ROGERS CORP
Form 10-Q
August 07, 2008

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 1934

For the quarterly period ended June 29, 2008

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 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 x 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 x

The number of shares outstanding of the Registrant's common stock as of August 1, 2008 was 17,964,333.

ROGERS CORPORATION
FORM 10-Q
June 29, 2008

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Part I – Financial Information

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net sales	$ 97,665	$ 97,891	$ 199,998	$ 212,962
Cost of sales	66,278	82,246	136,218	162,240
Gross margin	31,387	15,645	63,780	50,722
Selling and administrative expenses	18,830	17,568	37,214	36,859
Research and development expenses	5,940	6,043	11,237	11,723
Restructuring and impairment charges	-	3,082	-	3,082
Operating income (loss)	6,617	(11,048)	15,329	(942)
Equity income in unconsolidated joint ventures	1,517	1,474	2,610	2,742
Other income, net	1,049	185	1,435	772
Interest income, net	615	460	1,470	885
Income (loss) from continuing operations before income taxes	9,798	(8,929)	20,844	3,457
Income tax expense (benefit)	2,902	(4,264)	6,128	(1,319)
Income (loss) from continuing operations	6,896	(4,665)	14,716	4,776
Income from discontinued operations, net of taxes	-	335	-	405
Net income (loss)	$ 6,896	$ (4,330)	$ 14,716	$ 5,181
Basic net income per share:				
Income (loss) from continuing operations	$ 0.44	$ (0.28)	$ 0.93	$ 0.29
Income from discontinued operations, net	-	0.02	-	0.02
Net income (loss)	$ 0.44	$ (0.26)	$ 0.93	$ 0.31
Diluted net income per share:				
Income (loss) from continuing operations	$ 0.44	$ (0.28)	$ 0.93	$ 0.28
Income from discontinued operations, net	-	0.02	-	0.02
Net income (loss)	$ 0.44	$ (0.26)	$ 0.93	$ 0.30
Shares used in computing:				
Basic	15,529,891	16,562,239	15,831,709	16,698,335
Diluted	15,592,453	16,562,239	15,872,119	16,945,409

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

	June 29, 2008	December 30, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 41,234	$ 36,328
Short-term investments	2,262	53,300
Accounts receivable, less allowance for doubtful accounts of $1,518 and $1,433	62,951	76,965
Accounts receivable from joint ventures	2,177	3,368
Accounts receivable, other	1,330	2,319
Inventories	48,264	51,243
Prepaid income taxes	3,607	5,160
Deferred income taxes	8,709	10,180
Asbestos-related insurance receivables	4,303	4,303
Other current assets	4,697	3,888
Total current assets	179,534	247,054
Property, plant and equipment, net of accumulated depreciation of $171,720 and $160,396	149,371	147,203
Investments in unconsolidated joint ventures	32,017	30,556
Deferred income taxes	15,811	9,984
Pension asset	2,173	2,173
Goodwill and other intangibles	10,131	10,131
Asbestos-related insurance receivables	19,149	19,149
Long-term marketable securities	50,434	-
Other long-term assets	4,787	4,698
Total assets	$ 463,407	$ 470,948
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 16,982	$ 22,127
Accrued employee benefits and compensation	19,082	14,991
Accrued income taxes payable	6,712	6,326
Asbestos-related liabilities	4,303	4,303
Other current liabilities	14,423	20,539
Total current liabilities	61,502	68,286
Pension liability	8,009	8,009
Retiree health care and life insurance benefits	6,288	6,288
Asbestos-related liabilities	19,341	19,341
Other long-term liabilities	8,902	5,043

Shareholders' Equity		
Capital Stock - $1 par value; 50,000,000 authorized shares; 15,574,035 and 16,414,918 shares issued and outstanding	15,574	16,415
Additional paid-in capital	13,395	37,636
Retained earnings	311,544	296,828
Accumulated other comprehensive income	18,852	13,102
Total shareholders' equity	359,365	363,981
Total liabilities and shareholders' equity	$ 463,407	$ 470,948

