ROGERS CORP
Form 10-Q
May 04, 2007

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 April 1, 2007

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, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer __X_ Accelerated Filer ____ Non-accelerated filer ____

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 April 27, 2007 was 17,670,722.

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FORM 10-Q
April 1, 2007

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Exhibits:

Exhibit 10r-8	Amendment No. 8 to Summary of Director and Executive Officer Compensation
Exhibit 10aac	Form of Nonqualified Stock Option Agreement (for Key Employees, with vesting) under the Rogers Corporation 1990 Stock Option Plan, as amended
Exhibit 23.1	Consent of National Economic Research Associates, Inc.
Exhibit 23.2	Consent of Marsh, U.S.A.
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	
	April 1, 2007	**April 2, 2006**
Net sales	**$ 115,846**	$ 103,131
Cost of sales	**80,648**	66,844
Gross margin	**35,198**	36,287
Selling and administrative expenses	**19,291**	17,385
Research and development expenses	**5,688**	5,961
Operating income	**10,219**	12,941
Equity income in unconsolidated joint ventures	**1,268**	2,889
Other income (expense), net	**587**	(17)
Interest income, net	**425**	350
Income before income taxes	**12,499**	16,163
Income tax expense	**2,988**	3,556
Net income	**$ 9,511**	$ 12,607
Net income per share:		
Basic	**$ 0.56**	$ 0.76
Diluted	**0.54**	0.74
Shares used in computing:		
Basic	**16,834,431**	16,486,068
Diluted	**17,646,551**	16,928,026

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

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

	April 1, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ **23,078**	$ 13,638
Short-term investments	**37,730**	68,185
Accounts receivable, less allowance for doubtful accounts of $1,968 and $2,024	**85,216**	86,311
Accounts receivable from joint ventures	**4,669**	5,437
Accounts receivable, other	**2,129**	3,552
Note receivable	**2,100**	2,100
Inventories	**71,508**	70,242
Deferred income taxes	**17,075**	15,430
Asbestos-related insurance receivables	**4,244**	4,244
Other assets	**6,221**	3,415
Total current assets	**253,970**	272,554
Property, plant and equipment, net of accumulated depreciation of $143,399 and $141,490	**143,207**	141,728
Investments in unconsolidated joint ventures	**26,174**	26,629
Deferred income taxes	**6,690**	4,828
Pension asset	**974**	974
Goodwill	**10,656**	10,656
Other intangible assets	**339**	454
Asbestos-related insurance receivables	**18,503**	18,503
Other assets	**4,522**	4,576
Total assets	$ **465,035**	$ 480,902
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ **17,791**	$ 25,715
Accrued employee benefits and compensation	**14,633**	27,322
Accrued income taxes payable	**17,794**	9,970
Asbestos-related liabilities	**4,244**	4,244
Other accrued liabilities	**16,942**	14,892
Total current liabilities	**71,404**	82,143
Pension liability	**11,698**	11,698
Retiree health care and life insurance benefits	**10,021**	10,021
Asbestos-related liabilities	**18,694**	18,694
Other liabilities	**997**	1,169
Shareholders' Equity		
	16,686	16,938

Capital Stock - $1 par value; 50,000,000 authorized shares; 16,685,568 and 16,937,523 shares issued and outstanding				
Additional paid-in capital		**49,484**		59,352
Retained earnings		**284,170**		277,442
Accumulated other comprehensive income		**1,881**		3,445
Total shareholders' equity		**352,221**		357,177
Total liabilities and shareholders' equity	**$**	**465,035**	$	480,902

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

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

		April 1, 2007		April 2, 2006
Operating Activities				
Net income	$	**9,511**	$	12,607
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization		**5,352**		5,347
Stock-based compensation expense		**2,635**		516
Excess tax benefit related to stock award plans		**(170)**		(2,109)
Deferred income taxes		**(3,507)**		1,956
Equity in undistributed income of unconsolidated joint ventures, net		**(1,268)**		(2,889)
Dividends received from unconsolidated joint ventures		**1,138**		784
Pension and postretirement benefits		**-**		(1,780)
Other, net		**(307)**		501
Changes in operating assets and liabilities excluding effects of acquisition and disposition of businesses:				
Accounts receivable		**3,452**		(6,859)
Inventories		**(1,020)**		(8,428)
Other current assets		**(2,797)**		(388)
Accounts payable and other accrued liabilities		**(13,612)**		8,683
Net cash (used in) provided by operating activities		**(593)**		7,941
Investing Activities				
Capital expenditures		**(7,719)**		(2,367)
Proceeds (Purchase) from short-term investments		**30,473**		(7,161)
Net cash provided by (used in) investing activities		**22,754**		(9,528)
Financing Activities				
Proceeds from sale of capital stock, net		**621**		10,150
Excess tax benefit related to stock award plans		**170**		2,109
Proceeds from issuance of shares to employee stock purchase plan		**381**		473
Purchase of stock		**(13,937)**		-
Net cash (used in) provided by financing activities		**(12,765)**		12,732
Effect of exchange rate fluctuations on cash		**44**		368
Net increase in cash and cash equivalents		**9,440**		11,513
Cash and cash equivalents at beginning of year		**13,638**		46,401
Cash and cash equivalents at end of quarter	$	**23,078**	$	57,914
Supplemental disclosure of noncash investing activities				

