

ROGERS CORP
Form 10-Q
August 09, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

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 06263-0188

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (860) 774-9605

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of July 20, 2016 was 18,041,151.

ROGERS CORPORATION
FORM 10-Q

June 30, 2016

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Forward Looking Statements

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

Part I – Financial Information

Item 1. Financial Statements

ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars and shares in thousands, except per share amounts)

	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$ 157,489	\$ 163,098	\$ 318,056	\$ 328,149
Cost of sales	97,290	102,437	197,349	205,063
Gross margin	60,199	60,661	120,707	123,086
Selling, general and administrative expenses	34,369	33,026	64,229	69,173
Research and development expenses	7,074	7,053	13,622	13,161
Operating income	18,756	20,582	42,856	40,752
Equity income in unconsolidated joint ventures	708	392	1,321	1,311
Other income (expense), net	191	(517)	(356)	(646)
Interest expense, net	(1,115)	(1,304)	(2,236)	(2,310)
Income before income tax expense	18,540	19,153	41,585	39,107
Income tax expense	13,163	5,599	21,280	11,910
Net income	\$ 5,377	\$ 13,554	\$ 20,305	\$ 27,197
Basic earnings per share	\$ 0.30	\$ 0.73	\$ 1.13	\$ 1.47
Diluted earnings per share	\$ 0.29	\$ 0.71	\$ 1.11	\$ 1.43
Shares used in computing:				
Basic earnings per share	18,007	18,627	17,986	18,551
Diluted earnings per share	18,253	19,056	18,234	19,003

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

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ROGERS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)
 (Dollars in thousands)

	Quarter Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Net income	\$5,377	\$13,554	\$20,305	\$27,197
Foreign currency translation adjustment	(5,729)	8,731	5,197	(19,250)
Derivative instruments designated as cash flow hedges:				
Unrealized gain (loss) on derivative instruments held at period end, net of tax (Note 6)	—	(160)	—	(160)
Unrealized gain (loss) reclassified into earnings (Note 6)	5	(124)	11	94
Pension and postretirement benefit plans reclassified into earnings, net of tax (Note 6):				
Amortization of loss	36	262	71	531
Other comprehensive income (loss)	(5,688)	8,709	5,279	(18,785)
Comprehensive income (loss)	\$(311)	\$22,263	\$25,584	\$8,412

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

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

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$247,397	\$ 204,586
Accounts receivable, less allowance for doubtful accounts of \$771 and \$695	109,310	101,428
Inventories	88,257	91,824
Prepaid income taxes	4,171	5,058
Deferred income taxes	—	9,565
Asbestos-related insurance receivables	8,245	8,245
Other current assets	10,718	7,959
Total current assets	468,098	428,665
Property, plant and equipment, net of accumulated depreciation of \$251,221 and \$237,150	174,808	178,661
Investments in unconsolidated joint ventures	16,653	15,348
Deferred income taxes	14,820	8,594
Goodwill	177,067	175,453
Other intangible assets	70,313	75,019
Asbestos-related insurance receivables	45,114	45,114
Other long-term assets	3,328	3,501
Total assets	\$970,201	\$ 930,355
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$26,751	\$ 22,251
Accrued employee benefits and compensation	25,063	23,263
Accrued income taxes payable	5,438	3,599
Current portion of long term debt	3,653	2,966
Asbestos-related liabilities	8,245	8,245
Other accrued liabilities	19,388	18,324
Total current liabilities	88,538	78,648
Long term debt	171,730	173,557
Long term lease obligation	5,510	5,549
Pension and post-retirement benefit obligations	14,808	14,808
Asbestos-related liabilities	48,390	48,390
Non-current income tax	9,849	11,863
Deferred income taxes	14,982	9,455
Other long-term liabilities	3,201	3,503
Commitments and Contingencies (Note 14)		
Shareholders' Equity		
Capital Stock - \$1 par value; 50,000 authorized shares; 18,027 and 17,957 shares outstanding	18,027	17,957
Additional paid-in capital	114,974	112,017
Retained earnings	563,371	543,066
Accumulated other comprehensive income (loss)	(83,179)	(88,458)

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Total shareholders' equity	613,193	584,582
Total liabilities and shareholders' equity	\$970,201	\$ 930,355

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

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ROGERS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars and shares in thousands)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Operating Activities:		
Net income	\$20,305	\$27,197
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	18,312	16,504
Stock-based compensation expense	5,740	5,025
Deferred income taxes	8,825	(332)
Equity in undistributed income of unconsolidated joint ventures	(1,321)	(1,311)
Dividends received from unconsolidated joint ventures	426	780
Pension and postretirement benefits	(1,404)	(589)
Loss (gain) from the sale of property, plant and equipment	15	(1)
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(8,693)	2,309
Inventories	616	(10,624)
Pension contribution	(138)	(6,500)
Other current assets	(2,056)	(2,580)
Accounts payable and other accrued expenses	12,585	(10,417)
Other, net	(1,908)	2,952
Net cash provided by operating activities	51,304	22,413
Investing Activities:		
Business acquisition, net of cash acquired	—	(155,778)
Capital expenditures	(9,992)	(14,274)
Proceeds from the sale of property, plant and equipment, net	—	1
Net cash used in investing activities	(9,992)	(170,051)
Financing Activities:		
Proceeds from long term borrowings	—	125,000
Repayment of debt principal and long term lease obligation	(1,516)	(5,131)
Repurchases of capital stock	(3,997)	—
Proceeds from the exercise of stock options, net	2,058	6,515
Issuance of restricted stock shares	(1,201)	(2,342)
Proceeds from issuance of shares to employee stock purchase plan	427	345
Net cash (used in) provided by financing activities	(4,229)	124,387
Effect of exchange rate fluctuations on cash	5,728	(4,362)
Net increase (decrease) in cash and cash equivalents	42,811	(27,613)
Cash and cash equivalents at beginning of period	204,586	237,375
Cash and cash equivalents at end of period	\$247,397	\$209,762

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

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

	Capital Stock/Capital Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2015	\$ 17,957	\$112,017	\$543,066	\$ (88,458)	\$ 584,582
Net income	—	—	20,305	—	20,305
Other comprehensive income (loss)	—	—	—	5,279	5,279
Stock options exercised	56	2,002	—	—	2,058
Stock issued to directors	20	(20)	—	—	—
Shares issued for employees stock purchase plan	12	415	—	—	427
Shares issued for restricted stock, net of cancellations for tax withholding	52	(1,253)	—	—	(1,201)
Shares repurchased	(70)	(3,927)	—	—	(3,997)
Stock-based compensation expense	—	5,740	—	—	5,740
Balance at June 30, 2016	\$ 18,027	\$114,974	\$563,371	\$ (83,179)	\$ 613,193

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

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ROGERS CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Note 1 – Basis of Presentation

As used herein, the terms “Company,” “Rogers,” “we,” “us,” “our” and similar terms mean Rogers Corporation and its subsidiaries, unless the context indicates otherwise.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, the accompanying condensed consolidated financial statements include all normal recurring adjustments necessary for their fair presentation in accordance with GAAP. All significant intercompany transactions have been eliminated.

Certain statement of financial position reclassifications have been made to prior period balances in order to conform to the current period's presentation.

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Note 2 – Fair Value Measurements

The accounting guidance for fair value measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

From time to time we enter into various instruments that require fair value measurement. Assets and liabilities measured on a recurring basis, categorized by the level of inputs used in the valuation, included:

(Dollars in thousands)	Carrying amount as of June 30, 2016	Level		
		1	2	3
Foreign currency contracts	\$ 908	\$ —	-\$908	\$ —
Copper derivative contracts	\$ 315	\$ —	-\$315	\$ —
Interest rate swap	\$ —	\$ —	-\$—	\$ —

(Dollars in thousands)	Carrying amount as of December 31, 2015	Level		
		1	2	3
Foreign currency contracts	\$ (78)	\$ —	-\$ (78)	\$ —
Copper derivative contracts	\$ 193	\$ —	-\$193	\$ —
Interest rate swap	\$ (18)	\$ —	-\$ (18)	\$ —

Note 3 – Hedging Transactions and Derivative Financial Instruments

We are exposed to certain risks related to our ongoing business operations. The primary risks being managed through the use of derivative instruments are foreign currency exchange rate risk and commodity pricing risk (primarily related to copper). We do not use derivative financial instruments for trading or speculative purposes. The valuation of derivative contracts used to manage each of these risks is described below:

Foreign Currency - The fair value of any foreign currency option derivative 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.

Commodity - The fair value of copper derivatives is computed using a combination of intrinsic and time value valuation models. The intrinsic valuation model reflects the difference between the strike price of the underlying copper derivative instrument and the current prevailing copper prices in an over-the-counter market at period end. The time value valuation model incorporates the constant changes in the price of the underlying copper derivative instrument, the time value of money, the underlying copper derivative instrument's strike price and the remaining time to the underlying copper derivative instrument's expiration date from the period end date. Overall, fair value is a function of five primary variables: price of the underlying instrument, time to expiration, strike price, interest rate, and volatility.

The guidance for the accounting and disclosure of derivatives and hedging transactions requires companies to recognize all of their derivative instruments as either assets or liabilities at fair value in the statements of financial position. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies for hedge accounting treatment as defined under the applicable accounting guidance. For derivative instruments that are designated and qualify for hedge accounting treatment (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss). This gain or loss is reclassified into earnings in the same line item of the condensed consolidated statements of operations 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 (i.e., the ineffective portion) if any, is recognized in the condensed consolidated statements of operations during the current period. As of June 30, 2016, we did not have any contracts that are designated and qualify for hedge accounting treatment. We had such contracts outstanding as of June 30, 2015, and for the six months ended June 30, 2015, there was no hedge ineffectiveness.

Foreign Currency

During the quarter ended June 30, 2016, we entered into Hungarian Forint, Chinese Yuan, Euro, Great Britain Pound, Japanese Yen, and Korean Won forward contracts. We entered into these foreign currency forward contracts to mitigate certain global balance sheet exposures. These contracts do not qualify for hedge accounting treatment; therefore mark-to-market adjustments are recorded in the other income (expense), net line item in our condensed consolidated statements of operations for these contracts.