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

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

	Six Months Ended June 29, 2008	Six Months Ended July 1, 2007
Operating Activities:		
Net income	$ 14,716	$ 5,181
Loss (income) from discontinued operations	-	(405)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	9,782	11,881
Stock-based compensation expense	3,514	3,391
Excess tax benefit related to stock award plans	(121)	(492)
Deferred income taxes	(3,708)	(2,135)
Equity in undistributed income of unconsolidated joint ventures, net	(2,610)	(2,742)
Dividends received from unconsolidated joint ventures	2,842	3,251
Impairment charges	-	525
Other non-cash activity	(76)	-
Changes in operating assets and liabilities excluding effects of acquisition and disposition of businesses:		
Accounts receivable	16,236	22,533
Accounts receivable, joint ventures	1,191	2,229
Inventories	3,965	2,125
Other current assets	614	(2,369)
Accounts payable and other accrued expenses	(7,827)	(23,829)
Other, net	3,332	(794)
Net cash provided by operating activities of continuing operations	41,850	18,350
Net cash provided by operating activities of discontinued operations	-	1,282
Net cash provided by operating activities	41,850	19,632
Investing Activities:		
Capital expenditures	(9,095)	(16,417)
Purchases of short-term investments	(132,690)	(578,253)
Proceeds from short-term investments	131,590	608,595
Net cash provided by (used in) investing activities of continuing operations	(10,195)	13,925
Net cash provided by (used in) investing activities of discontinued operations	-	(312)
Net cash provided by (used in) investing activities	(10,195)	13,613
Financing Activities:		
Purchase of stock from shareholders	(30,000)	(23,937)
Proceeds from sale of capital stock, net	599	2,333
Excess tax benefit related to stock award plans	121	492
Proceeds from issuance of shares to employee stock purchase plan	561	381
Net cash used in financing activities	(28,719)	(20,731)
Effect of exchange rate fluctuations on cash	1,970	74
Net increase in cash and cash equivalents	4,906	12,588

Cash and cash equivalents at beginning of year		36,328		13,638
Cash and cash equivalents at end of quarter	$	41,234	$	26,226
Supplemental disclosure of noncash investing activities:				
Contribution of shares to fund employee stock purchase plan	$	482	$	492

The accompanying notes are an integral part of the condensed 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 balance sheets and related interim statements of 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 30, 2007.

We use a 52- or 53-week fiscal calendar ending on the Sunday closest to the last day in December of each year. Fiscal 2008 is a 52-week year ending on December 28, 2008.

Certain prior period amounts have been reclassified to conform to the current period classification.

Note 2 –Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. SFAS 157 applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements and is effective for fiscal years beginning after November 15, 2007. Although the adoption of SFAS 157 on December 31, 2007 did not materially impact our financial condition, results of operations, or cash flows, we are now required to provide additional disclosures as part of our financial statements.

SFAS 157 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.

At year-end 2007, we 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. Accordingly, the securities changed from a Level 1 valuation to a Level 3 valuation within SFAS 157's hierarchy since our adoption of this standard on the first day of fiscal 2008. The auctions continued to fail during the second quarter of 2008 for the auction rate securities that were held.

As of the end of the first and second quarters of 2008 we held auction rate securities with a par value of $54.4 million, which were comprised of 90% student loan auction rate securities and 10% municipality auction rate securities. Due to the failure of auctions during the first quarter, a fair value assessment of these securities was performed in accordance with SFAS 157. The assessment was performed on each security 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. This fair value analysis resulted in a decline in the fair value of our auction rate securities of $1.1 million as of the first quarter. Due to continued auction failures throughout the second quarter, the assessment was updated, which resulted in a decline in the fair value of our auction rate securities of $0.6 million during the second quarter ($1.7 million decline year to date).

We have concluded that the impairment is not other-than-temporary, per FASB Staff Position 115-1 / 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and Emerging Issues Task Force 03-1: The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, due primarily to the fact that the investments we hold are high quality AAA/Aaa-rated securities and are government-backed or over-collateralized and, based on our expected operating cash flows and other sources of cash, we do not anticipate that the current lack of liquidity of these investments will affect our ability to execute our current business plan. Therefore, we have the intent and ability to hold the securities until the temporary impairment is recovered. Based on this conclusion, we have recorded this charge as an unrealized loss in other comprehensive income in the equity section of our condensed consolidated statements of financial position. Additionally, due to our belief that it may take over twelve months for the auction rate securities market to recover, we have classified the auction rate securities as long-term assets, with the exception of securities maturing within 12 months, which we classify as short-term investments. The securities that we hold have maturities ranging from 6 to 39 years, with the exception of one security valued at $2.3 million which matures in June 2009 and is classified as short-term.

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 30, 2007	$ -
Transfers to Level 3	54,400
Reported in other comprehensive income	(1,704)
Balance at June 29, 2008	$ 52,696

These securities typically earn interest at rates ranging from 3% to 7%. Upon the failure of these securities at auction, a penalty interest rate is triggered. Since the securities we hold are high quality securities, the penalty rates are market-based, and therefore the aggregate interest rate that we earned has remained effectively unchanged due to the effect of lower market interest rates substantially offsetting the market-based penalty rates.