Contribution of shares to fund employee stock purchase plan	**$**	**492**	$	467

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

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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 and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 the opinion of management, the accompanying balance sheets and related interim statements of income and cash flows include all adjustments, consisting only of normal recurring items, 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 Rogers Corporation's (the Company) accounting policies, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2006.

The Company uses a 52- or 53-week fiscal calendar ending on the Sunday closest to the last day in December of each year. Fiscal 2007 is a 52-week year ending on December 30, 2007.

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

Note 2 - Inventories

Inventories were as follows:

(Dollars in thousands)	**April 1, 2007**	December 31, 2006
Raw materials	**$ 15,544**	$ 16,170
Work-in-process	**10,781**	8,201
Finished goods	**45,183**	45,871
	$ 71,508	$ 70,242

Note 3 - Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income for the periods ended April 1, 2007 and April 2, 2006 was as follows:

(Dollars in thousands)	**April 1, 2007**	April 2, 2006
Net income	**$ 9,511**	$ 12,607
Foreign currency translation adjustments	**(1,564)**	2,608
Comprehensive income	**$ 7,947**	$ 15,215

The components of accumulated other comprehensive income at April 1, 2007 and December 31, 2006 were as follows:

(Dollars in thousands)		**April 1, 2007**		December 31, 2006
Foreign currency translation adjustments	**$**	**11,758**	$	13,322
Funded status of pension plans and other postretirement benefits		**(9,877)**		(9,877)
Accumulated other comprehensive income	**$**	**1,881**	$	3,445

Note 4 - 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:

(Dollars in thousands, except per share amounts)	**Three Months Ended**	
	April 1, 2007	April 2, 2006
Numerator:		
Net Income	**$ 9,511**	$ 12,607
Denominator:		
Denominator for basic earnings per share - Weighted-average shares	**16,834,431**	16,486,068
Effect of dilutive stock options	**812,120**	441,958
Denominator for diluted earnings per share - Adjusted weighted—average shares and assumed conversions	**17,646,551**	16,928,026
Basic earnings per share	**$ 0.56**	$ 0.76
Diluted earnings per share	**$ 0.54**	$ 0.74

Note 5 - Stock-Based Compensation

On January 2, 2006 (the first day of the 2006 fiscal year), the Company 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 SFAS 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

The Company currently grants stock options under various equity compensation plans. While the Company may grant to employees options that become exercisable at different times or within different periods, the Company has generally granted to employees options that vest and become exercisable in 1/3rd increments on the 2nd, 3rd and 4th anniversary of the grant dates. The maximum contractual term for all options is ten years.

The Company uses the Black-Scholes option-pricing model to calculate the grant-date fair value of an option. The fair value of options granted during the first quarter of 2007 and the first quarter of 2006 were calculated using the following weighted average assumptions:

	Three months ended	
	April 1, 2007	April 2, 2006

Options granted	**207,150**	145,250
Weighted average exercise price	**52.61**	48.00
Weighted-average grant date fair value	**25.04**	19.00
Assumptions:		
Expected volatility	**36.62**	29.82
Expected term (in years)	**7.00**	6.25
Risk-free interest rate	**4.72%**	4.60%
Expected dividend yield	**--**	--

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Expected volatility - The Company is responsible for estimating volatility and has considered historical volatility, implied volatility, and other factors, when estimating volatility.

Expected term - The Company uses historical employee exercise data to estimate the expected term assumption for the Black-Scholes valuation.

Risk-free interest rate - The Company uses 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 - The Company does not issue dividends on its common stock; therefore, a dividend yield of 0% was used in the Black-Scholes model.

