ROGERS CORP
Form 10-Q
November 05, 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 September 28, 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___

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___

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 October 24, 2008 was 18,011,607.

ROGERS CORPORATION
FORM 10-Q
September 28, 2008

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Exhibits:

Exhibit 10aj-4	Fourth Amendment to the 2005 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

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		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Net sales	$ 101,696	$ 109,626	$ 301,694	$ 322,588
Cost of sales	69,612	78,448	205,830	240,688
Gross margin	32,084	31,178	95,864	81,900
Selling and administrative expenses	20,498	16,874	57,712	53,733
Research and development expenses	5,736	5,577	16,973	17,301
Restructurin and impairment charges	-	202	-	3,283
Operating income	5,850	8,525	21,179	7,583
Equity income in unconsolidated joint ventures	2,536	2,110	5,145	4,852
Other income, net	622	72	2,058	844
Interest income, net	594	449	2,064	1,334
Income from continuing operations before income taxes	9,602	11,156	30,446	14,613
Income tax expense	1,657	2,060	7,785	741
Income from continuing operations	7,945	9,096	22,661	13,872
Income (loss) from discontinued operations, net of taxes	-	(146)	-	259
Net income	$ 7,945	$ 8,950	$ 22,661	$ 14,131
Basic net income per share:				
Income from continuing operations	$ 0.51	$ 0.55	$ 1.44	$ 0.84
Income (loss) from discontinued operations, net	-	(0.01)	-	0.01
Net income	$ 0.51	$ 0.54	$ 1.44	$ 0.85
Diluted net income per share:				
Income from continuing operations	$ 0.51	$ 0.55	$ 1.43	$ 0.83
Income (loss) from discontinued operations, net	-	(0.01)	-	0.01
Net income	$ 0.51	$ 0.54	$ 1.43	$ 0.84
Shares used in computing:				
Basic	15,580,678	16,431,017	15,748,032	16,609,229
Diluted	15,706,531	16,535,851	15,816,923	16,752,750

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 28, 2008	December 30, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 44,414	$ 36,328
Short-term investments	4,292	53,300
Accounts receivable, less allowance for doubtful accounts of $1,832 and $1,433	67,818	76,965
Accounts receivable from joint ventures	1,440	3,368
Accounts receivable, other	1,773	2,319
Inventories	45,992	51,243
Prepaid income taxes	1,795	5,160
Deferred income taxes	7,466	10,180
Asbestos-related insurance receivables	4,303	4,303
Other current assets	5,222	3,888
Total current assets	184,515	247,054
Property, plant and equipment, net of accumulated depreciation of $172,452 and $160,396	147,343	147,203
Investments in unconsolidated joint ventures	30,974	30,556
Deferred income taxes	16,867	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	48,582	-
Other long-term assets	4,795	4,698
Total assets	$ 464,529	$ 470,948
Liabilities and Shareholders’ Equity		
Current liabilities		
Accounts payable	$ 18,906	$ 22,127
Accrued employee benefits and compensation	20,849	14,991
Accrued income taxes payable	3,318	6,326
Asbestos-related liabilities	4,303	4,303
Other current liabilities	12,438	20,539
Total current liabilities	59,814	68,286
Pension liability	3,929	8,009
Retiree health care and life insurance benefits	6,288	6,288
Asbestos-related liabilities	19,341	19,341
Other long-term liabilities	8,061	5,043
Shareholders’ Equity		
Capital Stock - $1 par value; 50,000,000 authorized shares; 15,629,888 and 16,414,918 shares issued and outstanding	15,630	16,415

Additional paid-in capital	17,619	37,636
Retained earnings	319,489	296,828
Accumulated other comprehensive income	14,358	13,102
Total shareholders' equity	367,096	363,981
Total liabilities and shareholders' equity	$ 464,529	$ 470,948

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 28, 2008	September 30, 2007
Operating Activities:		
Net income	$ 22,661	$ 14,131
Loss (income) from discontinued operations	-	(259)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	14,243	18,157
Stock-based compensation expense	4,696	4,363
Excess tax benefit related to stock award plans	(316)	(966)
Deferred income taxes	(3,588)	(5,102)
Equity in undistributed income of unconsolidated joint ventures, net	(5,145)	(4,852)
Dividends received from unconsolidated joint ventures	6,277	3,251
Impairment charges	-	525
Other non-cash activity	(614)	(164)
Changes in operating assets and liabilities excluding effects of acquisition and disposition of businesses:		
Accounts receivable	9,864	11,014
Accounts receivable, joint ventures	1,928	3,461
Inventories	5,364	11,651
Other current assets	2,258	(1,447)
Accounts payable and other accrued expenses	(8,399)	(23,298)
Pension contribution	(4,080)	-
Other, net	3,157	-
Net cash provided by operating activities of continuing operations	48,306	30,465
Net cash provided by operating activities of discontinued operations	-	(256)
Net cash provided by operating activities	48,306	30,209
Investing Activities:		
Capital expenditures	(14,418)	(20,091)
Purchases of short-term investments	(132,690)	(858,565)
Proceeds from short-term investments	131,590	895,250
Net cash provided by (used in) investing activities	(15,518)	16,594
Financing Activities:		
Purchase of stock from shareholders	(30,000)	(32,645)
Proceeds from sale of capital stock, net	3,005	4,836
Excess tax benefit related to stock award plans	316	966
Proceeds from issuance of shares to employee stock purchase plan	1,051	902
Net cash used in financing activities	(25,628)	(25,941)
Effect of exchange rate fluctuations on cash	926	57
Net increase in cash and cash equivalents	8,086	20,919

Cash and cash equivalents at beginning of year		36,328		13,638
Cash and cash equivalents at end of quarter	$	44,414	$	34,557
Supplemental disclosure of noncash investing activities:				
Contribution of shares to fund employee stock purchase plan	$	911	$	902

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 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.

