

ROGERS CORP
Form 10-Q
November 03, 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 September 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 October 20, 2016 was 17,973,289.

ROGERS CORPORATION
FORM 10-Q

September 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		Nine Months Ended	
	September	September	September	September 30,
	30, 2016	30, 2015	2016	2015
Net sales	\$ 165,259	\$ 160,366	\$ 483,314	\$ 488,515
Cost of sales	103,330	100,694	300,678	305,757
Gross margin	61,929	59,672	182,636	182,758
Selling, general and administrative expenses	31,489	29,190	95,718	98,363
Research and development expenses	7,294	7,285	20,916	20,446
Operating income	23,146	23,197	66,002	63,949
Equity income in unconsolidated joint ventures	898	877	2,220	2,187
Other income (expense), net	676	(756)	320	(1,404)
Interest expense, net	(811)	(1,126)	(3,047)	(3,435)
Income before income tax expense	23,909	22,192	65,495	61,297
Income tax expense	7,844	9,646	29,125	21,555
Net income	\$ 16,065	\$ 12,546	\$ 36,370	\$ 39,742
Basic earnings per share	\$ 0.89	\$ 0.68	\$ 2.02	\$ 2.15
Diluted earnings per share	\$ 0.88	\$ 0.67	\$ 2.00	\$ 2.10
Shares used in computing:				
Basic earnings per share	17,996	18,430	17,990	18,511
Diluted earnings per share	18,183	18,650	18,217	18,885

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		Nine Months Ended	
	September	September	September	September
	30,	30, 2015	30,	30,
	2016		2016	2015
Net income	\$16,065	\$12,546	\$36,370	\$39,742
Foreign currency translation adjustment	1,408	(2,067)	6,605	(21,317)
Derivative instruments designated as cash flow hedges:				
Unrealized gain (loss) on derivative instruments held at period end, net of tax (Note 6)	—	(19)	—	(179)
Unrealized gain (loss) reclassified into earnings (Note 6)	—	(1)	11	93
Pension and postretirement benefit plans reclassified into earnings, net of tax (Note 6):				
Amortization of loss	34	277	105	808
Other comprehensive income (loss)	1,442	(1,810)	6,721	(20,595)
Comprehensive income (loss)	\$17,507	\$10,736	\$43,091	\$19,147

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)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 173,516	\$ 204,586
Accounts receivable, less allowance for doubtful accounts of \$738 and \$695	112,049	101,428
Inventories	86,274	91,824
Prepaid income taxes	3,511	5,058
Deferred income taxes	—	9,565
Asbestos-related insurance receivables	8,245	8,245
Other current assets	9,365	7,959
Total current assets	392,960	428,665
Property, plant and equipment, net of accumulated depreciation of \$258,051 and \$237,150	172,889	178,661
Investments in unconsolidated joint ventures	17,935	15,348
Deferred income taxes	13,384	8,594
Goodwill	178,329	175,453
Other intangible assets	67,920	75,019
Asbestos-related insurance receivables	45,114	45,114
Other long-term assets	2,550	3,501
Total assets	\$ 891,081	\$ 930,355
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 28,321	\$ 22,251
Accrued employee benefits and compensation	26,410	23,263
Accrued income taxes payable	9,607	3,599
Current portion of long term debt	3,653	2,966
Asbestos-related liabilities	8,245	8,245
Other accrued liabilities	17,942	18,324
Total current liabilities	94,178	78,648
Long term debt	70,816	173,557
Long term lease obligation	5,528	5,549
Pension and post-retirement benefit obligations	14,808	14,808
Asbestos-related liabilities	48,390	48,390
Non-current income tax	9,957	11,863
Deferred income taxes	14,334	9,455
Other long-term liabilities	3,227	3,503
Commitments and Contingencies (Note 14)		
Shareholders' Equity		
Capital Stock - \$1 par value; 50,000 authorized shares; 17,973 and 17,957 shares outstanding	17,973	17,957
Additional paid-in capital	114,171	112,017
Retained earnings	579,436	543,066