The Company recognizes 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. The Company currently expects, based on an analysis of its 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.

The Company’s employee stock option agreements contain a retirement provision which results in the vesting of any unvested options immediately upon retirement. This provision effects the timing of option expense recognition for optionees meeting the criteria for retirement. In accordance with SFAS 123R, the Company recognizes compensation expense over the period from the date of grant to the date retirement eligibility is met if it is shorter than the required service period.

A summary of the activity under the Company’s stock option plans as of April 1, 2007 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 December 31, 2006	2,118,631	$ 37.94		
Options granted	207,150	52.61		
Options exercised	(25,499)	24.98		
Options cancelled	(9,890)	43.01		
Options outstanding at April 1, 2007	2,290,392	39.38	6.7	$ 19,570,226
Options exercisable at April 1, 2007	1,897,369	37.17	6.2	19,359,293
Options vested or expected to vest at April 1, 2007 (1)	2,273,815	$ 39.35	6.7	$ 19,485,262

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

During the three months ended April 1, 2007, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the individual to exercise the options) was $0.4 million and the total amount of cash received from the exercise of these options was $0.6 million.

Restricted Stock

In 2006, the Company started granting restricted stock to certain key executives. This restricted stock program is a performance based plan that awards shares of common stock of the Company at the end of a three-year measurement period. Awards associated with this program cliff vest at the end of the three-year period and eligible participants can be awarded shares ranging from 0% to 200% of the original award amount, based on defined performance measures associated with earnings per share.

The Company will recognize compensation expense on these awards ratably over the vesting period. The fair value of the award will be determined based on the market value of the underlying stock price at the grant date. The amount of compensation expense recognized over the vesting period will be based on the Company’s projections of the performance of earnings per share over the requisite service period and, ultimately, how that performance compares to the defined performance measure. If, at any point during the vesting period, the Company concludes that the ultimate result of this measure will change from that originally projected, the Company will adjust the compensation expense accordingly and recognize the difference ratably over the remaining vesting period. The Company granted restricted stock awards for 22,700 and 23,900 shares in the first quarter of 2007 and the first quarter of 2006, respectively, and recognized $0.3 million and $0.1 million of compensation expense related to these awards in the first quarter of 2007 and the first quarter of 2006, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (ESPP) that allows eligible employees to purchase, through payroll deductions, shares of the Company's common stock at 85% of the fair market value at the end of the respective offering period. The Company offers two six-month offering periods per year, the first beginning in January and ending in June and the second beginning in July and ending in December. The ESPP contains a look-back feature that allows the employee to acquire stock at the underlying market price at the beginning or end of the respective period, whichever is lower, at a 15% discount from the market price. Under SFAS 123R, the Company recognizes compensation expense on this plan ratably over the offering period based on the fair value of the anticipated number of shares that will be issued at the end of each respective period. Compensation expense is adjusted at the end of each offering period for the actual number of shares issued. Fair value is determined based on two factors: (i) the 15% discount amount on the underlying stock's market value on the first day of the respective plan period, and (ii) the fair value of the look-back feature determined by using the Black-Scholes model. In the first quarter of 2007, the Company recognized approximately $0.1 million of compensation expense associated with the plan.

Note 6 - Pension Benefit and Other Postretirement Benefit Plans

Components of Net Periodic Benefit Cost

The components of net periodic benefit cost for the periods indicated are:

(Dollars in thousands)	Pension Benefits		Retirement Health and Life Insurance Benefits	
	April 1, 2007	April 2, 2006	**April 1, 2007**	April 2, 2006
Change in benefit obligation:				
Service cost	**$ 1,153**	$ 1,185	**$ 207**	$ 188
Interest cost	**1,794**	1,710	**149**	143
Expected return on plan assets	**(2,490)**	(2,137)	**-**	-
Amortization of prior service cost	**121**	115	**-**	-
Amortization of net loss	**79**	169	**25**	44
Net periodic benefit cost	**$ 657**	$ 1,042	**$ 381**	$ 375

Employer Contributions

The Company did not make any voluntary contribution to its qualified defined benefit pension plans in the first quarter of 2007, compared to a $1.8 million voluntary contribution to its qualified defined benefit pension plans in the first quarter of 2006. The Company made approximately $0.2 million in contributions (benefit payments) to its non-qualified defined benefit plans during the first quarter of 2007 and 2006.

