ROGERS CORP
Form 10-Q
November 05, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
or
o 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	06-0513860
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
P.O. Box 188, One Technology Drive, Rogers, Connecticut	06263-0188
(Address of principal executive offices)	(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 ý No o
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 ý No o
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 ý Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
The number of shares outstanding of the registrant's common stock as of October 23, 2012 was 16,587,398.

ROGERS CORPORATION
FORM 10-Q

September 30, 2012

TABLE OF CONTENTS

Exhibits:

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
Exhibit 101.PRE	XBRL Presentation Linkbase Document
Exhibit 101.DEF	XBRL Definition Linkbase Document

Forward Looking Statements

This Quarterly Report on Form 10-Q contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See "Forward Looking Statements" under Part I- Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

2

Part I – Financial Information

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	$130,248	$147,344	$378,292	$426,773
Cost of sales	87,288	96,598	262,018	284,914
Gross margin	42,960	50,746	116,274	141,859
Selling and administrative expenses	26,255	27,462	73,117	78,001
Research and development expenses	4,838	5,361	14,685	16,198
Restructuring and impairment charges	1,766	—	9,980	—
Operating income (loss)	10,101	17,923	18,492	47,660
Equity income in unconsolidated joint ventures	1,773	1,290	3,735	4,041
Other income (expense), net	19	302	141	1,931
Realized investment gain (loss):				
Increase (decrease) in fair value of investments	—	(642)	(522)	58
Less: Portion reclassified to/from other comprehensive income	—	(407)	2,723	261
Net realized gain (loss)	—	(235)	(3,245)	(203)
Interest income (expense), net	(1,104)	(1,040)	(3,366)	(3,884)
Income (loss) before income tax expense (benefit)	10,789	18,240	15,757	49,545
Income tax expense (benefit)	(48,187)	2,579	(47,973)	9,390
Income (loss) from continuing operations	58,976	15,661	63,730	40,155
Income (loss) from discontinued operations, net of income taxes	—	(1,305)	(108)	(4,236)
Net income (loss)	$58,976	$14,356	$63,622	$35,919
Basic net income (loss) per share:				
Income (loss) from continuing operations	$3.58	$0.97	$3.90	$2.52
Income (loss) from discontinued operations	—	(0.08)	(0.01)	(0.27)
Net income (loss)	$3.58	$0.89	$3.89	$2.25
Diluted net income (loss) per share:				
Income (loss) from continuing operations	$3.46	$0.93	$3.77	$2.40
Income (loss) from discontinued operations	—	(0.08)	(0.01)	(0.25)
Net income (loss)	$3.46	$0.85	$3.76	$2.15

Comprehensive income (loss)	$66,119	$(5,528)	$67,368	$40,728
Shares used in computing:				
Basic	16,484,957	16,106,054	16,342,289	15,981,337
Diluted	17,024,137	16,934,423	16,903,224	16,713,837

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

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Dollars in thousands)

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$91,101	$79,728
Restricted Cash	929	—
Accounts receivable, less allowance for doubtful accounts of $1,731 and $1,040	88,581	77,682
Accounts receivable from joint ventures	6,418	1,640
Accounts receivable, other	2,965	3,819
Taxes receivable	3,019	2,713
Inventories	70,072	78,320
Prepaid income taxes	3,454	4,315
Deferred income taxes	7,618	2,146
Asbestos-related insurance receivables	6,471	6,459
Other current assets	9,359	7,360
Assets held for sale	—	1,400
Assets of discontinued operations	—	50
Total current assets	289,987	265,632
Property, plant and equipment, net of accumulated depreciation of $212,729 and $198,075	146,943	148,182
Investments in unconsolidated joint ventures	20,524	23,868
Deferred income taxes	68,633	20,117
Goodwill and other intangibles	155,828	158,627
Asbestos-related insurance receivables	21,262	21,943
Investments, other	5,000	5,000
Other long-term assets	8,122	8,299
Long-term marketable securities	—	25,960
Total assets	$716,299	$677,628
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	16,581	15,787
Accrued employee benefits and compensation	34,875	30,135
Accrued income taxes payable	671	1,799
Current portion of lease obligation	1,592	1,596
Current portion of long term debt	16,750	7,500
Asbestos-related liabilities	6,471	6,459
Other accrued liabilities	10,776	15,368
Liabilities of discontinued operations	—	153
Total current liabilities	87,716	78,797
Long term debt	89,250	115,000
Long term lease obligation	6,847	7,610
Pension liability	46,545	68,871
Retiree health care and life insurance benefits	9,486	9,486

Asbestos-related liabilities	21,468	22,326
Non-current income tax	18,559	17,588
Deferred income taxes	18,918	19,259
Other long-term liabilities	635	435
Shareholders’ Equity		
Capital Stock - $1 par value; 50,000,000 authorized shares; 16,570,069 and 16,220,648 shares outstanding	16,570	16,221
Additional paid-in capital	63,748	52,738
Retained earnings	395,721	332,099
Accumulated other comprehensive income (loss)	(59,164)	(62,802)
Total shareholders' equity	416,875	338,256
Total liabilities and shareholders' equity	$716,299	$677,628

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

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(Unaudited)
(Dollars in thousands)