As of June 30, 2016 the notional values of these foreign currency forward contracts were:

Notional Values of Foreign

Currency Derivatives

CNY/USD	¥1,189,444
USD/EUR	€43,177,841
USD/KRW	12,239,440,000
JPY/EUR	¥169,000,000
EUR/GBP	£39,000
JPY/USD	¥19,000,000
HUF/EUR	€811,955

Commodity

We currently have twenty-four outstanding contracts to hedge exposure related to the purchase of copper in our Power Electronics Solutions and Advanced Connectivity Solutions operations. These contracts are held with financial institutions and minimize the risk associated with a potential rise in copper prices. These contracts provide some coverage over the forecasted 2016 and 2017 monthly copper exposure and do not qualify for hedge accounting treatment; therefore, any mark-to-market adjustments required on these contracts are recorded in the other income (expense), net line item in our condensed consolidated statements of operations. The notional values of our copper contracts outstanding as of June 30, 2016 were:

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Notional Value of Copper Derivatives

July 2016 - September 2016	127 metric tons per month
October 2016 - December 2016	117 metric tons per month
January 2017 - March 2017	95 metric tons per month
April 2017 - June 2017	61 metric tons per month
July 2017 - September 2017	28 metric tons per month

Interest Rates

In July 2012, we entered into an interest rate swap to hedge the variable interest rate on our term loan debt. This swap expired as of June 30, 2016.

Effects on Statements of Operations and of Comprehensive Income (Loss):

(Dollars in thousands)			The Effect of Current Derivative Instruments on the Financial Statements for the period ended June 30, 2016		
			Fair Values of Derivative Instruments as of June 30, 2016		
			Other Assets (Liabilities)		
			Quarter Ended	Six Months Ended	
Foreign Exchange Contracts	Location				
Contracts not designated as hedging instruments	Other income (expense), net		\$943	\$908	\$ 908
Copper Derivatives					
Contracts not designated as hedging instruments	Other income (expense), net		\$(79)	\$(103)	\$ 315
Interest Rate Swap					
Contracts designated as hedging instruments	Other comprehensive income (loss)		\$—	\$—	\$ —

(Dollars in thousands)			The Effect of Current Derivative Instruments on the Financial Statements for the period ended June 30, 2015		
			Fair Values of Derivative Instruments as of June 30, 2015		
			Other Assets (Liabilities)		
			Quarter Ended	Six Months Ended	
Foreign Exchange Contracts	Location				
Contracts designated as hedging instruments	Other comprehensive income (loss)		\$(335)	\$(100)	\$ 274
Contracts not designated as hedging instruments	Other income (expense), net		\$(125)	\$(398)	\$(39)
Copper Derivatives					
Contracts not designated as hedging instruments	Other income (expense), net		\$(157)	\$(449)	\$ 436
Interest Rate Swap					

(Dollars in thousands)			The Effect of Current Derivative Instruments on the Financial Statements for the period ended June 30, 2015		
			Fair Values of Derivative Instruments as of June 30, 2015		
			Other Assets (Liabilities)		
			Quarter Ended	Six Months Ended	
Foreign Exchange Contracts	Location				
Contracts designated as hedging instruments	Other comprehensive income (loss)		\$(335)	\$(100)	\$ 274
Contracts not designated as hedging instruments	Other income (expense), net		\$(125)	\$(398)	\$(39)
Copper Derivatives					
Contracts not designated as hedging instruments	Other income (expense), net		\$(157)	\$(449)	\$ 436
Interest Rate Swap					

Contracts designated as hedging instruments	Other comprehensive income (loss)	\$35	\$51	\$ (93)
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Note 4 – Inventories

Inventories are valued at the lower of cost or market. Effective October 1, 2015, the Company changed its method for inventory costing from the last in, first out (LIFO) cost method to the first in, first out (FIFO) cost method for all operations that were using the LIFO cost method. This change in accounting method was deemed preferable because this change causes inventory to be valued on a consistent basis throughout the entire Company and on a more comparable basis with industry peer companies.

This change in accounting method was completed in accordance with Accounting Standards Codification (ASC) 250, Accounting Changes and Error Corrections, and all periods presented have been retrospectively adjusted to reflect the period-specific effects of applying the new accounting principle.

The following table summarizes the effect of this accounting change on our condensed consolidated statements of operations for the quarter ended June 30, 2015:

(Dollars in thousands, except per share amounts)	Quarter Ended June 30, 2015		
	As Originally Reported Under LIFO	As Adjusted under FIFO	Effect of Change
Cost of sales	\$102,509	\$102,437	\$ (72)
Net income	\$13,540	\$13,554	\$ 14
Basic earnings per share	\$0.73	\$0.73	\$ —
Diluted earnings per share	\$0.71	\$0.71	\$ —

The following table summarizes the effect of this accounting change on our condensed consolidated statements of operations for the six months ended June 30, 2015:

(Dollars in thousands, except per share amounts)	Six Months Ended June 30, 2015		
	As Originally Reported Under LIFO	As Adjusted under FIFO	Effect of Change
2015			
Cost of sales	\$205,205	\$205,063	\$ (142)
Net income	\$27,167	\$27,197	\$ 30
Basic earnings per share	\$1.46	\$1.47	\$ —
Diluted earnings per share	\$1.43	\$1.43	\$ —

There was no impact on cash provided by operating activities as a result of the above changes.

Inventories were as follows at the end of the periods noted below:

(Dollars in thousands)	June 30, December 31,	
	2016	2015
Raw materials	\$32,070	\$ 35,499
Work-in-process	22,284	22,804
Finished goods	33,903	33,521
Total Inventories	\$88,257	\$ 91,824

Note 5 – Acquisition

On January 22, 2015, we completed the acquisition of Arlon LLC and its subsidiaries (collectively, Arlon), pursuant to the terms of the Stock Purchase Agreement, dated December 18, 2014, by and among the Company, Handy & Harman Group, Ltd. and its subsidiary Bairnco Corporation, as amended (the Purchase Agreement).

Pursuant to the terms of the Purchase Agreement, we acquired Arlon and assumed certain liabilities related to the acquisition for an aggregate purchase price of approximately \$157.0 million.

We used borrowings of \$125.0 million under our bank credit facility in addition to cash on hand to fund the acquisition.

The results of Arlon have been included in our consolidated financial statements only for the periods subsequent to the completion of our acquisition on January 22, 2015.

On December 21, 2015, we sold an Arlon business, which made polyimide and thermoset epoxy laminate products. The operations were previously reported with our Other segment.

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Note 6 – Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component at June 30, 2016 and 2015 were as follows:

(Dollars in thousands)	Foreign currency translation adjustments	Funded status of pension plans and other postretirement benefits (1)	Unrealized gain (loss) on derivative instruments (2)	Total
Beginning Balance December 31, 2014	\$ (14,193)	\$ (50,808)	\$ (93)	\$(65,094)
Other comprehensive income (loss) before reclassifications	(19,250)	—	\$ (160)	(19,410)
Amounts reclassified from accumulated other comprehensive income (loss) (3)	—	531	\$ 94	625
Net current-period other comprehensive income (loss)	(19,250)	531	\$ (66)	(18,785)
Ending Balance June 30, 2015	\$ (33,443)	\$ (50,277)	\$ (159)	\$(83,879)
Beginning Balance December 31, 2015	\$ (41,365)	\$ (47,082)	\$ (11)	\$(88,458)
Other comprehensive income (loss) before reclassifications	5,197	—	—	5,197
Amounts reclassified from accumulated other comprehensive income (loss) (4)	—	71	11	82
Net current-period other comprehensive income (loss)	5,197	71	11	5,279
Ending Balance June 30, 2016	\$ (36,168)	\$ (47,011)	\$ —	\$(83,179)

(1) Net of taxes of \$9,840 and \$9,879 as of June 30, 2016 and December 31, 2015, respectively. Net of taxes of \$11,657 and \$11,952 as of June 30, 2015 and December 31, 2014, respectively.

(2) Net of taxes of \$0 and \$5 as of June 30, 2016 and December 31, 2015, respectively. Net of taxes of \$33 and \$50 as of June 30, 2015 and December 31, 2014, respectively.

(3) Net of taxes of \$286 and \$50 for the pension plans and postretirement benefits and unrealized gain (loss) on derivatives, respectively.

(4) Net of taxes of \$38 and \$6 for the pension plans and postretirement benefits and unrealized gain (loss) on derivatives, respectively.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share, for the periods indicated:

(In thousands, except per share amounts)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Numerator:				
Net income	\$5,377	\$13,554	\$20,305	\$27,197
Denominator:				
Weighted-average shares outstanding - basic	18,007	18,627	17,986	18,551
Effect of dilutive shares	246	429	248	452
Weighted-average shares outstanding - diluted	18,253	19,056	18,234	19,003
Basic earnings per share	\$0.30	\$0.73	\$1.13	\$1.47
Diluted earnings per share	\$0.29	\$0.71	\$1.11	\$1.43

Certain potential options to purchase shares were excluded from the calculation of diluted weighted-average shares outstanding because the exercise price was greater than the average market price of our capital stock during the year. For the quarter ended June 30, 2016, 13,500 shares were excluded. For the quarter ended June 30, 2015, no shares were excluded.

Note 8 – Stock-Based Compensation

Equity Compensation Awards

Stock Options

Stock options have been granted under various equity compensation plans. The maximum contractual term for all options is normally ten years. We have not granted any stock options since the first quarter of 2012.

In most cases, we recognize expense using the straight-line method for stock option 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. Forfeitures are required 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 historical analysis, an annual forfeiture rate of approximately 3%.

The first quarter of 2016 was the final quarter in which we recognized stock based compensation expense related to previously issued stock option grants, and the amount of such expense was de minimis. For the three and six months ended June 30, 2015, we recognized approximately \$0.1 million and \$0.1 million of stock option compensation expense, respectively.