Note 7 - Equity

Common Stock Repurchase

From time to time, the Company's Board of Directors authorizes the repurchase, at management's discretion, of shares of the Company's common stock. On February 15, 2007, the Board of Directors approved a buyback program, under which the Company is authorized to repurchase up to an aggregate of $50 million in market value of common stock over a twelve-month period. This repurchase plan is scheduled to expire on February 14, 2008. Under the current buyback program the Company repurchased 287,000 shares of common stock for $13.9 million in the first quarter of 2007. There were no repurchases made in the first quarter of 2006 under the Company's prior buyback program.

Note 8 - Segment Information

The following table sets forth the information about the Company's operating segments in conformity with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" for the three-month periods ended April 1, 2007 and April 2, 2006:

(Dollars in thousands)	**Three Months Ended**	
	April 1, 2007	April 2, 2006 (1)
Custom Electrical Components		
Net sales	**$ 39,264**	$ 28,785
Operating income	**3,136**	1,048
Printed Circuit Materials		
Net sales	**$ 39,025**	$ 36,346
Operating income	**3,241**	3,795
High Performance Foams		
Net sales	**$ 26,001**	$ 25,468
Operating income	**3,968**	6,109
Other Polymer Products		
Net sales	**$ 11,556**	$ 12,532
Operating (loss) income	**(126)**	1,989

(1) 2006 amounts have been adjusted for changes in the corporate expense allocation methodology to make them comparable to the current year.

Inter-segment sales have been eliminated from the sales data in the previous table.

Note 9 - Joint Ventures

As of April 1, 2007, the Company had four joint ventures, each 50% owned, which are accounted for under the equity method of accounting.

Joint Venture	**Location**	**Reportable Segment**	**Fiscal Year-End**
Rogers Inoac Corporation (RIC)	Japan	High Performance Foams	October 31
Rogers Inoac Suzhou Corporation (RIS)	China	High Performance Foams	December 31
Rogers Chang Chun Technology Co., Ltd. (RCCT)	Taiwan	Printed Circuit Materials	December 31
Polyimide Laminate Systems, LLC (PLS)	U.S.	Printed Circuit Materials	December 31

Equity income of $1.3 million and $2.9 million for the three-month periods ended April 1, 2007 and April 2, 2006, respectively, is included in the condensed consolidated statements of income. In addition, the Company had commission income from PLS of $0.4 million and $0.3 million for the three-month periods ended April 1, 2007 and April 2, 2006, respectively, which is included in other income, net on the condensed consolidated statements of income.

The summarized financial information for these joint ventures for the three-month periods ended April 1, 2007 and April 2, 2006 is as follows:

(Dollars in thousands)	**April 1, 2007**	April 2, 2006
Net sales	**$ 22,104**	$ 30,088
Gross profit	**4,063**	9,998
Net income	**2,536**	5,778

The effect of transactions between the Company and its unconsolidated joint ventures were immaterial to the Company’s financial statements in all periods presented above.

Note 10 - Commitments and Contingencies

The Company is currently engaged in the following environmental and legal proceedings:

Environmental Remediation in Manchester, Connecticut

In the fourth quarter of 2002, the Company sold its Moldable Composites Division located in Manchester, Connecticut to Vyncolit North America, Inc., at the time a subsidiary of the Perstorp Group, located in Sweden. Subsequent to the divestiture, certain environmental matters were discovered at the Manchester location and Rogers determined that under the terms of the arrangement, the Company would be responsible for estimated remediation costs of approximately $0.5 million and recorded this reserve in 2002 in accordance with SFAS No. 5, *Accounting for Contingencies* (SFAS 5). The Connecticut Department of Environmental Protection (CT DEP) accepted the Company's Remedial Action Plan in February 2005. The Company completed its remediation activities in December 2005 and started post-remediation groundwater monitoring in 2006. The cost of the remediation approximated the reserve originally recorded in 2002. The Company has completed three quarters of groundwater monitoring with favorable results. After four rounds of quarterly groundwater monitoring, the Company plans to file a request for a waiver with the CT DEP if the groundwater monitoring confirms that soil remediation was successful. The cost of monitoring, which is not expected to be material, is treated as period expenses as incurred.

Superfund Sites

The Company is currently involved as a potentially responsible party (PRP) in four active cases involving waste disposal sites. In certain cases, these proceedings are at a stage where it is still not possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities, and the amount of liability, if any, of the Company alone or in relation to that of any other PRPs. However, the costs incurred since inception for these claims have been immaterial and have been primarily covered by insurance policies, for both legal and remediation costs. In one particular case, the Company has been assessed a cost sharing percentage of 1.99% in relation to the range for estimated total cleanup costs of $17 million to $24 million. The Company believes it has sufficient insurance coverage to fully cover this liability and has recorded a liability and related insurance receivable of approximately $0.5 million, which approximates its share of the low end of the range.