Note 3 - Inventories

Inventories were as follows:

(Dollars in thousands)	June 29, 2008	December 30, 2007
Raw materials	$ 11,498	$ 11,102
Work-in-process	7,117	6,172
Finished goods	29,649	33,969
	$ 48,264	$ 51,243

Note 4 - Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income for the periods ended June 29, 2008 and July 1, 2007 was as follows:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net income (loss)	$ 6,896	$ (4,330)	$ 14,716	$ 5,181
Foreign currency translation adjustments	(952)	761	6,806	(803)
Unrealized gain (loss) on investments, net of tax of $215 and $648, for the three and six month periods ended June 29, 2008	(350)	-	(1,056)	-
Comprehensive income (loss)	$ 5,594	$ (3,569)	$ 20,466	$ 4,378

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The components of accumulated other comprehensive income at June 29, 2008 and December 30, 2007 were as follows:

(Dollars in thousands)		June 29, 2008		December 30, 2007
Foreign currency translation adjustments	$	24,608	$	17,802
Funded status of pension plans and other postretirement benefits		(4,700)		(4,700)
Unrealized gain (loss) on investments, net of tax of $648		(1,056)		-
Accumulated other comprehensive income	$	18,852	$	13,102

Note 5 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share in conformity with SFAS No. 128, Earnings per Share, for the periods indicated:

(In thousands, except per share amounts)	Three Months Ended				Six Months Ended			
		June 29, 2008		July 1, 2007		June 29, 2008		July 1, 2007
Numerator:								
Income (loss) from continuing operations	$	6,896	$	(4,665)	$	14,716	$	4,776
Income from discontinued operations, net of taxes		-		335		-		405
Net income (loss)	$	6,896	$	(4,330)	$	14,716	$	5,181
Denominator:								
Denominator for basic earnings per share - Weighted-average shares		15,530		16,562		15,832		16,698
Effect of dilutive stock options		62		-		40		247
Denominator for diluted earnings per share - Adjusted weighted—average shares and assumed conversions		15,592		16,562		15,872		16,945
Basic net income per share:								
Income (loss) from continuing operations	$	0.44	$	(0.28)	$	0.93	$	0.29
Income from discontinued operations, net		-		0.02		-		0.02
Net income (loss)	$	0.44	$	(0.26)	$	0.93	$	0.31
Diluted net income per share:								
Income (loss) from continuing operations	$	0.44	$	(0.28)	$	0.93	$	0.28
Income from discontinued operations, net		-		0.02		-		0.02
Net income (loss)	$	0.44	$	(0.26)	$	0.93	$	0.30

Note 6 – Stock-Based Compensation

On January 2, 2006 (the first day of the 2006 fiscal year), we adopted SFAS No. 123 (Revised), Share-Based Payment (SFAS 123R), using the modified prospective application as permitted under SFAS 123R. SFAS 123R supersedes

APB No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Under FAS 123R, compensation cost recognized includes compensation cost for all share-based payments, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

Equity Compensation Awards

Stock Options

We currently grant stock options under various equity compensation plans. While we may grant options to employees that become exercisable at different times or within different periods, we have generally granted options to employees that vest and become exercisable in one-third increments on the 2nd, 3rd and 4th anniversaries of the grant dates. The maximum contractual term for all options is generally ten years.

We use the Black-Scholes option-pricing model to calculate the grant-date fair value of an option. The fair value of options granted during the three and six month periods ended June 29, 2008 and July 1, 2007 were calculated using the following weighted- average assumptions:

	Three Months Ended		Six Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Options granted	21,422	21,736	321,772	228,886
Weighted average exercise price	$ 39.10	$ 40.16	$ 31.89	$ 51.42
Weighted-average grant date fair value	18.55	18.98	15.00	24.46
Assumptions:				
Expected volatility	39.05%	35.26%	39.82%	36.49%
Expected term (in years)	7.00	7.00	7.00	7.00
Risk-free interest rate	3.76%	5.03%	3.28%	4.75%
Expected dividend yield	--	--	--	--

Expected volatility – In determining expected volatility, we have considered a number of factors, including historical volatility and implied volatility.

Expected term – We use historical employee exercise data to estimate the expected term assumption for the Black-Scholes valuation.

Risk-free interest rate – We use the yield on zero-coupon U.S. Treasury securities for a period commensurate with the expected term assumption as its risk-free interest rate.

Expected dividend yield – We do not issue dividends on our common stock; therefore, a dividend yield of 0% was used in the Black-Scholes model.

We recognize expense using the straight-line attribution method for both pre- and post-adoption grants. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered option. We currently expect, based on an analysis of our historical forfeitures, a forfeiture rate of approximately 3% and applied that rate to grants issued subsequent to adoption of SFAS 123R. This assumption will be reviewed periodically and the rate will be adjusted as necessary based on these reviews. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

A summary of the activity under our stock option plans as of June 29, 2008 and changes during the three month period then ended, is presented below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Options outstanding at March 30, 2008	2,265,713	$ 39.29		
Options granted	21,422	39.10		
Options exercised	(35,459)	14.65		
Options cancelled	(7,032)	44.66		
Options outstanding at June 29, 2008	2,244,644	39.66	6.4	$ 9,123,772
Options exercisable at June 29, 2008	1,659,949	39.17	5.5	7,031,069
Options vested or expected to vest at June 29, 2008 *	2,227,264	39.65	6.4	9,060,991