

ROGERS CORP
Form 10-Q
May 02, 2012

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, 2012
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 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

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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 (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

The number of shares outstanding of the registrant's common stock as of April 20, 2012 was 16,268,749.

ROGERS CORPORATION
FORM 10-Q

March 31, 2012

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Exhibits:

Exhibit 10.2	Form of Performance-Based Restricted Stock Award Agreement
Exhibit 23.1	Consent of National Economic Research Associates, Inc.
Exhibit 23.2	Consent of Marsh U.S.A., Inc.
Exhibit 31.1	Certification of President and CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	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
Exhibit 101.SCH	XBRL Schema Document
Exhibit 101.CAL	XBRL Calculation Linkbase Document
Exhibit 101.LAB	XBRL Labels Linkbase Document
	XBRL Presentation Linkbase Document

Exhibit
101.PRE
Exhibit
101.DEF

XBRL Definition Linkbase Document

Part I – Financial Information

Item 1. Financial Statements

ROGERS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Net sales	\$ 121,373	\$ 135,928
Cost of sales	84,932	93,386
Gross margin	36,441	42,542
Selling and administrative expenses	24,393	24,101
Research and development expenses	5,348	5,209
Restructuring and impairment charges	7,384	-
Operating income (loss)	(684)	13,232
Equity income in unconsolidated joint ventures	657	1,428
Other income (expense), net	(140)	1,351
Realized investment gain (loss):		
Increase (decrease) in fair value of investments	(522)	97
Less: Portion reclassified to/from other comprehensive income	2,723	95
Net realized gain (loss)	(3,245)	2
Interest income (expense), net	(1,190)	(1,579)
Income (loss) before income tax expense (benefit)	(4,602)	14,434
Income tax expense (benefit)	(2,902)	3,369
Income (loss) from continuing operations	(1,700)	11,065
Income (loss) from discontinued operations, net of income taxes	(108)	(1,631)
Net income (loss)	\$ (1,808)	\$ 9,434
Basic net income (loss) per share:		
Income (loss) from continuing operations	\$ (0.10)	\$ 0.70
Income (loss) from discontinued operations	(0.01)	(0.10)
Net income (loss)	\$ (0.11)	\$ 0.60
Diluted net income (loss) per share		
Income (loss) from continuing operations	\$ (0.10)	\$ 0.67
Income (loss) from discontinued operations	(0.01)	(0.10)
Net income (loss)	\$ (0.11)	\$ 0.57
Comprehensive income (loss)	\$ 5,586	\$ 24,480

Shares used in computing:

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Basic	16,232,856	15,893,475
Diluted	16,232,856	16,528,710

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

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

	March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 93,517	\$ 79,728
Accounts receivable, less allowance for doubtful accounts of \$1,095 and \$1,040	77,687	77,682
Accounts receivable from joint ventures	1,727	1,640
Accounts receivable, other	3,536	3,819
Taxes receivable	2,843	2,713
Inventories	81,347	78,320
Prepaid income taxes	4,418	4,315
Deferred income taxes	1,820	2,146
Asbestos-related insurance receivables	6,471	6,459
Assets held for sale	1,400	1,400
Other current assets	10,207	7,360
Assets of discontinued operations	-	50
Total current assets	284,973	265,632
Property, plant and equipment, net of accumulated depreciation of \$206,463 and \$198,075		
Investments in unconsolidated joint ventures	21,637	23,868
Deferred income taxes	22,881	20,117
Goodwill and other intangibles	160,817	158,627
Asbestos-related insurance receivables	21,261	21,943
Investments, other	5,000	5,000
Other long-term assets	8,409	8,299
Long-term marketable securities	-	25,960
Total assets	\$ 673,346	\$ 677,628
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 17,208	\$ 15,787
Accrued employee benefits and compensation	34,712	30,135
Accrued income taxes payable	639	1,799
Current portion of lease obligation	1,634	1,596
Current portion of long term debt	25,750	7,500
Asbestos-related liabilities	6,471	6,459
Other accrued liabilities	10,536	15,368
Liabilities of discontinued operations	-	153
Total current liabilities	\$ 96,950	78,797
Long term debt	95,500	115,000
Long term lease obligation	7,540	7,610
Pension liability	58,871	68,871

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Retiree health care and life insurance benefits	9,486	9,486
Asbestos-related liabilities	21,468	22,326
Non-current income tax	18,176	17,588
Deferred income taxes	19,562	19,259
Other long-term liabilities	567	435
Shareholders' Equity		
Capital Stock - \$1 par value; 50,000,000 authorized shares; 16,268,268 and		
16,220,648 shares outstanding	16,268	16,221
Additional paid in capital	54,075	52,738
Retained earnings	330,291	332,099
Accumulated other comprehensive income (loss)	(55,408)	(62,802)
Total shareholders' equity	345,226	338,256
Total liabilities and shareholders' equity	\$ 673,346	\$ 677,628

