

Rockwood Holdings, Inc.
Form 10-Q
May 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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100 Overlook Center, Princeton, New Jersey 08540

(Address of principal executive offices) (Zip Code)

(609) 514-0300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

As of May 4, 2011, there were 76,406,798 outstanding shares of common stock, par value \$0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited).****ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Dollars in millions, except per share amounts;****shares in thousands)****(Unaudited)**

	Three months ended	
	March 31,	
	2011	2010
Net sales	\$ 914.0	\$ 778.4
Cost of products sold	592.9	522.5
Gross profit	321.1	255.9
Selling, general and administrative expenses	180.6	164.9
Restructuring and other severance costs	1.0	0.4
Asset write-downs and other	0.1	1.8
Operating income	139.4	88.8
Other expenses, net:		
Interest expense, net (a)	(23.0)	(41.8)
Loss on early extinguishment/modification of debt	(16.2)	
Foreign exchange gain on financing activities, net	2.0	0.3
Other, net		0.5
Other expenses, net	(37.2)	(41.0)
Income from continuing operations before taxes	102.2	47.8
Income tax provision	28.8	15.7
Income from continuing operations	73.4	32.1
Income from discontinued operations, net of tax	0.2	4.6
Gain on sale of discontinued operations, net of tax	114.5	
Net income	188.1	36.7
Net (income) loss attributable to noncontrolling interest	(10.1)	0.2
Net income attributable to Rockwood Holdings, Inc.	\$ 178.0	\$ 36.9
Amounts attributable to Rockwood Holdings, Inc.:		
Income from continuing operations	\$ 63.3	\$ 32.3
Income from discontinued operations	114.7	4.6
Net income	\$ 178.0	\$ 36.9
Basic earnings per share attributable to Rockwood Holdings, Inc.:		
Earnings from continuing operations	\$ 0.83	\$ 0.43
Earnings from discontinued operations	1.51	0.07
Basic earnings per share	\$ 2.34	\$ 0.50
Diluted earnings per share attributable to Rockwood Holdings, Inc.:		
Earnings from continuing operations	\$ 0.80	\$ 0.42

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Earnings from discontinued operations		1.44		0.06
Diluted earnings per share	\$	2.24	\$	0.48
Weighted average number of basic shares outstanding		76,136		74,297
Weighted average number of diluted shares outstanding		79,508		77,058
(a) Interest expense, net includes:				
Interest expense on debt, net	\$	(28.0)	\$	(42.3)
Mark-to-market gains on interest rate swaps		6.3		2.1
Deferred financing costs		(1.3)		(1.6)
Total	\$	(23.0)	\$	(41.8)

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199.1	\$ 324.1
Accounts receivable, net	540.4	436.8
Inventories	576.8	541.8
Deferred income taxes	22.5	82.6
Prepaid expenses and other current assets	67.3	79.2
Assets of discontinued operations		154.1
Total current assets	1,406.1	1,618.6
Property, plant and equipment, net	1,622.4	1,566.9
Goodwill	927.5	877.1
Other intangible assets, net	594.1	587.6
Deferred debt issuance costs, net of accumulated amortization of \$16.2 and \$15.7, respectively	18.8	17.2
Deferred income taxes	18.6	18.4
Other assets	45.0	38.5
Total assets	\$ 4,632.5	\$ 4,724.3
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 237.1	\$ 249.6
Income taxes payable	38.8	20.2
Accrued compensation	152.9	165.2
Accrued expenses and other current liabilities	163.9	164.9
Deferred income taxes	2.7	2.6
Long-term debt, current portion	60.2	465.7
Liabilities of discontinued operations		27.6
Total current liabilities	655.6	1,095.8
Long-term debt	1,728.0	1,695.3
Pension and related liabilities	423.1	399.6
Deferred income taxes	99.9	77.9
Other liabilities	110.7	104.3
Total liabilities	3,017.3	3,372.9
Restricted stock units	8.0	10.1
EQUITY		
Rockwood Holdings, Inc. stockholders' equity:		
Common stock (\$0.01 par value, 400,000 shares authorized, 76,437 shares issued and 76,343 shares outstanding at March 31, 2011; 400,000 shares authorized, 75,991 shares issued and 75,897 shares outstanding at December 31, 2010)	0.8	0.8
Paid-in capital	1,213.7	1,202.6
Accumulated other comprehensive income	191.5	132.7
Accumulated deficit	(104.8)	(282.8)
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders' equity	1,299.8	1,051.9