A summary of the activity under our stock option plans as of June 30, 2016 and changes during the three and six months 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 31, 2016	198,366	\$ 40.31	3.3	\$3,934,582
Options exercised	(41,959)	\$ 35.60		
Options forfeited	(350)	\$ 44.32		
Options outstanding at June 30, 2016	156,057	\$ 41.57	3.1	\$3,085,731
Options exercisable at June 30, 2016	156,057	\$ 41.57	3.1	\$3,085,731
Options vested at June 30, 2016	156,057	\$ 41.57	3.1	\$3,085,731
		Options Outstanding	Weighted-Average Exercise Price Per Share	
Options outstanding at December 31, 2015	212,038		\$ 40.47	
Options exercised	(55,631)		\$ 36.99	
Options forfeited	(350)		\$ 44.32	
Options outstanding at June 30, 2016	156,057		\$ 41.57	

During the six months ended June 30, 2016, the total intrinsic value of options exercised (i.e., the difference between the market price at time of exercise and the price paid by the individual to exercise the options) was \$1.4 million, and the total amount of cash received from the exercise of these options was \$2.1 million.

Performance-Based Restricted Stock

As of June 30, 2016, we had performance-based restricted stock awards from 2014, 2015 and 2016 outstanding. These awards cliff vest at the end of a specified three year measurement period. For the 2015 and 2016 grants, employees whose employment terminates during the measurement period due to death, disability, or, in certain cases, retirement may receive a pro-rata payout based on the number of days they were employed during the vesting period. Participants are eligible to be awarded shares ranging from 0% to 200% of the target award amount, based on certain defined

measurement criteria. Compensation expense is recognized using the straight-line method over the vesting period.

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The outstanding awards from 2016 have one measurement criterion on which the final payout of each award is based - the three year total shareholder return (TSR) on the performance of our capital stock as compared to that of a specified group of peer companies. TSR is considered a market condition. As such, the fair value of all awards was determined on the date of grant using a Monte Carlo simulation valuation model with related compensation expense fixed on the grant date and expensed on a straight-line basis over the life of the awards that ultimately vest with no changes for the final projected payout of the award until payment is made.

The amount of performance-based restricted stock compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We currently expect, based on historical analysis, an annual forfeiture rate of approximately 12%. This assumption is reviewed periodically and the rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest.

Below were the assumptions used in the Monte Carlo calculation:

	June 30, 2016	June 30, 2015
Expected volatility	29.6%	28.2%
Expected term (in years)	3.0	3.0
Risk-free interest rate	0.93%	0.96%

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

Expected term – We use the vesting period of the award to determine the expected term assumption for the Monte Carlo simulation valuation model.

Risk-free interest rate – We use an implied "spot rate" yield on U.S. Treasury Constant Maturity rates as of the grant date for our assumption of the risk-free interest rate.

Expected dividend yield – We do not currently pay dividends on our capital stock; therefore, a dividend yield of 0% was used in the Monte Carlo simulation valuation model.

	Performance-Based Restricted Stock Awards
Non-vested awards outstanding at December 31, 2015	107,229
Awards granted	81,220
Stock issued	(25,397)
Awards forfeited	(8,401)
Non-vested awards outstanding at June 30, 2016	154,651

During the three and six months ended June 30, 2016, we recognized compensation expense for performance-based restricted stock awards of approximately \$1.4 million and \$2.1 million, respectively. During the three and six months ended June 30, 2015, we recognized compensation expense for performance-based restricted stock awards of approximately \$1.2 million and \$1.6 million, respectively.

Time-Based Restricted Stock

As of June 30, 2016, we had time-based restricted stock grants from 2013, 2014, 2015 and 2016 outstanding. The grants typically vest on the first, second and third anniversaries of the original grant date. We recognize compensation expense on all of these awards on a straight-line basis over the vesting period. The fair value of the award is determined based on the market value of the underlying stock price at the grant date.

The amount of time-based restricted stock compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We currently expect, based on historical analysis, an annual forfeiture rate of approximately 12%. This assumption is reviewed periodically and the rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest.

	Time-Based Restricted Stock Awards
Non-vested awards outstanding at December 31, 2015	208,318
Awards granted	117,510
Stock issued	(47,089)
Awards forfeited	(16,247)
Non-vested awards outstanding at June 30, 2016	262,492

During the three and six months ended June 30, 2016, we recognized compensation expense for time-based restricted stock awards of approximately \$1.5 million and \$2.7 million, respectively. During the three and six months ended June 30, 2015, we recognized compensation expense for time-based restricted stock awards of approximately \$1.3 million and \$2.4 million, respectively.

Deferred Stock Units

We grant deferred stock units to non-management directors. These awards are fully vested on the date of grant and the related shares are generally issued on the 13 month anniversary of the grant date unless the individual elects to defer the receipt of those shares. Each deferred stock unit results in the issuance of one share of Rogers' stock. The grant of deferred stock units is typically done annually during the second quarter of each year. The fair value of the award is determined based on the market value of the underlying stock price at the grant date.

	Deferred Stock Units
Awards outstanding at December 31, 2015	23,950
Awards granted	11,900
Stock issued	(20,000)
Awards outstanding at June 30, 2016	15,850

For both the three and six month periods ended June 30, 2016 and 2015 we recognized compensation expense for deferred stock units of \$0.7 million and \$0.7 million, respectively.

Employee Stock Purchase Plan

We have an employee stock purchase plan (ESPP) that allows eligible employees to purchase, through payroll deductions, shares of our capital stock at a discount to fair market value. The ESPP has two six month offering periods each 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 a 15% discount from the underlying market price at the beginning or end of the applicable period, whichever is lower. We recognize 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 offering 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 applicable offering period and (ii) the fair value of the look-back feature determined by using the Black-Scholes model. We recognized approximately \$0.1 million of compensation expense associated with the plan in each of the three months ended June 30, 2016 and 2015 and approximately \$0.2 million of compensation expense associated with each of the six months ended June 30, 2016 and 2015.

Note 9 – Pension Benefits and Other Postretirement Benefit Plans

Components of Net Periodic (Benefit) Cost

The components of net periodic benefit cost (income) for the periods indicated were:

(Dollars in thousands)	Pension Benefits				Retirement Health and Life Insurance Benefits			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Change in benefit obligation:								
Service cost	\$—	\$—	\$—	\$—	\$37	\$ 150	\$74	\$ 300
Interest cost	1,893	1,838	3,786	3,677	19	75	38	150
Expected return on plan assets	(2,706)	(2,771)	(5,412)	(5,542)	—	—	—	—
Amortization of prior service cost (credit)	—	—	—	—	(373)	—	(746)	—
Amortization of net loss (gain)	447	413	894	826	(19)	—	(38)	—
Net periodic (benefit) cost	\$(366)	\$(520)	\$(732)	\$(1,039)	\$(336)	\$ 225	\$(672)	\$ 450
Employer Contributions								

In the first three and six months of 2016, we did not make any voluntary contributions to our qualified defined benefit pension plans. In the second quarter of 2015, we made voluntary contributions of \$6.5 million to our qualified defined benefit pension plans.

As of December 31, 2015, we had not met the minimum funding requirement for all of our defined benefit pension plans and were therefore required to make a contribution to one of the plans of \$0.1 million and \$0.2 million during the three and six months ended June 30, 2016. We did not make any contributions during the three and six months ended June 30, 2015. We estimate that we will be required to make contributions of \$0.3 million in 2016.

As there is no funding requirement for the non-qualified defined benefit pension plans nor the Retiree Health and Life Insurance benefit plans, benefit payments made during the year are funded directly by the Company.

Note 10 – Segment Information

Our reporting structure is comprised of the following operating segments: Advanced Connectivity Solutions (ACS), Elastomeric Material Solutions (EMS), Power Electronics Solutions (PES) and the Other segment. We believe this structure aligns our external reporting presentation with how we currently manage and view our business internally. We completed the acquisition of Arlon on January 22, 2015. As part of the integration process, Arlon operations related to circuit materials and silicones were included in our ACS and EMS segments, respectively. Arlon operations related to the manufacture of specialty polyimide, epoxy-based laminates and bonding materials were included in our Other segment until we sold those operations in December 2015.

The following table sets forth the information about our segments for the periods indicated, inter-segment sales have been eliminated from the net sales data:

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(Dollars in thousands)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales				
Advanced Connectivity Solutions	\$67,222	\$66,408	\$140,598	\$137,695
Elastomeric Material Solutions	45,767	47,016	92,084	91,572
Power Electronics Solutions	38,363	38,539	73,614	77,068
Other	6,137	11,135	11,760	21,814
Net sales	\$157,489	\$163,098	\$318,056	\$328,149
Operating income				
Advanced Connectivity Solutions	\$10,829	\$12,076	\$26,729	\$24,944
Elastomeric Material Solutions	5,348	5,548	10,653	8,581
Power Electronics Solutions	477	877	1,773	3,268
Other	2,102	2,081	3,701	3,959
Operating income	18,756	20,582	42,856	40,752
Equity income in unconsolidated joint ventures	708	392	1,321	1,311
Other income (expense), net	191	(517)	(356)	(646)
Interest expense, net	(1,115)	(1,304)	(2,236)	(2,310)
Income before income tax expense	\$18,540	\$19,153	\$41,585	\$39,107

Note 11 – Joint Ventures

As of June 30, 2016, we had two joint ventures, each 50% owned, which were accounted for under the equity method of accounting.

Joint Venture	Location	Reportable Segment	Fiscal Year-End
Rogers INOAC Corporation (RIC)	Japan	Elastomeric Material Solutions	October 31
Rogers INOAC Suzhou Corporation (RIS)	China	Elastomeric Material Solutions	December 31

We recognized equity income related to the joint ventures of \$0.7 million and \$1.3 million for the three and six months ended June 30, 2016, respectively. We recognized equity income related to the joint ventures of \$0.4 million and \$1.3 million for the three and six months ended June 30, 2015, respectively. These amounts are included in the condensed consolidated statements of operations.

The summarized financial information for the joint ventures for the periods indicated was as follows:

(Dollars in thousands)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$11,210	\$9,708	\$20,386	\$20,613
Gross profit	\$3,435	\$1,865	\$6,597	\$4,927
Net income	\$1,416	\$784	\$2,642	\$2,622

Receivables from and payables to joint ventures arise during the normal course of business from transactions between us and the joint ventures. We had receivables of \$1.4 million and \$1.3 million as of June 30, 2016 and December 31, 2015, respectively. We had payables of \$2.0 million and \$1.4 million as of June 30, 2016 and December 31, 2015, respectively.