In all its superfund cases, the Company believes it is a de minimis participant and has only been allocated an insignificant percentage of the total PRP cost sharing responsibility. Based on facts presently known to it, the Company believes that the potential for the final results of these cases having a material adverse effect on its results of operations, financial position or cash flows is remote. These cases have been ongoing for many years and the Company believes that they will continue on for the indefinite future. No time frame for completion can be estimated at the present time.

PCB Contamination

The Company has been working with the CT DEP and the United States Environmental Protection Agency (EPA) Region I in connection with certain polychlorinated biphenyl (PCB) contamination in the soil beneath a section of cement flooring at its Woodstock, Connecticut facility. The Company completed clean-up efforts in 2000 in accordance with a previously agreed upon remediation plan. The Groundwater Remedial Action Plan was prepared to address residual PCB's that are present in the shallow groundwater. The extent of the PCB plume has been defined. The Company recently proposed a Monitored Natural Attenuation (MNA) remedy to the CT DEP and the EPA, as the current well network appears to be sufficient to monitor natural attenuation and the stability of the plume. The Company will continue to monitor the site and report the results of its monitoring to the CT DEP and the EPA. Since inception, the Company has spent approximately $2.5 million in remediation and monitoring costs related to the site.

The Company cannot estimate the range of future remediation costs based on facts and circumstances known to it at the present time. The Company believes that this situation will continue for several more years and no time frame for completion can be estimated at the present time.

Asbestos Litigation

Over the past several years, there has been a significant increase in certain U.S. states in asbestos-related product liability claims brought against numerous industrial companies where the third-party plaintiffs allege personal injury from exposure to asbestos-containing products. The Company has been named, along with hundreds of other companies, as a defendant in some of these claims. In virtually all of these claims filed against the Company, the plaintiffs are seeking unspecified damages, or, if an amount is specified, it merely represents jurisdictional amounts or amounts to be proven at trial. Even in those situations where specific damages are alleged, the claims frequently seek the same amount of damages, irrespective of the disease or injury. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or even thousands of claimants. As a result, even when specific damages are alleged with respect to a specific disease or injury, those damages are not expressly identified as to the Company.

The Company did not mine, mill, manufacture or market asbestos; rather, the Company made some limited products, which contained encapsulated asbestos. Such products were provided to industrial users. The Company stopped manufacturing these products in 1987.

· Claims

The Company has been named in asbestos litigation primarily in Illinois, Pennsylvania and Mississippi. As of April 1, 2007, there were approximately 158 pending claims compared to 148 pending claims at December 31, 2006. The number of open claims during a particular time can fluctuate significantly from period to period depending on how successful the Company has been in getting these cases dismissed or settled. In addition, most of these lawsuits do not include specific dollar claims for damages, and many include a number of plaintiffs and multiple defendants. Therefore, the Company cannot provide any meaningful disclosure about the total amount of the damages sought.

The rate at which plaintiffs filed asbestos-related suits against the Company increased in 2001, 2002, 2003 and 2004 because of increased activity on the part of plaintiffs to identify those companies that sold asbestos containing products, but which did not directly mine, mill or market asbestos. A significant increase in the volume of asbestos-related bodily injury cases arose in Mississippi in 2002. This increase in the volume of claims in Mississippi was apparently due to the passage of tort reform legislation (applicable to asbestos-related injuries), which became effective on September 1, 2003 and which resulted in a higher than average number of claims being filed in Mississippi by plaintiffs seeking to ensure their claims would be governed by the law in effect prior to the passage of tort reform. The number of asbestos-related suits filed against the Company declined in 2005 and then again in 2006. It is too early in 2007 to determine if the rate of such filings against the Company will continue to decline.

· Defenses

In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of exposure to the Company’s asbestos-containing products. Management continues to believe that a majority of the claimants in pending cases will not be able to demonstrate exposure or loss. This belief is based in large part on two factors: the limited number of asbestos-related products manufactured and sold by the Company and the fact that the asbestos was encapsulated in such products. In addition, even at sites where the presence of an alleged injured party can be verified during the same period those products were used, liability of the Company cannot be presumed because even if an individual contracted an asbestos-related disease, not everyone who was employed at a site was exposed to the Company’s asbestos-containing products. Based on these and other factors, the Company has and will continue to vigorously defend itself in asbestos-related matters.