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Noncontrolling interest		307.4		289.4
Total equity		1,607.2		1,341.3
Total liabilities and equity	\$	4,632.5	\$	4,724.3

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 188.1	\$ 36.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(0.2)	(4.6)
Gain on sale of discontinued operations, net of tax	(114.5)	
Depreciation and amortization	65.4	65.2
Deferred financing costs amortization	1.3	1.6
Loss on early extinguishment/modification of debt	16.2	
Foreign exchange gain on financing activities, net	(2.0)	(0.3)
Fair value adjustment of derivatives	(6.3)	(2.1)
Bad debt provision	0.2	(0.5)
Stock-based compensation	2.9	2.6
Deferred income taxes	5.7	4.3
Asset write-downs and other	0.1	1.8
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(84.4)	(55.9)
Inventories	(14.5)	(10.2)
Prepaid expenses and other assets	11.9	(1.6)
Accounts payable	(7.4)	(14.3)
Income taxes payable	17.1	2.7
Accrued expenses and other liabilities	(29.9)	37.6
Net cash provided by operating activities of continuing operations	49.7	63.0
Net cash (used in) provided by operating activities of discontinued operations	(1.8)	1.7
Net cash provided by operating activities	47.9	64.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including transaction fees and payments for prior acquisitions, net of cash acquired		(1.2)
Capital expenditures	(54.2)	(34.3)
Proceeds on sale of assets	0.2	0.1
Net cash used in investing activities of continuing operations	(54.0)	(35.4)
Net cash provided by (used in) investing activities of discontinued operations, representing net sale proceeds in 2011	305.7	(0.9)
Net cash provided by (used in) investing activities	251.7	(36.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	6.4	4.4
Repayment of Titanium Dioxide Pigments revolving credit facility		(14.3)
Prepayment of senior secured debt	(408.9)	
Repayment of senior secured debt	(7.0)	(12.9)
Payments on other long-term debt	(0.6)	(1.1)
Loan repayment to Viance noncontrolling shareholder	(2.0)	
Deferred financing costs	(5.3)	(0.3)
Fees related to early extinguishment/modification of debt	(12.1)	
Distribution to noncontrolling shareholder	(0.5)	
Net cash used in financing activities	(430.0)	(24.2)

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Effect of exchange rate changes on cash and cash equivalents	(11.2)	4.9
Net (decrease) increase in cash and cash equivalents	(141.6)	9.1
Less net (decrease) increase in cash and cash equivalents from discontinued operations	(16.6)	0.8
(Decrease) increase in cash and cash equivalents from continuing operations	(125.0)	8.3
Cash and cash equivalents of continuing operations, beginning of period	324.1	286.2
Cash and cash equivalents of continuing operations, end of period	\$ 199.1	\$ 294.5

Supplemental disclosures of cash flow information:

Interest paid	\$ 28.5	\$ 31.8
Income taxes paid, net of refunds	5.9	8.6
Non-cash investing and financing activities:		
Acquisition of capital equipment	14.6	8.2
Fees related to early extinguishment/modification of debt	1.0	

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Dollars in millions)

(Unaudited)

