority party's interest in certain investments (principally the Viance, LLC joint venture and the Titanium Dioxide Pigments venture).

(17) EBITDA, as defined above, contains the following non-cash charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges and Credits :

(\$ in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Impairment charges	\$ 809.5	\$	\$ 2.2	\$ 0.4	\$ 11.0
Write-off of deferred debt issuance costs		4.1(a)		13.0(a)	25.0
Foreign exchange loss (gain)	32.3	(7.8)	(8.6)	(112.2)	113.9
	\$ 841.8	\$ (3.7)	\$ (6.4)	\$ (98.8)	\$ 149.9

(a) Represents pre-tax charges of \$4.1 million related to the write-off of deferred debt issuance costs associated with the redemption of the 2011 Notes in May 2007 and pre-tax charges of \$13.0 million related to the write-off of deferred debt issuance costs associated with debt repaid with IPO proceeds in 2005. These amounts are reported in loss on early extinguishment of debt in the Consolidated Statements of Operations.

(18) In addition to non-cash charges and gains, our EBITDA contains the following other special charges and gains for which we believe adjustment is permitted under our senior secured credit agreement, each of which is described under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Which Affect Our Results of Operations Special Charges and Credits :

(\$ in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Restructuring and other severance costs (a)	\$ 35.3	\$ 12.0	\$ 5.3	\$ 15.7	\$ 1.1
Systems/organization establishment expenses	12.9	4.2	10.7	3.9	4.8
Acquisition and disposal costs	1.7	2.3	1.9	1.1	0.3
Stamp duty tax					4.0
Inventory write-up charges	6.9	5.7	1.1		53.8
Long-term debt redemption (discount) premium	(4.0)	14.5		13.2	
Refinancing expenses		0.9		1.0	2.0
Management services agreement termination fee				10.0	
Gain on sale of assets and other	(2.4)	(4.7)	(0.3)	(4.4)	
Acquired in-process research and development	2.9				
Foreign exchange loss on foreign currency derivatives					10.9
Other	1.9		0.3	(2.2)	2.8
	\$ 55.2	\$ 34.9	\$ 19.0	\$ 38.3	\$ 79.7

(a) Includes inventory write-downs of \$0.4 million and \$0.5 million recorded in cost of products sold for the years ended December 31, 2006 and 2005, respectively.

(19) Working capital is defined as current assets less current liabilities.

The EBITDA amounts in the above tables do not include \$1.8 million, \$68.3 million, \$51.9 million and \$20.6 million for the years ended December 31, 2007, 2006, 2005 and 2004, respectively, of Adjusted EBITDA from the former Groupe Novasep segment which was sold on January 9, 2007; \$37.6 million, \$35.3 million, \$28.9 million and \$28.2 million for the years ended December 31, 2007, 2006, 2005 and 2004, respectively, of Adjusted EBITDA from the Electronics business sold on December 31, 2007; and \$5.4 million, \$12.0 million, \$12.0 million, \$10.9 million and \$10.5 million for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively, of Adjusted EBITDA from the pool and spa chemicals business sold on October 10, 2008.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In 2008, we completed the sale of our pool and spa chemicals business and in 2007, we completed the sale of our Groupe Novasep and Electronics segments, excluding our European wafer reclaim business. As a result, our consolidated financial statements have been reclassified to reflect these segments as discontinued operations for all periods presented. See Note 2, Discontinued Operations, for further details.

The following 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 under Item 1, Business Forward-Looking Statements and Item 1A, Risk Factors. You should read the following discussion and analysis together with Item 6, Selected Financial Data, our consolidated financial statements and the notes to those statements that appear elsewhere in this Annual Report. Amounts may not recalculate due to rounding differences.

Unless otherwise noted, all balances which are denominated in euros are converted at the December 31, 2008 exchange rate of 1.00 = \$1.3971.

General

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 business segments: (1) Specialty Chemicals; (2) Performance Additives; (3) Titanium Dioxide Pigments; (4) Advanced Ceramics; and (5) Specialty Compounds.

Our net sales consist of sales of our products, net of sales discounts, product returns and allowances. In addition, net sales include shipping and handling costs billed to customers. Sales are primarily made on a purchase order basis.

Our cost of products sold consists of variable and fixed components. Our variable costs are proportional to volume and consist principally of raw materials, packaging and related supplies, certain energy costs, and certain distribution costs including inbound, outbound, and internal shipping and transfer costs. Our fixed costs are not significantly impacted by production volume and consist principally of certain fixed manufacturing costs and other distribution network costs, including warehousing. Fixed manufacturing

costs comprise headcount-related costs and overhead, including depreciation, periodic maintenance costs, purchasing and receiving costs, inspection costs and certain energy costs.

Our selling, general and administrative expenses include research and development costs, sales and marketing, divisional management expenses and corporate services including cash management, legal, benefit plan administration and other administrative and professional services.

We are focused on growth, productivity, cost reduction, margin expansion, bolt-on acquisitions, divestment of non-core businesses and debt reduction. In connection with this focus, among other things:

- We have cut costs, reduced overhead and eliminated duplicative positions in both acquired and existing businesses. In 2007, we closed two U.K. facilities acquired in a 2006 acquisition by our Specialty Compounds segment. We also implemented a restructuring plan in March 2008 in our Color Pigments and Services business in connection with the business acquired from Elementis plc. This included the reorganization and relocation of the North American Finance and IT services and the closure of three manufacturing facilities. In the fourth quarter of 2008, a restructuring plan was implemented in our Surface Treatment business within our Specialty Chemicals segment which included headcount reductions and the closure of two manufacturing facilities by mid 2009.
- In the fourth quarter of 2008, we reduced overhead and eliminated duplicative positions throughout the Company as part of our global cost control initiatives.
- We acquired the global color pigments business of Elementis plc in August 2007 that is included in our Color Pigments and Service business within our Performance Additives segment. In August 2008, we acquired Holliday Pigments, which is also included in our Color Pigments and Service business, and in September 2008, we acquired Nalco's Finishing Technologies business which is included in our Specialty Chemicals segment;
- We completed the Titanium Dioxide Pigments venture with Kemira in September 2008. See Note 4, Acquisitions, for further details; and
- We completed the sale of our Groupe Novasep segment in January 2007 and our United States wafer reclaim business in February 2007. In December 2007, we completed the sale of our Electronics business, excluding our European wafer reclaim business and in October 2008, we completed the sale of our pool and spa chemicals business.

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 include the following:

Specialty Chemicals

- Demand for Surface Treatment products in our Specialty Chemicals segment generally follows the activity levels of metal processing manufacturers, including the automotive supply, steel and aerospace industries. Sales growth in the Surface Treatment business occurred in 2007 and continued in 2008 in most markets and regions served,