· Dismissals and Settlements

Cases involving the Company typically name 50-300 defendants, although some cases have had as few as one and as many as 833 defendants. The Company has obtained dismissals of many of these claims. In the first quarter of 2007, the Company was able to have approximately 9 claims dismissed and settled 3 claims. For the full year 2006, approximately 77 claims were dismissed and 16 were settled. The majority of costs have been paid by the Company’s insurance carriers, including the costs associated with the small number of cases that have been settled. Such settlements totaled approximately $0.3 million in the first quarter of 2007 and $5.1 million in all of 2006. Although these figures provide some insight into the Company’s experience with asbestos litigation, no guarantee can be made as to the dismissal and settlement rate the Company will experience in the future.

Settlements are made without any admission of liability. Settlement amounts may vary depending upon a number of factors, including the jurisdiction where the action was brought, the nature and extent of the disease alleged and the associated medical evidence, the age and occupation of the claimant, the existence or absence of other possible causes of the alleged illness of the alleged injured party and the availability of legal defenses, as well as whether the action is brought alone or as part of a group of claimants. To date, the Company has been successful in obtaining dismissals for many of the claims and has settled only a limited number. The majority of settled claims were settled for immaterial amounts, and the majority of such costs have been paid by the Company's insurance carriers. In addition, to date, the Company has not been required to pay any punitive damage awards.

· Potential Liability

In late 2004, the Company determined that it was reasonably prudent, based on facts and circumstances known to it at that time, to have a formal analysis performed to determine its potential future liability and related insurance coverage for asbestos-related matters. This determination was made based on several factors, including the growing number of asbestos-related claims at the time and the related settlement history. As a result, National Economic Research Associates, Inc. (NERA), a consulting firm with expertise in the field of evaluating mass tort litigation asbestos bodily-injury claims, was engaged to assist the Company in projecting the Company's future asbestos-related liabilities and defense costs with regard to pending claims and future unasserted claims. Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict, including the number of claims that might be received, the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the financial resources of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case and the impact of potential changes in legislative or judicial standards, including potential tort reform. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, the Company's limited claims history and consultations with NERA, the Company believes that five years is the most reasonable period for recognizing a reserve for future costs, and that costs that might be incurred after that period are not reasonably estimable at this time. As a result, the Company also believes that its ultimate net asbestos-related contingent liability (i.e., its indemnity or other claim disposition costs plus related legal fees) cannot be estimated with certainty.

· Insurance Coverage

The Company's applicable insurance policies generally provide coverage for asbestos liability costs, including coverage for both resolution and defense costs. Following the initiation of asbestos litigation, an effort was made to identify all of the Company's primary and excess insurance carriers that provided applicable coverage beginning in the 1950s through the mid-1980s. There appear to be three such primary carriers, all of which were put on notice of the litigation. In late 2004, Marsh Risk Consulting (Marsh), a consulting firm with expertise in the field of evaluating insurance coverage and the likelihood of recovery for asbestos-related claims, was engaged to work with the Company to project the insurance coverage of the Company for asbestos-related claims. Marsh's conclusions were based primarily on a review of the Company's coverage history, application of reasonable assumptions on the allocation of coverage consistent with industry standards, an assessment of the creditworthiness of the insurance carriers, analysis of applicable deductibles, retentions and policy limits, the experience of NERA and a review of NERA's reports.

· Cost Sharing Agreement

To date, the Company's primary insurance carriers have provided for substantially all of the settlement and defense costs associated with its asbestos-related claims. However, as claims continued, the Company and its primary insurance carriers determined that it would be appropriate to enter into a cost sharing agreement to clearly define the cost sharing relationship among such carriers and the Company. A definitive cost sharing agreement was finalized on September 28, 2006. Under the definitive agreement, the primary insurance carriers will continue to pay essentially all resolution and defense costs associated with these claims until the coverage is exhausted.

