ROGERS CORP
Form 10-Q
August 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 193

For the quarterly period ended June 30, 2011

or

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

For the transition period from ________________ to ________________________

Commission file number 1-4347

ROGERS CORPORATION
(Exact name of Registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	06-0513860 (I. R. S. Employer Identification No.)
P.O. Box 188, One Technology Drive, Rogers, Connecticut (Address of principal executive offices)	06263-0188 (Zip Code)

Registrant's telephone number, including area code: (860) 774-9605

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 X 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 X 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 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 X

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 X

The number of shares outstanding of the registrant's common stock as of July 22, 2011 was 16,063,672.

ROGERS CORPORATION
FORM 10-Q

June 30, 2011

TABLE OF CONTENTS

Exhibits:

Exhibit 10.2	Amended [and Restated] Rogers Corporation 2009 Long-Term Equity Compensation Plan
Exhibit 10.3	Form of Basic Time-Based Restricted Stock Unit Award Agreement to Rogers Corporation 2009 Long-Term Equity Compensation Plan
Exhibit 10.4	Form of Performance-Based Restricted Stock Award Agreement to Rogers Corporation 2009 Long-Term Equity Compensation Plan
Exhibit 23.1	Consent of National Economic Research Associates, Inc.
Exhibit 23.2	Consent of Marsh U.S.A., Inc.
Exhibit 31(a)	Certification of President and CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31(b)	Certification of Vice President, Finance and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification of President and CEO and Vice President, Finance and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
	XBRL Schema Document

E x h i b i t
101.SCH
E x h i b i tXBRL Calculation Linkbase Document
101.CAL
E x h i b i tXBRL Labels Linkbase Document
101.LAB
E x h i b i tXBRL Presentation Linkbase Document
101.PRE
E x h i b i tXBRL Definition Linkbase Document
101.DEF

2

Part I – Financial Information

Item 1. Financial Statements

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net sales	$ 143,685	$ 96,608	$ 279,744	$ 180,545
Cost of sales	95,495	59,273	189,442	112,951
Gross margin	48,190	37,335	90,302	67,594
Selling and administrative expenses	26,837	23,709	51,336	44,683
Research and development expenses	6,175	5,879	12,196	9,422
Operating income	15,178	7,747	26,770	13,489
Equity income in unconsolidated joint ventures	1,323	1,757	2,751	3,975
Other income, net	280	1,055	1,629	1,864
Realized investment loss, net:				
Increase (decrease) in fair value of investments	602	(232)	699	644
Less: Portion of gains (losses) in other comprehensive income	573	(112)	667	816
Net realized gain (loss)	29	(120)	32	(172)
Interest income (expense), net	(1,265)	(3)	(2,843)	103
Income before income taxes	15,545	10,436	28,339	19,259
Income tax expense	3,417	2,123	6,776	4,092
Net income	$ 12,128	$ 8,313	$ 21,563	$ 15,167
Net income per share:				
Basic	$ 0.76	$ 0.53	$ 1.35	$ 0.96
Diluted	0.73	0.52	1.30	0.95
Shares used in computing:				
Basic	15,944,483	15,785,656	15,918,979	15,777,176
Diluted	16,678,377	15,985,195	16,603,543	15,940,857

3

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Dollars in thousands, except share amounts)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$71,647	$80,135
Short-term investments	3,704	186
Accounts receivable, less allowance for doubtful accounts of $1,220 and $1,630	89,242	61,995
Accounts receivable from joint ventures	2,254	1,338
Accounts receivable, other	3,159	3,773
Taxes receivable	247	1,706
Inventories	71,517	47,574
Prepaid income taxes	3,580	1,938
Deferred income taxes	1,485	1,492
Asbestos-related insurance receivables	8,563	8,563
Assets held for sale	2,548	5,841
Other current assets	10,158	7,042
Total current assets	268,104	221,583
Property, plant and equipment, net of accumulated depreciation of $227,818 and $182,435	155,080	120,087
Investments in unconsolidated joint ventures	25,664	25,452
Deferred income taxes	15,168	17,120
Goodwill and other intangibles	185,068	35,984
Asbestos-related insurance receivables	20,733	20,733
Long-term marketable securities	26,773	33,592
Investments, other	5,000	5,000
Other long-term assets	7,905	5,323
Total assets	$709,495	$484,874
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	22,423	$16,296
Accrued employee benefits and compensation	26,009	26,692
Accrued income taxes payable	4,371	1,528
Current portion of lease obligation	1,786	-
Asbestos-related liabilities	8,563	8,563
Other current liabilities	13,625	12,362
Total current liabilities	76,777	65,441
Long term debt	135,000	-
Long term lease obligation	9,046	-
Pension liability	31,980	31,980