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)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Operating Activities:		
Net income (loss)	\$(1,808)	\$9,434
Loss (earnings) from discontinued operations	108	1,631
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	6,509	6,183
Stock-based compensation expense	1,442	858
Loss from long-term investments	3,245	-
Deferred income taxes	(2,134)	1,930
Equity in undistributed income of unconsolidated joint ventures, net	(657)	(1,428)
Dividends received from unconsolidated joint ventures	2,929	2,762
Pension and postretirement benefits	4,936	1,485
Gain from the sale of property, plant and equipment	-	(1,900)
Impairment of assets	539	-
Amortization of inventory fair value	-	1,805
Changes in operating assets and liabilities excluding effects of acquisition and disposition of businesses:		
Accounts receivable	356	(8,612)
Accounts receivable, joint ventures	(87)	(816)
Inventories	(2,452)	(5,534)
Pension contribution	(10,000)	-
Other current assets	(2,946)	(2,977)
Accounts payable and other accrued expenses	(2,625)	(22,893)
Other, net	619	(212)
Net cash provided by (used in) operating activities of continuing operations	(2,026)	(18,284)
Net cash provided by (used in) operating activities of discontinued operations	-	(1,668)
Net cash provided by (used in) operating activities	(2,026)	(19,952)
Investing Activities:		
Capital expenditures	(4,181)	(4,061)
Acquisition of business, net of cash received	-	(139,825)
Proceeds from long-term investments	25,438	300
Proceeds from the sale of property, plant and equipment, net	-	5,900
Deferred purchase price for previous acquisition of business	(3,100)	-
Net cash provided by (used in) investing activities	18,157	(137,686)
Financing Activities:		
Proceeds from long term borrowings	-	145,000
Repayment of debt principal and long term obligation	(1,500)	-
Payment of long term borrowings acquired through acquisition	-	(7,273)
Proceeds from sale of capital stock, net	112	3,121
Proceeds from issuance of shares to employee stock purchase plan	412	396

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Net cash provided by (used in) financing activities	(976)	141,244
Effect of exchange rate fluctuations on cash	(1,366)	2,394
Net increase (decrease) in cash and cash equivalents	13,789	(14,000)
Cash and cash equivalents at beginning of year	79,728	80,135
Cash and cash equivalents at end of quarter	\$93,517	\$66,135
Supplemental disclosure of noncash investing and financing activities		
Capital lease obligation acquired through acquisition	-	9,206

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 comprehensive income 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.

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, 2011.

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.

From time to time we enter into various instruments that require fair value measurement, including foreign currency option contracts and copper derivative contracts. As of March 31, 2012, the value of these instruments was de minimis.

(Dollars in thousands)	Carrying amount as of March 31, 2012	Level 1	Level 2	Level 3
Foreign currency option contracts	\$ 1	\$ -	\$ 1	\$ -
Copper derivative contracts	(21)	-	(21)	-

The following table presents information about our assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall. This asset represents our Richmond, Virginia facility for which we signed an agreement to sell in the first quarter of 2012. We have written this asset down to the agreed upon sale price less costs to sell.

(Dollars in thousands)	Carrying amount as of March 31, 2012	Level 1	Level 2	Level 3
Asset held for sale	\$ 1,400	\$ -	\$ 1,400	\$ -

Auction Rate Securities

During the first quarter of 2012, we liquidated our auction rate security portfolio, receiving net proceeds of \$25.4 million on a stated par value of \$29.5 million. As a result of this liquidation, we recognized a loss on the discount of the securities of \$3.2 million (the remaining difference between the liquidation and par value of \$0.9 million had previously been recognized as an impairment loss) in our condensed consolidated statement of comprehensive income. Since the markets for these securities failed in the first quarter of 2008, we have redeemed \$24.9 million of these securities, mostly at par. However, due to the fact that par value redemptions had slowed in recent quarters with no clear path for full redemption over the next several years and the rate of return on these securities was very low, management determined that a discounted redemption at this time was in the best interests of the Company as the cash could be better utilized going forward.

Prior to the first quarter of 2012, we had recognized an Other-than-temporary impairment (OTTI) on these securities. An OTTI is 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.

When an OTTI of a security occurred, the amount of the OTTI recognized in earnings depended on whether we intended to sell the security or it was more likely than not that we would be required to sell the security before recovery of its cost basis. If we did not intend to sell the security and was not more likely than not that we would have been required to sell the security before the recovery of its cost basis, the other-than-temporary loss should have been separated into the amount representing the credit loss and the amount related to all other factors. The amount representing the credit loss would have been recognized in earnings, and as long as the factors above were not met, the remaining amount is recorded in other comprehensive income.

Prior to the first quarter of 2008, our available-for-sale auction rate securities were recorded 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 had been in a loss position since that time until the first quarter of 2012. In addition, it was no longer possible to establish fair value using Level 1 methodology and valuation according to Level 3 methodology was adopted.