Note 12 – Debt

On June 18, 2015, we entered into a secured five year credit agreement (the Amended Credit Agreement). The Amended Credit Agreement amends and restates the credit agreement signed between the Company and the same banks on July 13, 2011 and increased our borrowing capacity from \$265.0 million to \$350.0 million, with an additional \$50.0 million accordion.

The Amended Credit Agreement provides (1) a \$55.0 million term loan; (2) up to \$295.0 million of revolving loans, with sublimits for multicurrency borrowings, letters of credit and swing-line notes; and (3) a \$50.0 million expansion feature. Borrowings may be used to finance working capital needs, for letters of credit and for general corporate purposes in the ordinary course of business, including the financing of permitted acquisitions (as defined in the Amended Credit Agreement).

Borrowings under the Amended Credit Agreement bear interest based on one of two options. Alternate base rate loans bear interest that includes a base reference rate plus a spread of 37.5 to 75.0 basis points, depending on our leverage ratio. The base reference rate is the greater of the prime rate; federal funds effective rate plus 50 basis points; or adjusted 1-month LIBOR plus 100 basis points. Euro-currency loans bear interest based on adjusted LIBOR plus a spread of 137.5 to 175.0 basis points, depending on our leverage ratio. We incurred interest expense on our outstanding debt of \$0.9 million and \$1.8 million for the three and six months ended June 30, 2016, respectively and \$1.1 million and \$1.9 million for the three and six months ended June 30, 2015, respectively.

In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Amended Credit Agreement, the Company is required to pay a quarterly fee of 0.20% to 0.30% (based upon our leverage ratio) of the unused amount of the lenders' commitments under the Amended Credit Agreement. We incurred an unused commitment fee of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2016 and \$0.1 million and \$0.1 million for the three and six months ended June 30, 2015, respectively.

The Amended Credit Agreement contains customary representations, warranties, covenants, mandatory prepayments and events of default under which the Company's payment obligations may be accelerated. The financial covenants include requirements to maintain (1) a leverage ratio of no more than 3.25 to 1.00, subject to a one-time election to increase the maximum leverage ratio to 3.50 to 1.00 for one fiscal year in connection with a permitted acquisition, and (2) an interest coverage ratio (ICR) of no less than 3.00 to 1.00. The ICR is the ratio determined as of the end of each of the Company's fiscal quarters ending on and after September 30, 2015, of (i) Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined in the Amended Credit Agreement) minus the unfinanced portion of Consolidated Capital Expenditures to (ii) Consolidated Interest Expense paid in cash, in each case for the period of four consecutive fiscal quarters ending with the end of such fiscal quarter, all calculated for the Company and its subsidiaries on a consolidated basis. As of June 30, 2016, we were in compliance with all of the financial covenants in the Amended Credit Agreement.

The Amended Credit Agreement requires the mandatory quarterly repayment of principal on amounts borrowed under the term loan. Payments commenced on September 30, 2015, and are scheduled to be completed on June 30, 2020.

As of June 30, 2016, the remaining aggregate mandatory principal payments were as follows:

2016	\$2.1	million
2017	\$4.1	million
2018	\$4.8	million
2019	\$5.5	million
2020	\$160.8	million

All obligations under the Amended Credit Agreement are guaranteed by each of the Corporation's existing and future material domestic subsidiaries, as defined in the Amended Credit Agreement (the Guarantors). The obligations are also secured by a Second Amended and Restated Pledge and Security Agreement, dated as of June 18, 2015, entered into by the Company and the Guarantors that grants to the administrative agent, for the benefit of the lenders, a security interest, subject to certain exceptions, in substantially all of the non-real estate assets of the Company and the Guarantors. These assets include, but are not limited to, receivables, equipment, intellectual property, inventory, and stock in certain subsidiaries.

In addition, as of June 30, 2016 and December 31, 2015 we had a \$1.2 million standby letter of credit (LOC) to guarantee Rogers workers compensation plans that were backed by the Amended Credit Agreement. No amounts were drawn on the LOC as of June 30, 2016 or December 31, 2015.

If an event of default occurs, the lenders may, among other things, terminate their commitments and declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees.

At June 30, 2016, we have \$1.9 million of remaining deferred debt issuance costs. These costs will be amortized over the life of the Amended Credit Agreement, which will terminate in June 2020. We incurred amortization expense of \$0.1 million and \$0.2

million in the three and six months ended June 30, 2016, respectively and \$0.1 million and \$0.2 million for the three and six months ended June 30, 2015, respectively related to these deferred costs.

We borrowed \$125.0 million under the line of credit in the first quarter of 2015 to fund the acquisition of Arlon. During the first six months of 2016 and 2015, we made principal payments of \$1.4 million and \$5.0 million, respectively, on the outstanding debt. We are obligated to pay \$4.1 million on this debt obligation in the next 12 months under the term loan.

In July 2012, we entered into an interest rate swap to hedge the variable interest rate on our term loan debt. This swap expired as of June 30, 2016. At June 30, 2016, our outstanding debt balance is comprised of a term loan of \$52.3 million and \$125.0 million borrowed on the revolving line of credit. At June 30, 2016, the rate charged on this debt is the 1 month LIBOR at 0.5000% plus a spread of 1.500%.

Restriction on Payment of Dividends

Our Amended Credit Agreement generally permits us to pay cash dividends to our shareholders, provided that (i) no default or event of default has occurred and is continuing or would result from the dividend payment and (ii) our leverage ratio does not exceed 2.00 to 1.00. If our leverage ratio exceeds 2.00 to 1.00, we may nonetheless make up to \$10.0 million in restricted payments, including dividends, during the fiscal year, provided that no default or event of default has occurred and is continuing or would result from the payments. As of June 30, 2016, we do not currently have any restrictions in our ability to pay dividends under our Amended Credit Agreement, as no default has occurred and our leverage ratio has not exceeded 2.00 to 1.00.

Capital Lease

We have a capital lease obligation related to our manufacturing facility in Eschenbach, Germany. Under the terms of the leasing agreement, we have an option to purchase the property upon the expiration of the lease in 2021 at a price which is the greater of (i) the then-current market value or (ii) the residual book value of the land including the buildings and installations thereon. The total obligation recorded for the lease as of June 30, 2016 is \$5.8 million. Depreciation expense related to the capital lease was \$0.1 million for the three months ended June 30, 2016 and 2015 and \$0.2 million for the six months ended June 30, 2016 and 2015. Accumulated depreciation at June 30, 2016 and December 31, 2015 was \$3.4 million and \$3.3 million, respectively. These expenses are included as depreciation expense in cost of sales on our condensed consolidated statements of operations.

We also incurred interest expense on the capital lease of \$0.1 million for the three months ended June 30, 2016 and 2015 and \$0.2 million for the six months ended June 30, 2016 and 2015. Interest expense related to the debt recorded on the capital lease is included in interest expense on the condensed consolidated statements of operations.

Note 13 – Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the period ending June 30, 2016, by segment, were as follows:

(Dollars in thousands)	Advanced	Elastomeric Power			Total
	Connectivity Solutions	Material Solutions	Electronics Solutions	Other	
December 31, 2015	\$ 51,931	\$ 56,269	\$ 65,029	\$ 2,224	\$ 175,453
Foreign currency translation adjustment	309	—	1,305	—	1,614
June 30, 2016	\$ 52,240	\$ 56,269	\$ 66,334	\$ 2,224	\$ 177,067

Intangible Assets

(Dollars in thousands)	June 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and patents	\$2,557	\$ 910	\$ 1,647	\$2,543	\$ 718	\$ 1,825
Technology	48,300	22,544	25,756	47,724	19,681	28,043
Covenant-not-to-compete	962	962	—	943	943	—
Customer relationships	50,314	11,793	38,521	49,948	9,100	40,848

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Total definite lived intangible assets	102,133	36,209	65,924	101,158	30,442	70,716
Indefinite lived intangible assets	4,389	—	4,389	4,303	—	4,303
Total intangible assets	\$106,522	\$ 36,209	\$ 70,313	\$105,461	\$ 30,442	\$ 75,019

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Gross and net carrying amounts and accumulated amortization may differ from prior periods due to foreign exchange rate fluctuations.

Amortization expense for the three and six months ended June 30, 2016 was approximately \$2.7 million and \$5.3 million, respectively. Amortization expense for the three and six months ended June 30, 2015 was approximately \$2.8 million and \$5.2 million, respectively. The estimated annual future amortization expense is \$5.3 million, \$10.2 million, \$9.6 million, \$9.1 million and \$5.6 million for the remainder of 2016, 2017, 2018, 2019 and 2020, respectively.

The definite-lived intangible assets are amortized using a fair value methodology that is based on the projected economic use of the related underlying asset. The weighted average amortization period as of June 30, 2016, by intangible asset class, is presented in the table below:

Intangible Asset Class	Weighted Average Amortization Period (Years)
Trademarks and patents	4.0
Technology	4.4
Customer relationships	5.8
Total definite lived intangible assets	5.2

The indefinite-lived trademark intangible assets were acquired from the acquisition of Curamik. These assets are assessed for impairment annually or if changes in circumstances indicate that the carrying values may not be recoverable.

Note 14 – Commitments and Contingencies

We are currently engaged in the following environmental and legal proceedings:

Voluntary Corrective Action Program

The Rogers Corporate Headquarters located in Rogers, Connecticut is part of the Connecticut Voluntary Corrective Action Program (VCAP). As part of this program, we partnered with the Connecticut Department of Energy and Environmental Protection (CT DEEP) to determine the corrective actions to be taken at the site related to contamination issues. We evaluated this matter and completed internal due diligence work related to the site in the fourth quarter of 2015. We recorded an accrual of \$3.2 million as of December 31, 2015 for remediation costs expected to be incurred based on the facts and circumstances known to us at that point in time. As of June 30, 2016, the remaining accrual for future remediation efforts was \$3.0 million.