· Impact on Financial Statements

Given the inherent uncertainty in making future projections, the Company has had the projections of current and future asbestos claims periodically re-examined, and the Company will have them updated if needed based on the Company's experience, changes in the underlying assumptions that formed the basis for NERA's and Marsh's models and other relevant factors, such as changes in the tort system and the Company's success in resolving claims against the Company. Based on the assumptions employed by and the report prepared by NERA and other variables, in the fourth quarter of 2004 the Company recorded a reserve for its estimated bodily injury liabilities for asbestos-related matters, including projected indemnity and legal costs, for the five-year period through 2009 in the undiscounted amount of $36.2 million. Likewise, based on the analysis prepared by Marsh, the Company recorded a receivable for its estimated insurance recovery of $36.0 million. This resulted in the Company recording a pre-tax charge to earnings of approximately $0.2 million in 2004. NERA and Marsh updated their respective analyses at year-end 2006 and the Company adjusted its estimated liability and estimated insurance recovery, for the five-year period ended 2011, to $22.9 million and $22.7 million, respectively, resulting in a cumulative pre-tax charge to earnings of approximately $0.2 million. These amounts are currently reflected in the Company's financial statements at April 1, 2007 as no material changes occurred during the quarter that would cause the Company to believe that an additional update to the analysis was required. The Company plans to have the analysis reviewed again at the end of 2007.

The amounts recorded by the Company for the asbestos-related liability and the related insurance receivables described above were based on currently known facts and a number of assumptions. However, projecting future events, such as the number of new claims to be filed each year, the average cost of disposing of such claims, coverage issues among insurers and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual liability and insurance recoveries for the Company to be higher or lower than those projected or recorded.

There can be no assurance that the Company's accrued asbestos liabilities will approximate its actual asbestos-related settlement and defense costs, or that its accrued insurance recoveries will be realized. The Company believes that it is reasonably possible that it will incur additional charges for its asbestos liabilities and defense costs in the future, which could exceed existing reserves, but such excess amount cannot be estimated at this time. The Company will continue to vigorously defend itself and believes it has substantial unutilized insurance coverage to mitigate future costs related to this matter.

Other Environmental and Legal Matters

In 2004, the Company became aware of a potential environmental matter at its facility in Korea involving possible soil contamination. The initial assessment on the site has been completed and has confirmed that there is contamination. The Company believes that such contamination is historical and occurred prior to its occupation of the facility. Based on this information, the Company believes it is under no current obligation to remediate the site, but will continue to monitor the issue.

The Company is also aware of a potential environmental matter involving soil contamination at one of its European facilities. The Company believes that the contamination is a historical issue attributed to the former owner of the site. The Company recently completed a Descriptive Soil Investigation (DSI) at the site, and the contamination appears to be localized in the area of the former underground storage tanks. The Company is in the process of preparing a Remedial Action Plan for submittal to the OVAM, the applicable Belgian regulatory agency. As of April 1, 2007, the Company has recorded a reserve of $0.4 million, which approximates the low end of the potential loss.

In 2005, the Company began to market its manufacturing facility in South Windham, Connecticut to find potential interested buyers. This facility was formerly the location of the manufacturing operations of the Company’s elastomer component and float businesses prior to the relocation of these businesses to Suzhou, China in the fall of 2004. As part of its due diligence in preparing the site for sale, the Company determined that there were several environmental issues at the site and, although under no legal obligation to voluntarily remediate the site, the Company believed that remediation procedures would have to be performed in order to successfully sell the property. Therefore, the Company obtained an independent third-party assessment on the site, which determined that the potential remediation cost range would be approximately $0.4 million to $1.0 million. In accordance with SFAS 5, the Company determined that the potential remediation would most likely approximate the mid-point of this range and recorded a $0.7 million charge in the fourth quarter of 2005, which remains recorded at April 1, 2007.

In the second quarter of 2006, a former customer of the Company’s polyolefin foam business filed suit against the Company for a multitude of alleged improprieties, including breach of contract, although the Company has not been formally served in this lawsuit. The Company has entered into settlement discussions with this former customer in lieu of legal proceedings and as of April 1, 2007, it estimates that the low end of the potential settlement range approximates $1.9 million, which has been accrued. Should settlement negotiations fail, the Company intends to defend itself vigorously in this matter.

In addition to the above issues, the nature and scope of the Company's business bring it in regular contact with the general public and a variety of businesses and government agencies. Such activities inherently subject the Company to the possibility of litigation, including environmental and product liability matters that are defended and handled in the ordinary course of business. The Company has established accruals for matters for which management considers a loss to be probable and reasonably estimable. It is the opinion of management that facts known at the present time do not indicate that such litigation, after taking into account insurance coverage and the aforementioned accruals, will have a material adverse impact on the results of operations, financial position, or cash flows of the Company.