Retiree health care and life insurance benefits	8,144	8,144
Asbestos-related liabilities	21,159	21,159
Non-current income tax	18,610	15,339
Deferred income taxes	24,857	8,745
Other long-term liabilities	597	3,534
Shareholders’ Equity		
Capital Stock - $1 par value; 50,000,000 authorized shares; 16,044,317 and 15,841,341 shares outstanding	16,044	15,841
Additional paid-in capital	42,458	33,194
Retained earnings	316,607	295,044
Accumulated other comprehensive income (loss)	8,216	(13,547)
Total shareholders' equity	383,325	330,532
Total liabilities and shareholders' equity	$709,495	$484,874

The accompanying notes are an integral part of the condensed consolidated financial statements.

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	June 30, 2011	June 30, 2010
Operating Activities:		
Net income	$21,563	$15,167
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	13,190	7,868
Stock-based compensation expense	3,610	4,355
Deferred income taxes	2,148	782
Equity in undistributed income of unconsolidated joint ventures, net	(2,751)	(3,975)
Dividends received from unconsolidated joint ventures	2,762	7,184
Pension and postretirement benefits	2,970	3,121
Gain from the sale of property, plant and equipment	(1,900)	-
Amortization of inventory fair value	1,805	-
Changes in operating assets and liabilities excluding effects of acquisition and disposition of businesses:		
Accounts receivable	(12,059)	(13,356)
Accounts receivable, joint ventures	(917)	(741)
Inventories	(12,165)	(8,888)
Pension contribution	-	(1,478)
Other current assets	(3,207)	(1,606)
Accounts payable and other accrued expenses	(22,177)	6,918
Other, net	767	(232)
Net cash provided by (used in) operating activities	(6,361)	15,119
Investing Activities:		
Capital expenditures	(8,006)	(3,118)
Acquisition of business, net of cash received	(139,825)	(25,908)
Proceeds from short-term investments	4,000	3,250
Proceeds from the sale of property, plant and equipment, net	5,900	-
Return of investment in unconsolidated joint ventures	-	919
Net cash used in investing activities	(137,931)	(24,857)
Financing Activities:		
Proceeds from long term borrowings	145,000	-
Repayment of debt principal	(10,000)	-
Payment of long term borrowings acquired through acquisition	(7,452)	-
Proceeds from sale of capital stock, net	5,464	115
Proceeds from issuance of shares to employee stock purchase plan	396	380
Net cash provided by financing activities	133,408	495
Effect of exchange rate fluctuations on cash	2,396	(3,777)
Net decrease in cash and cash equivalents	(8,488)	(13,020)

Cash and cash equivalents at beginning of year	80,135	57,738
Cash and cash equivalents at end of quarter	$71,647	$44,718
Supplemental disclosure of noncash investing and financing activities		
Deferred purchase price for acquisition of business	$-	$2,910
Capital lease obligation acquired through acquisition	10,831	-

The accompanying notes are an integral part of the condensed consolidated financial statements.

ROGERS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In our opinion, the accompanying statements of financial position and related interim statements of operations and cash flows include all normal recurring adjustments necessary for their fair presentation in accordance with U.S. generally accepted accounting principles. All significant intercompany transactions have been eliminated.

We changed the presentation of our external segment reporting structure as of the first quarter of 2011. All prior periods have been recast accordingly for the new presentation. See Note 10 for further discussion regarding the new structure.

Interim results are not necessarily indicative of results for a full year. For further information regarding our accounting policies, refer to the audited consolidated financial statements and footnotes thereto included in our Form 10-K for the fiscal year ended December 31, 2010.