Superfund Sites

We are currently involved as a potentially responsible party (PRP) in one active case involving a waste disposal site, the Chatham Superfund Site. The costs incurred since inception for this claim have been immaterial and have been primarily covered by insurance policies, for both legal and remediation costs. In this matter, we have been assessed a cost sharing percentage of approximately 2% in relation to the range for estimated total cleanup costs of \$18.8 million to \$29.6 million. We believe we have sufficient insurance coverage to fully cover this liability and have recorded a liability and related insurance receivable of approximately \$0.4 million as of June 30, 2016, which approximates our share of the low end of the estimated range. We believe we are a de minimis participant and, as such, have been allocated an insignificant percentage of the total PRP cost sharing responsibility. Based on facts presently known to us, we believe that the potential for the final results of this case having a material adverse effect on our results of operations, financial position or cash flows is remote. This case has been ongoing for many years and we believe that it will continue for the indefinite future. No time frame for completion can be estimated at the present time.

PCB Contamination

We have been working with CT DEEP and the United States Environmental Protection Agency (EPA), Region I, in connection with certain polychlorinated biphenyl (PCB) contamination at our facility in Woodstock, Connecticut. The issue was originally discovered in the soil at the facility in the late 1990s, which has been remediated. Further contamination was later found in the groundwater beneath the property, which was addressed with the installation of a pump and treat system in 2011. The future costs related to the maintenance of the groundwater pump and treat system now in place at the site are expected to be minimal. We believe that the remaining remediation activity will continue for several more years and no time frame for completion can be estimated at the present time.

PCB contamination at this facility was also found in the buildings and courtyards original to the site, in addition to surrounding areas, including an on-site pond. We have completed remediation activities for the buildings and courtyards. We currently have a reserve of \$0.2 million for the pond remediation recorded in our condensed consolidated statements of financial position. We

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believe this reserve will be adequate to cover the remaining remediation work related to the pond contamination based on the information known at this time. However, if additional contamination is found, the cost of the remaining remediation may increase.

Asbestos Litigation

We, like many other industrial companies, have been named as a defendant in a number of lawsuits filed in courts across the country by persons alleging personal injury from exposure to products containing asbestos. We have never mined, milled, manufactured or marketed asbestos; rather, we made and provided to industrial users a limited number of products that contained encapsulated asbestos, but we stopped manufacturing these products in the late 1980s. Most of the claims filed against us involve numerous defendants, sometimes as many as several hundred.

The following table presents information about our recent asbestos claims activity:

	Asbestos Claims Activity
Claims outstanding at December 31, 2015	488
New claims filed	162
Pending claims concluded	(76)
Claims outstanding at June 30, 2016	574

For the six months ended June 30, 2016, 68 claims were dismissed and 8 claims were settled. Settlements totaled approximately \$1.4 million for the six months ended June 30, 2016.

We recognize a liability for asbestos-related contingencies that are probable of occurrence and reasonably estimable. In connection with the recognition of liabilities for asbestos related matters, we record asbestos-related insurance receivables that are deemed probable. Our estimates of asbestos-related contingent liabilities and related insurance receivables are based on an independent actuarial analysis and an independent insurance usage analysis prepared annually by third parties. The actuarial analysis contains numerous assumptions, including general assumptions regarding the asbestos-related product liability litigation environment and company-specific assumptions regarding claims rates (including diseases alleged), dismissal rates, average settlement costs and average defense costs. The insurance usage analysis considers, among other things, applicable deductibles, retentions and policy limits, the solvency and historical payment experience of various insurance carriers, the likelihood of recovery as estimated by external legal counsel and existing insurance settlements.

We review our asbestos-related forecasts annually in the fourth quarter of each year unless facts and circumstances materially change during the year, at which time we would analyze these forecasts. Currently, these analyses project liabilities and related insurance receivables over a 10-year period. It is probable we will incur additional costs for asbestos-related claims following this 10-year period, but we do not believe that any related contingencies are reasonably estimable beyond such period based on, among other things, the significant proportion of future claims included in the analysis and the lag time between the date a claim is filed and its resolution. Accordingly, no liability (or related asset) has yet been recorded for claims that may be asserted subsequent to 2025.

As of December 31, 2015, the asbestos-related claims and insurance receivables for the 10-year projection period were \$56.6 million and \$53.4 million, respectively. As of June 30, 2016, there have been no changes to these projections. To date, the defense and settlement costs of our asbestos-related product liability litigation have been substantially covered by insurance. We have identified continuous coverage for primary, excess and umbrella insurance from the 1950s through the mid-1980s, except for a period in the early 1960s, with respect to which we have entered into an agreement for primary, but not excess or umbrella, coverage. In addition, we have entered into a cost sharing agreement with most of our primary, excess and umbrella insurance carriers to facilitate the ongoing administration and payment of claims by the carriers. The cost sharing agreement may be terminated by any party, but will continue until a party elects to terminate it. As of the filing date for this report, the agreement has not been terminated. As previously disclosed, however, we expect to exhaust individual primary, excess and umbrella coverages over time, and there is no assurance that such exhaustion will not accelerate due to additional claims, damages and settlements or that coverage will be available as expected. Accordingly, while we believe it is reasonably possible that we may incur losses and defense costs in excess of our accruals in the future, we do not have sufficient data to provide a reasonable

estimate or range of such losses and defense costs, at this time.

The amounts recorded for the asbestos-related liability and the related insurance receivables described above were based on facts known at the time 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, the length of time it takes to dispose 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 us to be higher or lower than those projected or recorded.

There can be no assurance that our accrued asbestos liabilities will approximate our actual asbestos-related settlement and defense costs, or that our accrued insurance recoveries will be realized. We will continue to vigorously defend ourselves and believe we have substantial unutilized insurance coverage to mitigate future costs related to this matter.

General Litigation

In addition to the above issues, the nature and scope of our business brings us in regular contact with the general public and a variety of businesses and government agencies. Such activities inherently subject us to the possibility of litigation, including environmental and product liability matters that are defended and handled in the ordinary course of business. We have 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 our results of operations, financial position or cash flows.

Note 15 – Share Repurchase

On August 6, 2015, we initiated a share repurchase program (the Program) of up to \$100.0 million of the Company's capital stock. The Program has no expiration date, and may be suspended or discontinued at any time without notice. As of June 30, 2016, \$56.0 million remained to repurchase under the Program.

We repurchased the following shares of common stock during the three and six months ended June 30, 2016:

(Dollars in thousands)	Quarter Six	
	Ended	Months
	June	Ended
	30,	June 30,
	2016	2016
Shares of capital stock repurchased	31,674	69,641
Value of capital stock repurchased	\$ 1,999	\$ 3,997

All repurchases were made using cash from operations and cash on hand. Refer to Part II, Item 2 for further detail of the Program.

Note 16 – Income Taxes

Our effective income tax rate was 71.0% and 29.2% for the three months ended June 30, 2016 and 2015, respectively. Our effective income tax rate was 51.2% and 30.5% for the six months ended June 30, 2016 and 2015, respectively. The increase from the second quarter of 2015 is primarily due to withholding taxes on off-shore cash movements, a change to our assertion that certain foreign earnings are permanently reinvested and a change in the mix of earnings attributable to higher-taxing jurisdictions. These increases were offset by the benefit associated with an increase compared to the second quarter of 2015 in the reversal of uncertain tax benefits. The second quarter of 2015 also included a benefit due to a change of the state tax rate as a result of a legal reorganization.

Historically our intention was to permanently reinvest the majority of our foreign earnings indefinitely or to distribute them only when it is tax efficient to do so. As a result of changes in business circumstances and our long-term business plan, with respect to offshore distributions, we modified our assertion of certain foreign subsidiary earnings considered permanently reinvested. A deferred tax liability of \$3.4 million associated with distribution related foreign taxes on prior years undistributed earnings of our Chinese subsidiaries that are no longer considered permanently reinvested was recorded in the second quarter. In the event that we repatriated these funds to other offshore subsidiaries, these taxes would become due. In addition, we incurred \$5.5 million of withholding taxes related to distributions from China.

Our accounting policy is to account for interest expense and penalties related to uncertain tax positions as income tax expense. As of June 30, 2016, we have approximately \$0.6 million of accrued interest related to uncertain tax positions included in the \$9.8 million of unrecognized tax benefits, \$9.7 million of which, if recognized, would impact the effective tax rate. It is possible that up to \$5.3 million of our currently unrecognized tax benefits could be recognized within 12 months as a result of projected resolutions of worldwide tax disputes or expiration of the statute of limitations.

We are subject to taxation in the U.S. and various state and foreign jurisdictions. Our tax years from 2012 through 2015 are subject to examination by these various tax authorities. With few exceptions, we are no longer subject to U.S. federal, state, local and foreign examinations by tax authorities for years before 2012.

As of December 31, 2015, deferred tax assets and liabilities are presented as current and non-current. We elected to prospectively adopt Accounting Standards Update (ASU) No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, as of March 31, 2016, and therefore all deferred taxes are classified as non-current in our condensed consolidated statement of financial position as of June 30, 2016. See Note 17 below for further information. For both periods, deferred tax assets and liabilities within the same tax jurisdiction are offset for presentation in the Consolidated Statement of Financial Position.

Note 17 – Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers, to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for us beginning in the first quarter of 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method nor have we determined the impact of the new standard on our consolidated condensed financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changed the presentation of debt issuance costs in the balance sheet. The new guidance requires that debt issuance costs no longer be classified as an asset, but rather as an offset to the outstanding debt. The amortization of these costs continues to be recorded as an interest expense. We adopted this standard in the first quarter of 2016. The new standard is required to be applied retrospectively. The application of this guidance resulted in reclassifications of debt issuance costs of \$0.5 million from current assets to the current portion of long-term debt as of June 30, 2016 and December 31, 2015. The application of this guidance resulted in reclassifications of debt issuance costs from long term assets to long-term debt of \$1.4 million and \$1.6 million as of June 30, 2016 and December 31, 2015, respectively.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes. This ASU requires all deferred tax assets and liabilities to be classified as noncurrent. ASU No. 2015-17 is effective for fiscal years and interim periods within those years beginning after December 15, 2016 with early adoption permitted. We elected to prospectively adopt ASU No. 2015-17 as of March 31, 2016. The adoption of this guidance did not have any impact on the Company's condensed consolidated statements of operations or cashflows. Had we applied this guidance retrospectively, \$9.6 million would have been reclassified from current deferred tax assets to long term deferred tax assets in our consolidated statement of financial position as of December 31, 2015. See Note 16 - "Income Taxes" for further information.