	Capital Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2011	$16,221	$52,738	$332,099	$ (62,802)	$338,256
Comprehensive income (loss):					
Net income (loss)	—	—	63,622	—	63,622
Other comprehensive income (loss):					
Pension and other post-employment benefits	—	—	—	2,023	2,023
Foreign currency translation, net of tax	—	—	—	532	532
Unrealized loss on marketable securities, net of tax	—	—	—	1,168	1,168
Unrealized loss on derivative instruments, net of tax	—	—	—	(85)	(85)
Total comprehensive income (loss)	—	—	63,622	3,638	67,260
Stock options exercised	285	7,641	—	—	7,926
Stock issued to directors	15	(15)	—	—	—
Shares issued for employees stock purchase plan	15	398	—	—	413
Shares issued for restricted stock	34	(789)			(755)
Stock-based compensation expense	—	3,775	—	—	3,775
Balance at September 30, 2012	$16,570	$63,748	$395,721	$ (59,164)	$416,875

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)

	Nine Months Ended September 30, 2012	September 30, 2011
Operating Activities:		
Net income (loss)	$63,622	$35,919
Loss (earnings) from discontinued operations	108	4,236
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	20,655	20,001
Stock-based compensation expense	3,775	5,717
Loss from long-term investments	3,245	—
Deferred income taxes	(54,330)	950
Equity in undistributed income of unconsolidated joint ventures, net	(3,735)	(4,041)
Dividends received from unconsolidated joint ventures	2,929	2,762
Pension and postretirement benefits	11,149	4,511
Gain from the sale of property, plant and equipment	(579)	(1,899)
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	(10,247)	(17,898)
Accounts receivable, joint ventures	(1,187)	(1,235)
Inventories	8,272	(23,547)
Pension contribution	(22,326)	(5,000)
Other current assets	(1,146)	(4,440)
Accounts payable and other accrued expenses	(6,572)	(13,129)
Other, net	1,350	(3,450)
Net cash provided by (used in) operating activities of continuing operations	15,522	1,262
Net cash provided by (used in) operating activities of discontinued operations	—	(4,006)
Net cash provided by (used in) operating activities	15,522	(2,744)
Investing Activities:		
Capital expenditures	(16,465)	(12,478)
Proceeds from short-term investments	25,438	8,100
Proceeds from the sale of property, plant and equipment, net	1,979	5,900
Deferred purchase price for previous acquisition of business	(3,100)	—
Acquisition of business, net of cash received	—	(139,825)
Net cash provided by (used in) investing activities of continuing operations	7,852	(138,303)
Financing Activities:		
Proceeds from long term borrowings	—	145,000
Repayment of debt principal and long term lease obligation	(17,242)	(16,250)
Payment of long term borrowings acquired through acquisition	—	(7,745)
Proceeds from sale of capital stock, net	7,926	9,692
Issuance of restricted stock shares	(755)	—
Proceeds from issuance of shares to employee stock purchase plan	413	756
Net cash provided by (used in) financing activities of continuing operations	(9,658)	131,453

Effect of exchange rate fluctuations on cash	(2,343)	607
Net increase (decrease) in cash and cash equivalents	11,373	(8,987)
Cash and cash equivalents at beginning of year	79,728	80,135
Cash and cash equivalents at end of quarter	$91,101	$71,148
Supplemental disclosure of noncash investing and financing activities		
Capital lease obligation acquired through acquisition	$—	$9,806

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

6

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 (loss), statements of shareholders equity, and statements of 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.
For all periods and amounts presented, reclassifications have been made for discontinued operations. On December 31, 2011, the Thermal Management Solutions operating segment was discontinued. See Note 17-"Discontinued Operations" for further discussion.
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, interest rate swaps and copper derivative contracts.

(Dollars in thousands)	Carrying amount as of September 30, 2012	Level 1	Level 2	Level 3
Foreign currency option contracts	$28	$—	$28	$—
Copper derivative contracts	3	—	3	—
Interest rate swap	(355)	—	(355)	—

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 statements of comprehensive income (loss). Since the markets for these securities failed in the first quarter of 2008, we had redeemed $24.9 million of these securities, mostly at par prior to the liquidation in the first quarter of 2012. Since par value redemptions had recently slowed quarters with no clear path for full redemption over the next several years and the rate of return on these securities being very low, management determined that a discounted redemption in the first quarter of 2012 was in the best interests of the Company as the related cash could be better utilized for other purposes 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.

7

When an OTTI of a security occurs, the amount of the OTTI recognized in earnings depends on whether the security holder intended to sell the security or it is more likely than not that the holder would be required to sell the security before recovery of its cost basis. If the holder does not intend to sell the security and it is not more likely than not that the holder would be required to sell the security before the recovery of its cost basis, the other-than-temporary loss would be separated into (i) the amount representing the credit loss and (ii) the amount related to all other factors. The amount representing the credit loss would be recognized in earnings, and the remaining amount would be recorded in other comprehensive income. This is the approach we used to recognize the OTTI taken prior to liquidation in the first quarter of 2012. 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 would have been 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 we redeemed them in the first quarter of 2012. Given the lack of unobservable inputs in the auction markets since the first quarter of 2008, such securities were considered Level 3 securities.

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 a twelve month period, 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 below par	(25,438	)
Reclassified from other comprehensive income	2,723	
Reported in earnings	(3,245	)
Balance at September 30, 2012	$—	

There were no credit losses recognized for the nine months ended