	2011			2010		
	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity	Rockwood Holdings, Inc. Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1	\$ 1,051.9	\$ 289.4	\$ 1,341.3	\$ 850.8	\$ 290.0	\$ 1,140.8
Net income (loss)	178.0	10.1	188.1	36.9	(0.2)	36.7
Other comprehensive income (loss), net of tax	58.8	0.6	59.4	(64.8)		(64.8)
Comprehensive income (loss)	236.8	10.7	247.5	(27.9)	(0.2)	(28.1)
Distribution to noncontrolling shareholder		(0.5)	(0.5)			
Foreign currency translation		7.8	7.8		(7.2)	(7.2)
Issuance of common stock	6.4		6.4	4.4		4.4
Deferred compensation, net of tax	4.7		4.7	1.4		1.4
Balance at March 31	\$ 1,299.8	\$ 307.4	\$ 1,607.2	\$ 828.7	\$ 282.6	\$ 1,111.3

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements (Unaudited)

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

Business Description, Background Rockwood Holdings, Inc. and Subsidiaries is a global developer, manufacturer and marketer of high value-added specialty chemicals and advanced materials used for industrial and commercial purposes. Unless otherwise indicated, any references to we, our, us, the Company or Rockwood refer to Rockwood Holdings, Inc. and its consolidated subsidiaries.

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

The interim condensed consolidated financial statements included herein are unaudited. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The condensed consolidated financial statements are presented based upon accounting principles generally accepted in the United States of America (U.S. GAAP), except that certain information and footnote disclosures, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's 2010 Form 10-K. In the opinion of management, this information contains all adjustments necessary, consisting of normal and recurring accruals, for a fair presentation of the results for the periods presented.

The Company's noncontrolling interest represents the total of the noncontrolling party's interest in certain investments (principally the Titanium Dioxide Pigments venture and the Viance, LLC timber treatment joint venture) that are consolidated but less than 100% owned.

The Company's condensed consolidated financial statements have been reclassified to reflect discontinued operations for all periods presented as a result of the sale of the plastic compounding business in January 2011. See Note 3, Discontinued Operations, for further details.

Unless otherwise noted, all balance sheet-related items which are denominated in Euros are translated at the March 31, 2011 exchange rate of 1.00 = \$1.4158.

Stock-Based Compensation Under the 2008 Amended and Restated Stock Purchase and Option Plan of Rockwood Holdings, Inc. and Subsidiaries (the Plan) the Company granted stock options, restricted stock and other stock-based awards to the Company's employees and directors and allowed employees and directors to purchase shares of its common stock. However, the Company no longer issues equity awards under this Plan. In April 2009, the Company adopted the 2009 Stock Incentive Plan (the New Plan ; together with the Plan, the Plans), which has 11,000,000 authorized shares. All equity awards granted after this date will be awarded under the New Plan.

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The aggregate compensation cost for stock options, restricted stock units and Board of Director stock grants recorded under the Plans caused income from continuing operations before taxes to decrease by \$2.9 million and \$2.6 million for the three months ended March 31, 2011 and 2010, respectively. The total tax benefit recognized related to stock options was \$0.2 million and \$0.2 million for the three months ended March 31, 2011 and 2010, respectively.

In December 2010, the Company approved 263,055 market-based restricted stock unit awards to its management and key employees which will vest on January 1, 2014 as long as the employee continues to be employed by the Company on this date and upon the achievement of certain performance targets approved by the Compensation Committee. In January 2011, the performance targets that formed the basis for vesting of these restricted stock units were set. As a result, the Company recognized compensation cost beginning in January 2011. A portion of the share units vest based on the percentage change in the price of the Company's common stock over the award period January 1, 2011 to December 31, 2013. The remaining portion vest based upon the Company's total shareholder return as compared to the total shareholder return for the Dow Jones U.S. Chemical Index for the period January 1, 2011 to December 31, 2013.

All restricted stock units contain a provision in which the units shall immediately vest and become converted into the right to receive a cash payment on the vesting date upon a change in control as defined in such agreement. As the provisions for redemption are outside the control of the Company, the fair value of these units as of March 31, 2011 and December 31, 2010 have been recorded as mezzanine equity (outside of permanent equity) in the condensed consolidated balance sheets.