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU No. 2016-2 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on whether the lease effectively finances a purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method (finance lease) or on a straight line basis over the term of the lease (operating lease). A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU No. 2016-2 supersedes the existing guidance on accounting for leases. The provisions of ASU No. 2016-2 are effective for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted and the provisions are to be applied using a modified retrospective approach. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, which clarifies that a change in counterparty of a derivative contract in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. This ASU amends ASC 815 to clarify that such a change does not, in and of itself, represent a termination of the original derivative instrument or a change in the critical terms of the hedge relationship. We are currently evaluating the impact this new standard will have on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU contains amendments intended to simplify various aspects of share-based payment accounting and presentation in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, treatment of forfeitures and statutory tax withholding requirements, and classification in the statement of cash flows. The new standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption of this standard is permitted. The amendments requiring recognition in the income statement of excess tax benefits and tax deficiencies resulting from settlements arising after the date of adoption of the new standard should be applied prospectively. Changes relating to classification of excess tax benefits and tax deficiencies in the statement of cash flows may be applied either prospectively or retrospectively. All other amendments are to be applied retrospectively. We have not elected early adoption of this standard. We are currently evaluating the impact this new standard will have on our financial statements.

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

As used herein, the "Company," "Rogers," "we," "us," "our" and similar terms include Rogers Corporation and its subsidiaries unless the context indicates otherwise.

Our reporting structure is comprised of the following operating segments: Advanced Connectivity Solutions (ACS), Elastomeric Material Solutions (EMS), Power Electronics Solutions (PES) and the Other segment. We believe this structure aligns our external reporting presentation with how we currently manage and view our business internally. In the second quarter of 2015, the Company concluded that it needed to update two of its operating segment names to better align the business product portfolio offerings to the market. Therefore, Advanced Connectivity Solutions replaced the name of Printed Circuit Materials, and Elastomeric Material Solutions replaced the name of High Performance Foams. There were no changes to the composition of these two operating segments. The Power Electronics Solutions and Other segment names remain unchanged.

Forward Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally accompanied by words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "might," "plan," "potential," "predict," "project," "should," "seek," "target" or similar expressions that indicate uncertainty as to future events or outcomes. Forward-looking statements are based on assumptions and beliefs that we believe to be reasonable; however, assumed facts almost always vary from actual results, and the differences between assumed facts and actual results could be material depending upon the circumstances. Where we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and based on assumptions believed to have a reasonable basis. We cannot assure you, however, that the stated expectation or belief will occur or be achieved or accomplished. Among the factors that could cause our results to differ materially from those indicated by forward-looking statements are risks and uncertainties inherent in our business including, without limitation:

- volatility within the Internet Connectivity, Clean Energy, and Safety and Protection megatrends on which our business is focused, as well as specific market and industry trends within these megatrends;
- business, economic and political conditions in the United States and abroad, particularly in China, South Korea, Germany, Hungary and Belgium, where we maintain significant manufacturing, sales or administrative operations;
- fluctuations in foreign currency exchange rates;
- our ability to develop innovative products and have them incorporated into end-user products and systems;
- the extent to which end-user products and systems incorporating our products achieve commercial success;
- the ability of our sole or limited source suppliers to deliver certain key raw materials to us in a timely manner;
- intense global competition affecting both our existing products and products currently under development;
- failure to realize, or delays in the realization of, anticipated benefits of acquisitions and divestitures due to, among other things, the existence of unknown liabilities or difficulty integrating acquired businesses;
- our ability to attract and retain management and skilled technical personnel;
- our ability to protect our proprietary technology from infringement by third parties and/or allegations that our technology infringes third party rights;
- changes in effective tax rates or tax laws and regulations in the jurisdictions in which we operate;
- financial and restrictive covenants in our credit agreement, which could limit our operational and financial flexibility;
- the outcome of ongoing and future litigation, including our asbestos-related product liability litigation;
- changes in environmental laws and regulations applicable to our business;
- disruptions in, or breaches of, our information technology systems;
- asset impairment and restructuring charges; and
- changes in accounting standards promulgated by the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC)

Our forward-looking statements are expressly qualified by these cautionary statements, which you should consider carefully, along with the risks discussed in this section and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2015 (the Annual Report), any of which could cause actual results to differ

materially from historical results or anticipated results. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

The following discussion and analysis of our financial condition and results of operations should be read together with the Selected Financial Data and our Condensed Consolidated Financial Statements and the related notes that appear elsewhere in this Form 10-Q along with our audited consolidated financial statements and the related notes thereto in our Annual Report.

In the following discussion and analysis, we sometimes provide financial information that was not prepared in accordance with U.S. generally accepted accounting principles (GAAP). Management believes that this non-GAAP information provides meaningful

supplemental information regarding the Company's performance by excluding certain expenses that are generally non-recurring or otherwise may not be indicative of the core business operating results. In general, the Company believes that the additional non-GAAP financial information provided herein is useful to management and investors in assessing the Company's historical performance and for planning, forecasting and analyzing future periods. However, non-GAAP information has limitations as an analytical tool and should not be considered in isolation from, or solely as an alternative to, financial information prepared in accordance with GAAP. Any time we provide non-GAAP information in the following narrative we identify it as such and in close proximity provide the most directly comparable GAAP financial measure, as well as the information necessary to reconcile the two measures.

Executive Summary

Company Background and Strategy

Rogers Corporation designs, develops, manufactures and sells high-quality and high-reliability engineered materials and components for mission critical applications. We operate principally three strategic operating segments: Advanced Connectivity Solutions (ACS), Elastomeric Material Solutions (EMS) and Power Electronics Solutions (PES). We have a history of innovation and have established two Rogers Innovation Centers for our leading research and development activities, in Massachusetts and China.

Our growth strategy is based upon the following principles: (1) market-driven organization, (2) innovation leadership, (3) synergistic mergers and acquisitions, and (4) operational excellence. As a market-driven organization, we are focused on three megatrends of expanding business opportunities: Internet Connectivity, Clean Energy and Safety & Protection.

In January 2015, we completed the acquisition of Arlon LLC and its subsidiaries, other than Arlon India (Pvt) Limited (the acquired subsidiaries, collectively, Arlon), for an aggregate purchase price of approximately \$157.0 million. Arlon manufactures high performance materials for the printed circuit board industry and silicone rubber-based materials. The acquisition of Arlon and its subsequent integration into our operating segments have enabled us to increase scale and complement our existing product offerings, thus enhancing our ability to support our customers.

2016 Second Quarter Executive Summary

In the second quarter of 2016 as compared to the second quarter of 2015, our net sales declined 3.4% to \$157.5 million, gross margin increased 100 basis points to 38.2%, and operating income decreased 8.9% to \$18.8 million. The following key factors should be considered when reviewing our results of operations, financial condition and liquidity for the periods discussed:

Our net sales decline in the second quarter of 2016 was principally attributable to the effect of a divestiture in our Other segment. Net sales in our three strategic business segments (ACS, EMS and PES) declined slightly in the second quarter of 2016 due to lower volume and a negative currency impact. Total net sales were negatively impacted 3.0% in the second quarter of 2016 as compared to the second quarter of 2015 as a result of the December 2015 divestiture of the lower margin Arlon polyimide and thermoset business, which was part of our Other segment. Our gross margin improved 100 basis points and our operating margin declined 8.9% in the second quarter of 2016 as our performance improvements were offset by costs associated with strategic business investments. Our gross margin improved to 38.2% in the second quarter of 2016 as compared to 37.2% in the second quarter of 2015 as a result of performance improvements, driven by purchasing savings from copper and other materials, and increased operational efficiencies, combined with the impact of the divestiture of the lower-margin Arlon polyimide and thermoset business. However, operating income declined to \$18.8 million in the second quarter of 2016, as compared to \$20.6 million in the second quarter of 2015, as a result of increased selling, general and administrative costs, principally due to costs associated with strategic business investments to establish the framework for the efficient repatriation of foreign earnings and growth initiatives.

Our net income was impacted by \$8.9 million of additional tax expense associated with the repatriation of accumulated foreign earnings previously considered permanently reinvested. We historically treated foreign earnings in China as permanently reinvested; however, we changed our assertion due to changes in our business circumstances and our long-term business plan. This change resulted in \$5.5 million in withholding taxes and \$3.4 million of deferred taxes that will become payable upon future distributions.

We are an innovation company, and in the second quarter of 2016 we continued our investment in research and development, with research and development expenses 4.5% of our quarterly net sales. Research and development (R&D) expenses were \$7.1 million in the second quarter of 2016, which is consistent with the second quarter of 2015. Our spending continues to be focused on developing new platforms and technologies. Since 2013, we have made concerted efforts to realign our R&D organization to better fit the future direction of our Company, including dedicating resources to focus on current product extensions and enhancements to meet our short term technology needs.

Results of Operations

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

	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross margin	38.2 %	37.2 %	38.0 %	37.5 %
Selling, general and administrative expenses	21.8 %	20.2 %	20.2 %	21.1 %
Research and development expenses	4.5 %	4.3 %	4.3 %	4.0 %
Operating income	11.9 %	12.6 %	13.5 %	12.4 %
Equity income in unconsolidated joint ventures	0.4 %	0.2 %	0.4 %	0.4 %
Other income (expense), net	0.1 %	(0.3)%	(0.1)%	(0.2)%
Interest expense, net	(0.7)%	(0.8)%	(0.7)%	(0.7)%
Income before income tax expense	11.8 %	11.7 %	13.1 %	11.9 %
Income tax expense	8.4 %	3.4 %	6.7 %	3.6 %
Net income	3.4 %	8.3 %	6.4 %	8.3 %
Net Sales				

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Net Sales	\$157,489	\$163,098	(3.4)%	\$318,056	\$328,149	(3.1)%
Gross Margin	38.2 %	37.2 %	%	38.0 %	37.5 %	%

Net sales decreased by 3.4% in the second quarter of 2016 compared to the second quarter of 2015. This decline was due principally to 2015 sales related to the Arlon polyimide and thermoset laminate business, which was sold in December 2015. Lower volume of 0.3%, and a negative currency impact of 0.2% had a minimal effect on net sales. The ACS operating segment net sales increased 1.2%, the EMS operating segment net sales decreased 2.7% and the PES operating segment net sales declined 0.5%.