Due to our belief that it would have taken more than twelve months for the auction rate securities market to recover, these securities were classified as long-term assets, except for those that were scheduled to be redeemed within the next twelve months, which were classified as short-term investments.

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, 2011	\$ 25,960
Cash received for redemptions at par	-
Cash received for redemptions below par	(25,438)
Reclassified from other comprehensive income	2,723
Reported in earnings	(3,245)
Balance at March 31, 2012	\$ -

There were no credit losses recognized for the three months ended March 31, 2012. Below is a roll forward of credit losses recognized in earnings for the three months ended March 31, 2011:

(Dollars in thousands)	Credit Losses
Balance at December 31, 2010	\$ 917
Credit losses recorded	-
Reduction in credit losses due to redemptions	(2)
Balance at March 31, 2011	\$ 915

(Dollars in thousands)

As of March 31, 2012, the carrying value of our derivative instruments was de minimis. 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. The primary risks being managed through the use of derivative instruments are foreign currency exchange rate risk and commodity pricing risk, specifically copper. The fair value of the 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.

The fair value of the copper derivatives is computed using a combination of intrinsic and time value valuation models. The intrinsic valuation model reflects the difference between the strike price of the underlying copper derivative instrument and the current prevailing copper prices in an over-the-counter market at period end. The time value valuation model incorporates the constant changes in the price of the underlying copper derivative instrument, the time value of money, the underlying copper derivative's strike price and the remaining time to the underlying copper derivative instrument's expiration date from the period end date. Overall, fair value is a function of five primary variables: price of the underlying instrument, time to expiration, strike price, interest rate, and volatility. We do not use derivative financial instruments for trading or speculation purposes.

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 condensed consolidated statements 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 for special hedge accounting treatment as defined under the applicable accounting guidance. For derivative instruments that are designated and qualify for hedge accounting treatment (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. This gain or loss is reclassified into earnings in the same line item of the condensed consolidated statements of comprehensive income 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, the ineffective portion, if any, is recognized in the condensed consolidated statements of comprehensive income during the current period.

As of the end of the first quarter of 2012, we have two contracts in place to hedge our exposure related to the purchase of copper at our German subsidiary, Curamik. These contracts are held with financial institutions and minimize our risk associated with a potential rise in copper prices. These two contracts cover our 2012 monthly copper exposure and qualify for hedge accounting treatment (therefore, any mark-to-market adjustments on these contracts are recorded in Other Comprehensive Income in the equity section of our consolidated statements of financial position).

We also have one contract related to minimizing our foreign currency exposures on our condensed consolidated statements of financial position. This contract does not qualify for hedge accounting treatment, and any mark-to-market adjustments are recorded in our condensed consolidated statements of comprehensive income in Other Income, Net at March 31, 2012.

Notional Values of Foreign Currency Derivatives		Notional Value of Copper Derivatives	
Japanese Yen	¥ 20,000,000	Copper	70 metric tons per month
(Dollars in thousands)		The Effect of Current Derivative Instruments on the Financial Statements for the three-month period ended March 31, 2012	Fair Values of Derivative Instruments as of March 31, 2012
		Location of gain (loss)	Other Assets (Liabilities)
Foreign Exchange Option Contracts		Amount of gain (loss)	
Contracts not designated as hedging instruments		Other income, net	\$ 1
Copper Derivative Instruments			
Contracts designated as hedging instruments		Other comprehensive income	(21)
			(15)

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 of investment grade credit rating.

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 IGBT (insulated gate bipolar transistor) modules, that enable a wide range of products including highly efficient industrial motor drives, wind and solar energy converters and HEV/EV (hybrid electric and electric vehicle) drive systems. Most of Curamik's products are manufactured using state of the art automated processes in its facility located in Eschenbach.

The acquisition has been accounted for in accordance with applicable purchase accounting guidance. The following table represents the fair market value assigned to the acquired assets and liabilities in the transaction.

(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		2,276
Intangible assets		52,354
Goodwill		79,837
Total assets		203,556

Liabilities

Accounts payable		6,053
Other current liabilities		20,427
Deferred tax liability		9,329
Other long-term liabilities		16,666
Total liabilities		52,475

Fair value of net assets acquired	\$	151,081
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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 \$2.1 million were incurred in the fourth quarter of 2010. They are included in "Selling and administrative expenses" on our condensed consolidated statements of comprehensive income.

Note 5 - Inventories

Inventories were as follows:

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(Dollars in thousands)	March 31, 2012	December 31, 2011
Raw materials	\$ 33,351	\$ 30,655
Work-in-process	17,183	14,919
Finished goods	30,813	32,746
	\$ 81,347	\$ 78,320

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Note 6 - Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) for three months ended March 31, 2012 and 2011 were as follows:

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011