Recent Accounting Standards The following represents the impact of recently issued accounting standards:

In October 2009, the FASB issued an accounting update that addressed the accounting for multiple-deliverable arrangements to enable

vendors to account for products or services separately rather than as a combined unit. In addition, the amendments in this update significantly expand the disclosures related to a vendor's multiple-deliverable arrangements. This update is effective for the Company in its first quarter beginning January 1, 2011. This update did not have a material impact on the Company's financial statements.

2. COMPREHENSIVE INCOME:

Comprehensive income includes net income and the other comprehensive income components which include unrealized gains and losses from foreign currency translation and from certain intercompany transactions that are of a long-term investment nature, pension-related adjustments that are recorded directly into a separate section of equity in the balance sheets and net investment and foreign exchange cash flow hedges. Foreign currency translation amounts and intercompany foreign currency loans are not adjusted for income taxes since they relate to indefinite length investments in non-U.S. subsidiaries.

Comprehensive income (loss) is summarized as follows:

(\$ in millions)	Three months ended	
	2011	March 31, 2010
Net income	\$ 188.1	\$ 36.7
Pension related adjustments, net of tax	(1.7)	2.0
Foreign currency translation (a)	23.5	(28.3)
Intercompany foreign currency loans	45.2	(46.9)
Net investment hedges, net of tax	(9.9)	8.4
Foreign exchange contracts, net of tax	2.3	
Comprehensive income (loss)	247.5	(28.1)
Comprehensive (income) loss attributable to noncontrolling interest	(10.7)	0.2
Comprehensive income (loss) attributable to Rockwood Holdings, Inc.	\$ 236.8	\$ (27.9)

(a) Includes \$10.1 million reclassified to net income in the three months ended March 31, 2011 related to the sale of the plastic compounding business in January 2011.

3. DISCONTINUED OPERATIONS:

On January 7, 2011, the Company completed the sale of its plastic compounding business. As of December 31, 2010, this business met the criteria for being reported as a discontinued operation. The plastic compounding business, which manufactured specialty plastic compounds for the wire and cable industry, medical applications and other uses, comprised substantially all of the assets of the Company's former Specialty Compounds segment. The Company's financial statements have been reclassified to reflect the plastic compounding business as discontinued operations for all periods presented.

Operating results of the discontinued operations of the plastic compounding business for the three months ended March 31, 2011 and 2010 are as follows:

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(\$ in millions)	Three Months Ended				
	2011		March 31,		2010
Net sales	\$	3.9	\$	55.5	
Cost of products sold		3.4		44.7	
Gross profit		0.5		10.8	
Selling, general and administrative expenses		0.3		4.4	
Gain on sale of business		(197.2)			
Income before taxes		197.4		6.4	
Income tax provision		82.7		1.8	
Net income	\$	114.7	\$	4.6	

Net income for the three months ended March 31, 2011 includes the net gain on the sale of the plastic compounding business of \$114.5 million (net of taxes of \$82.7 million, a portion of which will be offset through the utilization of net operating losses of \$76.5 million). The valuation allowance related to these net operating losses was reversed in the fourth quarter of 2010 as a benefit to income taxes in continuing operations. In addition, net income includes \$0.2 million and \$4.6 million for the three months ended March 31, 2011 and 2010, respectively, from operating the plastic compounding business that was sold on January 7, 2011.

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The carrying value of the assets and liabilities of the plastic compounding business included as discontinued operations in the Condensed Consolidated Balance Sheets as of December 31, 2010 are as follows:

(\$ in millions)

ASSETS

Cash and cash equivalents	\$	16.6
Accounts receivable, net		32.9
Inventories		18.0
Property, plant and equipment, net		63.0
Other intangible assets, net		16.2
Other assets		7.4
Total assets	\$	154.1

LIABILITIES