On a year to date basis, net sales decreased by 3.1% from the first half of 2015. The decrease in net sales was composed of a negative currency impact of 1.3%. The ACS operating segment net sales increased 2.1%: negative currency impact of 0.9%. The EMS operating segment net sales increased 0.6%: negative currency impact of 1.7%. The PES operating segment net sales declined 4.5%: offset by a negative currency impact of 1.3%.

See "Segment Sales and Operations" below for further discussion on segment performance.

Gross Margin

Gross margin as a percentage of net sales increased 100 basis points to 38.2% in the second quarter of 2016 compared to 37.2% in the second quarter of 2015. Gross margin in the second quarter of 2016 was favorably impacted by performance improvements, driven by purchasing savings in copper and other materials, and increased operational efficiencies, combined with the improvement from divestiture of the lower margin Arlon polyimide and thermoset business.

On a year to date basis, gross margin as a percentage of net sales increased by 50 basis points to 38.0% in the first half of 2016 from 37.5% in the first half of 2015. The gross margin for the first half of 2015 included \$1.7 million of purchase accounting expenses related to the Arlon acquisition, of which, \$1.6 million was the non-recurring fair value adjustment for inventory.

Selling, General and Administrative Expenses

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Selling, general and administrative expenses	\$34,369	\$33,026	4.1%	\$64,229	\$69,173	(7.1)%
Percentage of sales	21.8	% 20.2	%	20.2	% 21.1	%

Selling, general and administrative expenses increased 4.1% in the second quarter of 2016 from the second quarter of 2015, due principally to \$2.0 million of costs associated with strategic projects in 2016. The second quarter of 2015 included \$0.6 million of Arlon integration costs which did not recur.

On a year to date basis, selling, general and administrative expenses decreased 7.1%, principally due to the 2015 results including \$4.9 million in integration expenses related to the Arlon acquisition that did not recur in 2016. On a year to date basis incentive compensation increased \$0.8 million, and this was offset by the cost savings from cost containment initiatives.

Research and Development Expenses

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Research and development expenses	\$7,074	\$7,053	0.3%	\$13,622	\$13,161	3.5%
Percentage of sales	4.5	% 4.3	%	4.3	% 4.0	%

Research and development (R&D) expenses increased 0.3% in the second quarter of 2016 from the second quarter of 2015 and increased 3.5% year to date. The increases are due to continued investments that are targeted at developing new platforms and technologies focused on long-term growth initiatives at our innovation centers in the U.S. and Asia.

Equity Income in Unconsolidated Joint Ventures

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Equity income in unconsolidated joint ventures	\$ 708	\$ 392	80.6%	\$ 1,321	\$ 1,311	0.8%

Equity income in unconsolidated joint ventures increased 80.6% in the second quarter of 2016 from the second quarter of 2015, and year to date increased 0.8%. The increases were due to higher demand, primarily in the portable electronics market.

Interest Expense, Net

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Interest expense, net	\$(1,115)	\$(1,304)	(14.5)%	\$(2,236)	\$(2,310)	(3.2)%

Interest expense, net, decreased by 14.5% in the second quarter of 2016 from the second quarter of 2015, and 3.2% year to date. These declines were due to debt payments on the long term debt associated with the Arlon acquisition, which was incurred in January 2015.

Other Income (Expense), Net

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Other income (expense), net	\$ 191	\$(517)	(136.9)%	\$(356)	\$(646)	(44.9)%

Quarter over quarter, the decrease in expense was principally attributable to favorable foreign currency and copper hedging transaction costs of \$0.8 million, offset by the further depreciation of various foreign currencies, primarily the Renminbi of \$0.7 million, compared to unfavorable foreign currency transaction costs of \$0.3 million in the prior year.

On a year to date basis, in the first half of 2015 we recognized expense of \$0.6 million primarily related to unfavorable mark to market adjustments related to copper hedging contracts and foreign currency transaction costs. In the first half of 2016, we recorded an additional loss related to the sale of the Arlon polyimide and thermoset laminate business of \$0.2 million.

Income Taxes

(Dollars in thousands)	Quarter Ended			Six Months Ended		
	June 30, 2016	June 30, 2015	Percent Change	June 30, 2016	June 30, 2015	Percent Change
Income tax expense	\$13,163	\$5,599	135.1%	\$21,280	\$11,910	78.7%
Effective tax rate	71.0	% 29.2	%	51.2	% 30.5	%

Our effective income tax rate was 71.0% and 29.2% for the three months ended June 30, 2016 and 2015, respectively.

Our effective income tax rate was 51.2% and 30.5% for the six months ended June 30, 2016 and 2015, respectively.

The increase from the second quarter of 2015 is primarily due to withholding taxes on off-shore cash movements, a change to our assertion that certain foreign earnings are permanently reinvested and a change in the mix of earnings attributable to higher-taxing jurisdictions. These increases were offset by the benefit associated with an increase compared to the second quarter of 2015 in the reversal of uncertain tax benefits. The second quarter of 2015 also included a benefit due to a change of the state tax rate as a result of a legal reorganization.

Segment Sales and Operations

Advanced Connectivity Solutions

(Dollars in millions)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$67.2	\$66.4	\$140.6	\$137.7
Operating income	\$10.8	\$12.1	26.7	24.9

The Advanced Connectivity Solutions (ACS) operating segment is comprised of products used for making circuitry that receives, processes and transmits high frequency communications signals, in a wide variety of markets and applications, including wireless communications, high reliability, and automotive, among others.

Q2 2016 versus Q2 2015

Net sales in this segment increased by 1.2% in the second quarter of 2016 compared to the second quarter of 2015. Sales declined due to currency fluctuations by 0.6%. The increase in net sales over the second quarter of 2015 was favorably impacted by growth in automotive radar applications for Advanced Drive Assistance Systems (12.4%), aerospace and defense applications (12.4%), wireless telecom market (3.6%) and other applications (15.6%). This growth was partially offset by lower demand in the satellite TV dish applications (-43.8%).

Operating income decreased by 10.3% in the second quarter of 2016 from the second quarter of 2015. As a percentage of net sales, operating income in the second quarter of 2016 was 16.1%, a 210 basis point decrease as compared to the 18.2% reported in the second quarter of 2015. Although ACS had higher net sales and was favorably impacted by the effect of operational efficiencies and favorable absorption, this was offset by the increase in selling, general and administrative expenses. Second quarter of 2015 results included \$0.3 million of integration expenses related to the Arlon acquisition.

YTD 2016 versus YTD 2015

Net sales in this segment increased by 2.1% in the first half of 2016 compared to the first half of 2015. Currency fluctuations decreased net sales by 0.9%. This increase in net sales is driven primarily by automotive radar applications for Advanced Drive Assistance Systems (19.2%) and aerospace and defense applications (7.9%) and

other applications (21.3%), partially offset by a decline in the wireless telecom market (-4.7%) and lower demand in the satellite TV dish applications (-31.8%).

Operating income improved by 7.2% in the first half of 2016 from the first half of 2015. As a percentage of net sales, the first half of 2016 operating income was 19.0%, a 90 basis point increase as compared to the 18.1% reported in the first half of 2015. The first half of 2016 operating profit was impacted by higher sales, and additionally the first half of 2015 results included \$2.5 million of integration expenses related to the Arlon acquisition.

Elastomeric Material Solutions

(Dollars in millions)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$45.8	\$ 47.0	\$92.1	\$ 91.6
Operating income	\$5.3	\$ 5.5	10.7	8.6

The Elastomeric Material Solutions (EMS) operating segment is comprised of our polyurethane and silicone products, which are sold into a wide variety of markets for various applications such as general industrial, portable electronics, consumer and transportation markets for gasketing, sealing, impact protection and cushioning applications.

Q2 2016 versus Q2 2015

Net sales in this segment decreased by 2.7% in the second quarter of 2016 compared to the second quarter of 2015. Sales decreased due to currency fluctuations by 1.2%. The decrease in net sales, was driven by a lower demand in general industrial (-14.3%) and consumer applications (-12.3%), which was partially offset by growth in portable electronics (28.9%) and automotive applications (24.9%).

Operating income decreased by 3.6% in the second quarter of 2016 from the second quarter of 2015. As a percentage of net sales, second quarter of 2016 operating income was 11.7%, a 10 basis point decrease as compared to the 11.8% reported in the second quarter of 2015. Operating income decreased due to lower net sales and unfavorable product mix, partially offset by savings from the cost savings plan executed in the first quarter of 2016. Additionally, the second quarter of 2015 included \$0.3 million of integration costs related to the Arlon acquisition.

YTD 2016 versus YTD 2015

Net sales in this segment increased by 0.6% in the first half of 2016 from the first half of 2015. Currency fluctuations decreased net sales by 1.7%. The increase in net sales was driven primarily by portable electronics applications (13.4%) and automotive applications (17.2%). These increases were offset by declines in demand in general industrial (-2.5%) and consumer applications (-9.4%).

Operating income increased by 24.1% in the first half of 2016 from the first half of 2015. As a percentage of net sales, the first half of 2016 operating income was 11.6%, a 220 basis point increase as compared to the 9.4% reported in the first half of 2015. The increase in operating income in 2016 is principally due to the first half of 2015 results including \$1.8 million of integration expenses related to the Arlon acquisition.

Power Electronics Solutions

(Dollars in millions)	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net sales	\$38.4	\$ 38.5	\$73.6	\$ 77.1
Operating income	\$0.5	\$ 0.9	1.8	3.3

The Power Electronics Solutions (PES) operating segment is comprised of two product lines - curamik® direct-bonded copper (DBC) substrates that are used primarily in the design of intelligent power management devices, such as IGBT (insulated gate bipolar transistor) modules that enable a wide range of products including highly efficient industrial motor drives, wind and solar energy converters and electrical systems in automobiles, and ROLINX® busbars that are used primarily in power distribution systems products in mass transit and clean technology applications.