Beginning at year end 2008, our fiscal years will end on the last day of the month of December. Beginning in fiscal 2009, all interim periods will end on the last calendar day of that particular month. Historically, we used a 52- or 53-week fiscal calendar ending on the Sunday closest to the last day in December of each year.

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.

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 September 28, 2008	Level 1	Level 2	Level 3

Auction rate securities	$	52,874	$	-	$	-	$	52,874
Foreign currency option contracts	$	755	$	-	$	755	$	-

Auction Rate Securities

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 and third quarters of 2008 for the auction rate securities that were held.

The par value of our auction rate securities remained unchanged as of the end of the third quarter of 2008 at $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 $1.7 million as of the second quarter. Due to continued auction failures throughout the third quarter, the assessment was updated, which resulted in a slight increase in the fair value of our auction rate securities of $0.2 million during the third quarter ($1.5 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 90% are collateralized with government-backed student loans. 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 which matures in June 2009.

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		(1,526)
Balance at September 28, 2008	$	52,874

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 during most of the third quarter due to the effect of lower market interest rates substantially offsetting the market-based penalty rates. Due to changes in market conditions, we did experience an increase in penalty rates during the last few weeks of the quarter.

Subsequent to the close of the third quarter, we were notified that, during the fourth quarter of 2008, two of the investments we hold in auction rate securities will be redeemed at par value and a third investment will be partially redeemed at par value. The par values of these investments that will be redeemed total $4.4 million and have been classified as short-term assets.

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

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment to FASB Statement 133 (SFAS 161). SFAS 161, together with Statement of Financial Accounting Standard 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), are referred to as SFAS 133R. SFAS 133R requires companies to recognize all of its derivatives 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 managed by using derivative instruments is foreign currency exchange rate risk. Option contracts on various foreign currencies are entered into to manage 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.

In accordance with SFAS 133R, 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 income during the current period. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in income.

As of the close of the third quarter, we have entered into eight hedge programs. Five of the programs are foreign currency cash flow hedges to protect against the reduction in value of forecasted cash flows resulting from U.S. dollar denominated sales in 2008 and 2009 by our Belgian subsidiary, which uses the Euro as its functional currency. Our Belgian subsidiary hedges portions of its forecasted revenues denominated in U.S. dollars with option contracts. If the dollar weakens against the Euro, the decrease in the present value of future foreign currency cash flows is offset by gains in the fair value of the options contracts. The remaining three programs are to hedge exposure on the balance sheet of our Belgian subsidiary.

	Notional Values of Derivative Instruments
Currency (000s)	
Euro	EUR 7,000
U.S. Dollar	$ 25,188

(Dollars in thousands)

	The Effect of Derivative Instruments on the Financial Statements for the 9 month period ended September 28, 2008		Fair Values of Derivative Instruments for the period ended September 28, 2008
Foreign Exchange Option Contracts	Location of gain (loss)	Amount of gain (loss)	Other Assets
Contracts designated as hedging instruments	Other comprehensive income	$ (33)	$ 421
Contracts not designated as hedging instruments	Other income, net	619	334

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 - Inventories

Inventories were as follows:

(Dollars in thousands)	September 28, 2008	December 30, 2007
Raw materials	$ 11,540	$ 11,102
Work-in-process	7,715	6,172
Finished goods	26,737	33,969
	$ 45,992	$ 51,243

Note 5 - Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income for the periods ended September 28, 2008 and September 30, 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 28, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 28, 2008	Nine Months Ended September 30, 2007
Net income	$ 7,945	$ 8,950	$ 22,661	$ 14,131
Foreign currency translation adjustments	(4,571)	2,740	2,235	1,937
Unrealized gain (loss) on investments, net of tax of ($68) and $580, for the three and nine month periods ended September 28, 2008	110	-	(946)	-
Unrealized gain (loss) on derivative instruments	(33)	-	(33)	-
Comprehensive income	$ 3,451	$ 11,690	$ 23,917	$ 16,068

The components of accumulated other comprehensive income at September 28, 2008 and December 30, 2007 were as follows:

(Dollars in thousands)	September 28, 2008	December 30, 2007
Foreign currency translation adjustments	$ 20,037	$ 17,802
Funded status of pension plans and other postretirement benefits	(4,700)	(4,700)
Unrealized gain (loss) on investments, net of tax of $580	(946)	-
Unrealized gain (loss) on derivative instruments	(33)	-
Accumulated other comprehensive income	$ 14,358	$ 13,102

Note 6 - 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		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Numerator:				
Income from continuing operations	$ 7,945	$ 9,096	$ 22,661	$ 13,872
Income (loss) from discontinued operations, net of taxes	-	(146)	-	259
Net income	$ 7,945	$ 8,950	$ 22,661	$ 14,131
Denominator:				
Denominator for basic earnings per share - Weighted-average shares	15,581	16,431	15,748	16,609
Effect of dilutive stock options	126	105	69	144
Denominator for diluted earnings per share - Adjusted weighted—average shares and assumed conversions	15,707	16,536	15,817	16,753
Basic net income per share:				
Income from continuing operations	$ 0.51	$ 0.55	$ 1.44	$ 0.84
Income (loss) from discontinued operations, net	-	(0.01)	-	0.01
Net income	$ 0.51	$ 0.54	$ 1.44	$ 0.85
Diluted net income per share:				
Income from continuing operations	$ 0.51	$ 0.55	$ 1.43	$ 0.83
Income (loss) from discontinued operations, net	-	(0.01)	-	0.01
Net income	$ 0.51	$ 0.54	$ 1.43	$ 0.84