Note 2 –Fair Value Measurements

The accounting guidance for fair value measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets measured at fair value on a recurring basis during the period, categorized by the level of inputs used in the valuation, include:

(Dollars in thousands)	Carrying amount as of June 30, 2011	Level 1	Level 2	Level 3
Auction rate securities	$ 30,477	$ -	$ -	$ 30,477
Foreign currency option contracts	$ 1,729	$ -	$ 1,729	$ -

Current accounting guidance requires that an other-than-temporary impairment must be recognized in earnings for a security in an unrealized loss position when an entity either (a) has the intent to sell the security or (b) more likely than not will be required to sell the security before its anticipated recovery. Prior to the adoption of this guidance, we were required to record an other-than-temporary impairment for a security in an unrealized loss position unless we could assert that we had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery of its cost basis.

When an other-than-temporary impairment of a security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether we intend to sell the security or more likely than not will be required to sell the security before recovery of its cost basis. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before the recovery of its cost basis, the other-than-temporary loss should be separated into the amount representing the credit loss and the amount related to all other factors. The amount representing the credit loss is recognized in earnings, and as long as the factors above are not met, the remaining amount is recorded in other comprehensive income.

Auction Rate Securities

We have historically classified our auction rate securities as available-for-sale and recorded them at fair value as determined in the active market at the time. However, due to events in the credit markets, the auctions failed during the first quarter of 2008 for the auction rate securities that we held at the end of the first quarter of 2008, and all of our auction rate securities have been in a loss position since that time. Accordingly, the securities changed from a Level 1 valuation to a Level 3 valuation.

Through the end of the second quarter of 2011, approximately $20.8 million of auction rate securities in total have been redeemed at par value, including approximately $4.0 million in the first six months of 2011. As of June 30, 2011, the par value of our remaining auction rate securities was approximately $33.6 million, which was comprised 96% of student loan-backed auction rate securities and 4% of municipality-backed auction rate securities. We performed a fair value assessment of these securities based on a discounted cash flow model, utilizing various assumptions that included estimated interest rates, probabilities of successful auctions, the timing of cash flows, and the quality and level of collateral of the securities. These inputs were chosen based on our current understanding of the expectations of the market and are consistent with the assumptions utilized during our assessment of these securities at year-end 2010. This analysis resulted in an insignificant change in the fair value of our auction rate securities in the second quarter of 2011 and a total impairment of approximately $3.1 million overall on our current portfolio.

We have concluded that the impairment on the auction rate securities is other-than-temporary and should be separated into two amounts, one amount representing a credit loss and one amount representing an impairment due to all other factors. The credit loss is primarily based on the underlying ratings of the securities. As described above, we have determined that the amount representing the credit loss on our auction rate securities should be recorded in earnings, while the remaining impairment amount should be recorded in other comprehensive income (loss) in the equity section of our condensed consolidated statements of financial position. We do not have the intent to sell the impaired securities, nor do we believe that it is more likely than not that we will be required to sell these securities before the recovery of their cost basis. In the second quarter of 2011, we contracted to redeem $4.0 million of auction rate securities at 92.6% of par value, which was one tranche of our auction rate securities. The cash received, subsequent to June 30, 2011, was approximately $3.7 million.

Additionally, due to our belief that it may take over twelve months for the auction rate securities market to recover, these securities are classified as long-term assets, except for those that are scheduled to be redeemed within the next twelve months, which are classified as short-term investments. As of the second quarter we had approximately $3.7 million of auction rate securities classified as short-term investments. These were subsequently redeemed on July 18, 2011. The securities that we hold have maturities ranging from 21 to 36 years.

The reconciliation of our assets measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

(Dollars in thousands)	Auction Rate Securities
Balance at December 31, 2010	$ 33,778
Redeemed at par	(4,000)
Reported in other comprehensive income	667
Reported in earnings	32
Balance at June 30, 2011	$ 30,477

A roll-forward of credit losses recognized in earnings from the date of the first other-than-temporary impairment, pertaining to the auction rate securities held by us, is as follows:

(Dollars in thousands)	Credit Losses
Balance at December 31, 2010	$ 917
Additional credit losses	39

Reduction in credit losses due to redemptions		(71)
Balance at June 30, 2011	$	885

These securities currently earn interest at rates ranging from 0.35% to 0.65%. Upon the failure of these securities at auction, a penalty interest rate is triggered. Since the securities we hold are investment-grade securities, the penalty rates are market-based, and therefore the aggregate interest rate that we earned has declined to 1% to 2% from a historical rate of 3% to 7% due to reductions in the referenced interest rates by the Federal government.