Q2 2016 versus Q2 2015

Net sales in this segment decreased by 0.5% in the second quarter of 2016 from the second quarter of 2015. This decline includes a positive currency impact of 2.1%. Net sales was negatively impacted by decreased demand in mass transit (-45.5%), partially offset by higher demand in certain renewable energy applications (20.4%) and variable frequency motor drives (13.9%).

Operating income for the quarter decreased by 45.6% in the second quarter of 2016 from the second quarter of 2015. As a percentage of net sales, second quarter of 2016 operating income was 1.2%, a 110 basis point decline as

compared to the 2.3% reported in the second quarter of 2015. This decrease is primarily due to unfavorable product mix.

YTD 2016 versus YTD 2015

Net sales in this segment decreased by 4.5% in the first half of 2016 from the first half of 2015. Net sales were unfavorably impacted by 1.3% due currency fluctuations. The net sales decline was driven by decreased demand in mass transit (-44.5%), partially offset by higher demand in certain renewable energy applications (14.8%) and variable frequency motor drives (6.6%).

Operating income decreased 45.7% in the first half of 2016 from the first half of 2015. As a percentage of net sales, the first half of 2016 operating income was 2.4%, a 180 basis point decrease as compared to the 4.2% reported in the first half of 2015. This decrease is primarily due to unfavorable product mix.

Other

	Quarter Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(Dollars in millions)				
Net sales	\$6.1	\$ 11.1	\$11.8	\$ 21.8
Operating income	\$2.1	\$ 2.1	3.7	4.0

Our Other segment consists of our elastomer rollers and floats business, as well as our inverter distribution business. Additionally, this segment included the acquired Arlon polyimide and thermoset laminate business from January 2015 until it was sold in December 2015.

Q2 2016 versus Q2 2015

Net sales decreased by 44.9% in the second quarter of 2016 from the second quarter of 2015, due principally to the impact of the sale of the Arlon polyimide and thermoset laminate business in December 2015 and a negative currency impact of 1.9%.

Operating income remained consistent in the second quarter of 2016 compared to the second quarter of 2015. As a percentage of net sales, operating income increased to 34.3% in the second quarter of 2016 from 18.7% in the second quarter of 2015, due principally to the sale of the lower margin Arlon polyimide and thermoset laminate business.

YTD 2016 versus YTD 2015

Net sales decreased by 46.1% in the first half of 2016 from the first half of 2015, due principally to the impact of the sale of the Arlon polyimide and thermoset laminate business in December 2015 (-42.1%). Net sales were unfavorably impacted by 2.4% due to currency fluctuations.

Operating income decreased 6.6% in the first half of 2016 from the first half of 2015. The decline was primarily due to \$0.6 million of integration expenses related to the Arlon acquisition that are included in the first half of 2015 results.

Liquidity, Capital Resources and Financial Position

We believe that our ability to generate cash from operations to reinvest in our business is one of our fundamental strengths. We believe that our existing sources of liquidity and cash flows that are expected to be generated from our operations, together with our available credit facilities, will be sufficient to fund our operations, currently planned capital expenditures and research and development efforts, and our debt service commitments. We continue to have access to the remaining portion of the line of credit available under our Amended Credit Agreement, should any issue or strategic opportunities arise. We continually review and evaluate the adequacy of our cash flows, borrowing facilities and banking relationships to ensure that we have the appropriate access to cash to fund both our near-term operating needs and our long-term strategic initiatives.

(Dollars in thousands)	June 30, 2016	December 31, 2015
Key Balance Sheet Accounts:		
Cash and cash equivalents	\$247,397	\$ 204,586
Accounts receivable, net	\$109,310	\$ 101,428
Inventory	\$88,257	\$ 91,824
Outstanding borrowing on credit facilities (short term and long term)	\$177,250	\$ 178,626

Quarter Ended	
June 30,	June 30,
2016	2015

Key Cash Flow Measures:

Cash provided by operating activities	\$51,304	\$22,413
Cash used in investing activities	\$(9,992)	\$(170,051)
Cash (used in) provided by financing activities	\$(4,229)	\$124,387

At the end of the second quarter of 2016, cash and cash equivalents were \$247.4 million as compared to \$204.6 million at the end of 2015, an increase of \$42.8 million, or 20.9%. This increase was due primarily to strong cash generated from operations and the receipt of \$2.1 million related to stock option exercises. The cash generated from operations was partially offset by \$10.0 million in capital expenditures, \$4.0 million in share repurchases and \$1.5 million in required debt payments.

The following table illustrates the location of our cash and cash equivalents by our three major geographic areas as of the periods indicated:

(Dollars in thousands)	June 30, 2016	December 31, 2015
U.S.	\$60,838	\$37,263
Europe	70,844	66,295
Asia	115,715	101,028
Total cash and cash equivalents	\$247,397	\$204,586

Cash held in certain foreign locations could be subject to additional taxes if we repatriated such amounts back to other offshore subsidiaries or the U.S. As a result of changes in our business circumstances and long-term business plan, we have changed our estimate of the amount of foreign subsidiary earnings considered permanently reinvested.

Undistributed earnings of our Chinese subsidiaries are no longer considered indefinitely reinvested and may be distributed to other offshore subsidiaries. We have not changed our assertion with respect to distributions of earnings that would require the accrual of U.S. income tax.

Significant changes in our balance sheet accounts from December 31, 2015 to June 30, 2016 were as follows:

Accounts receivable increased by 7.8% to \$109.3 million in the second quarter of 2016, from \$101.4 million at December 31, 2015. The increase from year end was due to higher net sales in the second quarter of 2016, in comparison with the fourth quarter of 2015.

Inventory decreased 3.9% to \$88.3 million in the second quarter of 2016, from \$91.8 million at December 31, 2015. The decrease is due to efforts at our ACS operating segment to reduce inventory levels, and this was partially off set by an increase at our PES operating segment due to increased demand.

Accounts payable increased by 20.2% to \$26.8 million in the second quarter of 2016, from \$22.3 million at December 31, 2016. This overall increase is due to the timing of various invoices, combined with the increased inventory at our PES operating segment.

During the three and six months ended June 30, 2016, we repurchased 31,674 shares of our capital stock for \$2.0 million and 69,641 shares of our capital stock for \$4.0 million, respectively, under a \$100.0 million share repurchase program approved by our Board of Directors on August 6, 2015. The share repurchase program became effective on August 11, 2015, has no expiration date, and may be suspended or discontinued at any time without notice. As of June 30, 2016, \$56.0 million remained to repurchase under our share repurchase program. All purchases were made using cash from operations and cash on hand.

During the second quarter of 2016, there were not any material new developments related to our credit facilities, restrictions on dividend payments or capital lease. Refer to Note 12 - "Debt" of Notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further discussion on liquidity matters.

Contingencies

During the second quarter of 2016, we did not become aware of any material new developments related to environmental matters or other contingencies to which we are or may be subject, and we did not incur any material costs or capital expenditures related to environmental matters. Refer to Note 14 - "Commitments and Contingencies" of Notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further discussion on ongoing environmental and other contingencies.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements that have or are, in the opinion of management, likely to have a current or future material effect on our financial condition or results of operations.

Critical Accounting Policies

There were no material changes in our critical accounting policies during the second quarter of 2016.

Recent Accounting Pronouncements

See Note 17 - "Recent Accounting Pronouncements" of Notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for discussion of recent accounting pronouncements including the respective expected dates of adoption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk during the second quarter of 2016. For discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, contained in our Annual Report.

Item 4. Controls and Procedures

The Company, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the design and operation of our disclosure controls and procedures, as defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2016. The Company's disclosure controls and procedures are designed to (i) ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016. There were no changes in the Company's internal control over financial reporting during its most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act.

Part II - Other Information

Item 1. Legal Proceedings

See a discussion of environmental, asbestos and other litigation matters in Note 14 - "Commitments and Contingencies," to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2 (a) and (b) are not applicable

(c) Stock Repurchases

(Dollars in thousands, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
February 1, 2016 to February 29, 2016	25,667	\$ 51.77	25,667	\$ 58,679
March 1, 2016 to March 31, 2016	12,300	\$ 54.37	12,300	\$ 58,010
May 1, 2016 to May 31, 2016	31,674	\$ 63.11	31,674	\$ 56,012

During the three and six months ended June 30, 2016, we repurchased 31,674 shares of our capital stock for \$2.0 million and 69,641 shares of our capital stock for \$4.0 million, respectively, under a \$100.0 million share repurchase program approved by our Board of Directors on August 6, 2015. The share repurchase program became effective on August 11, 2015, has no expiration date, and may be suspended or discontinued at any time without notice. As of June 30, 2016, \$56.0 million remained to repurchase under our share repurchase program. All purchases were made using cash from operations and cash on hand. Our stock repurchases may occur from time to time through open market purchases, privately negotiated transactions or plans designed to comply with Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended.

Item 6. Exhibits

List of Exhibits:

- 3.1 Restated Articles of Organization of Rogers Corporation, as amended, filed as Exhibit 3a to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 001-04347).
- 3.2 Amended and Restated Bylaws of Rogers Corporation effective February 11, 2016, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 26, 2016.

31.1 Certification of President and Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

31.2 Certification of Vice President, Finance and Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

32 Certification of President and Chief Executive Officer (Principal Executive Officer) and Vice President, Finance and Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

The following materials from Rogers Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and June 30, 2015, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 101 June 30, 2015, (iii) Condensed Consolidated Statements of Financial Position at June 30, 2016 and December 31, 2015, (iv) Condensed Consolidated Statement of Shareholders' Equity at June 30, 2016 and December 31, 2015, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015 and (vi) Notes to Condensed Consolidated Financial Statements.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROGERS CORPORATION

(Registrant)

/s/ Janice E. Stipp

Janice E. Stipp

Vice President, Finance and Chief Financial Officer

Principal Financial and Chief Accounting Officer

Dated: August 9, 2016