Note 11 - Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109* (FIN 48). FIN 48 is effective for accounting periods commencing after December 15, 2006 and the Company has adopted the new standard as of January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Upon adoption, the Company recognized an increase of $2.7 million in the liability for unrecognized tax benefits, which was recorded through a decrease in retained earnings. As of January 1, 2007, the date of adoption, the Company's unrecognized tax benefits totaled $13.2 million. If recognized, the total $13.2 million would have a favorable impact on the Company's effective tax rate. As of April 1, 2007, the Company's unrecognized tax benefits totaled $13.6 million.

The Company's consistently applied accounting policy has been to account for interest expense and penalties related to income tax issues as income tax expense. As of April 1, 2007, the Company has approximately $0.9 million of accrued interest related to uncertain tax positions included in the $13.6 million of unrecognized tax benefits.

The Company is subject to numerous tax filings including U.S. Federal, various state and foreign jurisdictions. Currently, the following tax years remain open to audit, by jurisdiction: U.S. Federal 2004 - 2006, various states 2003 - 2006, and foreign 2004 - 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Rogers Corporation is a global enterprise that provides its customers with innovative solutions and industry leading products in a variety of markets that include portable communications, communication infrastructure, consumer products, computer and office equipment, ground transportation, and aerospace and defense. The Company generates revenues and cash flows through the development, manufacture, and distribution of specialty material-based products that are sold to multiple customers, primarily original equipment manufacturers (OEM's) and contract manufacturers that, in turn, produce component products that are sold to end-customers for use in various applications. As such, Rogers' business is highly dependent, although indirectly, on market demand for these end-user products. The Company's ability to forecast future sales growth is largely dependent on management's ability to anticipate changing market conditions and how the Company's customers will react to these changing conditions; it is also highly limited due to the short lead times demanded by the Company's customers and the dynamics of serving as a relatively small supplier in the overall supply chain for these end-user products. In addition, the Company's sales represent a number of different products across a wide range of price points and distribution channels that do not always allow for meaningful quantitative analysis of changes in demand or price per unit with respect to the effect on net sales.

The Company's current focus is on worldwide markets that have an increasing percentage of materials being used to support growing high technology applications, such as cellular base stations and antennas, handheld wireless devices, satellite television receivers, hard disk drives and automotive electronics. The Company continues to focus on business opportunities around the globe and particularly in the Asian marketplace, as evidenced by the continued investment in and expansion of its manufacturing facilities in Suzhou, China, which functions as the Company's manufacturing base to serve its customers in Asia. Rogers' goal is to become the supplier of choice for its customers in all of the various markets in which the Company participates. To achieve this goal, the Company strives to make the best products in these respective markets and to deliver the highest level of service to its customers.

First quarter 2007 sales were $115.8 million, an increase of over 12% from the first quarter of 2006. This increase in sales was primarily driven by higher sales in the Custom Electrical Components segment, which experienced a sales increase of 36% from sales in the first quarter of 2006. Operating income decreased 21% to $10.2 million in the first quarter of 2007, down from $12.9 million in the first quarter of 2006. Earnings per diluted share for the quarter was $0.54 as compared to $0.74 for the comparable quarter in 2006. These decreases are primarily related to lower manufacturing margins in the Printed Circuit Materials and High Performance Foams segments related to a negative shift in sales mix and decreased operating leverage, as well as the previously disclosed planned slow-down of the polyolefin foams business, which experienced a 67% decrease in sales in the first quarter of 2007 as compared to the first quarter of 2006. The Company's joint ventures contributed approximately $1.6 million less in the first quarter of 2007 than in the first quarter of 2006, which also contributed to the decrease in earnings per diluted share. These items are discussed in more detail in the "Segment Sales and Operations" and "Equity Income in Unconsolidated Joint Ventures" sections below. In the near term, the Company expects some softening in both sales and profit levels as compared to the record levels achieved in 2006, particularly related to accelerated program terminations and price declines at some of our largest customers in the portable communications market.

Results of Operations

The following table sets forth, for the periods indicated, selected Company operations data expressed as a percentage of net sales.

	Three Months Ended	
	April 1,	April 2,

	2007	2006
Net sales	**100.0%**	100.0%
Manufacturing margins	**30.4**	35.2
Selling and administrative expenses	**16.7**	16.9
Research and development expenses	**4.9**	5.8
Operating profit	**8.8**	12.5
Equity income in unconsolidated joint ventures	**1.1**	2.8
Other income	**0.9**	0.3
Income before income taxes	**10.8**	15.7
Income taxes	**2.6**	3.4
Net income	**8.2%**	12.2%