Foreign Currency Option Derivatives

As further explained below in Note 3 “Hedging Transactions and Derivative Financial Instruments”, we are exposed to certain risks relating to our ongoing business operations, and the primary risk managed using derivative instruments is foreign currency exchange rate risk. The fair value of these foreign currency option derivatives is based upon valuation models applied to current market information such as strike price, spot rate, maturity date and volatility, and by reference to market values resulting from an over-the-counter market or obtaining market data for similar instruments with similar characteristics.

Note 3 – Hedging Transactions and Derivative Financial Instruments

The guidance for the accounting and disclosure of derivatives and hedging transactions requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

We are exposed to certain risks relating to our ongoing business operations. The primary risk mitigated by using derivative instruments is foreign currency exchange rate risk. Option contracts on various foreign currencies are entered into to mitigate the foreign currency exchange rate risk on forecasted revenue denominated in foreign currencies.

We do not use derivative financial instruments for trading or speculation purposes.

We designate certain foreign currency option contracts as cash flow hedges of forecasted revenues.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, are recognized in the statement of operations during the current period. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in income. We do not hold any derivative instruments as of the end of the second quarter of 2011 that are designated and qualified as cash flow hedges.

As of the end of the second quarter of 2011, we have entered into five hedge programs. These programs, which do not qualify as cash flow hedges, are intended to minimize foreign currency exposures on our condensed consolidated statements of financial position.

Notional Values of Derivative Instruments		
Euro	€	4,800
U.S. Dollar	$	10,000
Japanese Yen	¥	230,000

(Dollars in thousands)	The Effect of Current Derivative Instruments on the Financial Statements for the six-month period ended June 30, 2011		Fair Values of Derivative Instruments as of June 30, 2011
Foreign Exchange Option Contracts	Location of gain	Amount of gain	Other Assets

Contracts not designated as hedging instruments	Other income, net	$	623	$	1,729

Concentration of Credit Risk

By using derivative instruments, we are subject to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, our credit risk will equal the fair value of the derivative instrument. Generally, when the fair value of a derivative contract is positive, the counterparty owes the Company, thus creating a receivable risk for the Company. We minimize counterparty credit (or repayment) risk by entering into derivative transactions with major financial institutions with investment grade credit ratings.

Note 4 – Acquisition of Business

Curamik Electronics GmbH
On January 4, 2011, we acquired Curamik Electronics GmbH (Curamik), a manufacturer of power electronic substrate products headquartered in Eschenbach, Germany. The aggregate purchase price was $151.1 million, which reflects post closing adjustments.

Curamik, founded in 1983, is the worldwide leader for development and production of direct copper bonded ceramic substrate products which are used primarily in the design of intelligent power management devices, such as insulated gate bipolar transistor (IGBT) modules that enable a wide range of products including highly efficient industrial motor drives, wind and solar energy converters and hybrid electric vehicle drive systems. Most of Curamik's products are manufactured using state of the art automated processes in its facility located in Eschenbach, Germany.

The acquisition has been accounted for in accordance with applicable purchase accounting guidance. The following table represents the preliminary fair market value assigned to the acquired assets and liabilities in the transaction. As of the filing date of this Form 10-Q, we are still in the process of valuing the net assets of the business, including inventory, fixed assets and intangible assets.

(Dollars in thousands)	
Assets:	
Cash	$ 11,256
Accounts receivable	11,876
Other current assets	1,386
Inventory	12,259
Property, plant & equipment	32,312
Other non-current assets	1,808
Intangible assets	52,820
Goodwill	85,947
Total assets	209,664
Liabilities	
Accounts payable	6,042
Other current liabilities	20,284
Deferred tax liability	15,923
Other long-term liabilities	16,334
Total liabilities	58,583
Fair value of net assets acquired	$ 151,081

For the three and six months ended June 30, 2011, Curamik realized $34.6 million in sales and operating profits of $2.9 million and $67.5 million in sales and $3.2 million in operating profits, respectively. It is impracticable to disclose comparable prior period amounts on a consistent basis as reported in this Form 10-Q, as the business acquired in the transaction was not consolidated as a reporting unit for the prior periods.

Total costs incurred related to the acquisition were approximately $3.4 million, of which $1.3 million were incurred in the first quarter of 2011 and are included in "Selling and administrative expenses" on our condensed consolidated statement of operations.

SK Utis Co., Ltd.