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Accumulated other comprehensive income (loss)	(81,737) (88,458)
Total shareholders' equity	629,843	584,582	
Total liabilities and shareholders' equity	\$ 891,081	\$ 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)

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Operating Activities:		
Net income	\$36,370	\$ 39,742
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	27,635	25,209
Stock-based compensation expense	8,537	7,734
Deferred income taxes	9,594	2,668
Equity in undistributed income of unconsolidated joint ventures	(2,220)	(2,187)
Dividends received from unconsolidated joint ventures	426	780
Pension and postretirement benefits	(2,121)	(858)
Loss (gain) from the sale of property, plant and equipment	219	8
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(9,316)	2,038
Inventories	6,536	(12,039)
Pension contribution	(274)	(6,500)
Other current assets	227	187
Accounts payable and other accrued expenses	15,125	(12,037)
Other, net	3,485	816
Net cash provided by operating activities	94,223	45,561
Investing Activities:		
Business acquisition, net of cash acquired	—	(158,407)
Capital expenditures, net	(14,926)	(21,574)
Proceeds from life insurance	—	2,682
Proceeds from the sale of property, plant and equipment, net	—	(8)
Net cash used in investing activities	(14,926)	(177,307)
Financing Activities:		
Proceeds from long term borrowings	—	125,000
Debt issuance costs	—	(293)
Repayment of debt principal and long term lease obligation	(102,580)	(5,886)
Repurchases of capital stock	(7,995)	(32,996)
Proceeds from the exercise of stock options, net	2,058	6,539
Issuance of restricted stock shares	(1,288)	(2,405)
Proceeds from issuance of shares to employee stock purchase plan	858	727
Net cash (used in) provided by financing activities	(108,947)	90,686
Effect of exchange rate fluctuations on cash	(1,420)	(3,709)
Net increase (decrease) in cash and cash equivalents	(31,070)	(44,769)
Cash and cash equivalents at beginning of period	204,586	237,375
Cash and cash equivalents at end of period	\$173,516	\$ 192,606

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

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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	—	—	36,370	—	36,370
Other comprehensive income (loss)	—	—	—	6,721	6,721
Stock options exercised	56	2,002	—	—	2,058
Stock issued to directors	23	(23)	—	—	—
Shares issued for employees stock purchase plan	23	835	—	—	858
Shares issued for restricted stock, net of cancellations for tax withholding	55	(1,343)	—	—	(1,288)
Shares repurchased	(141)	(7,854)	—	—	(7,995)
Stock-based compensation expense	—	8,537	—	—	8,537
Balance at September 30, 2016	\$ 17,973	\$ 114,171	\$ 579,436	\$ (81,737)	\$ 629,843

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 September 30, 2016	Level	Level	Level
		1	2	3
Foreign currency contracts	\$ 29	\$	-\$29	\$ —
Copper derivative contracts	\$ 490	\$	-\$490	\$ —
Interest rate swap	\$ —	\$	-\$—	\$ —

(Dollars in thousands)	Carrying amount as of December 31, 2015	Level	Level	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 September 30, 2016, we did not have any contracts that are designated and qualify for hedge accounting treatment. We had such contracts outstanding as of September 30, 2015, and for the nine months ended September 30, 2015, there was no hedge ineffectiveness.

Foreign Currency

During the quarter ended September 30, 2016, we entered into Hungarian Forint, Euro, Japanese Yen, and Korean Won forward contracts. We entered into these foreign currency forward contracts to mitigate certain global transactional 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 September 30, 2016 the notional values of these foreign currency forward contracts were:

Notional Values of Foreign

Currency Derivatives

USD/EUR	\$ 500,000
KRW/USD	9,739,900,000
JPY/EUR	¥ 286,000,000
JPY/USD	¥ 24,000,000
HUF/EUR	Ft228,000,000

Commodity

We currently have twenty-nine 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 September 30, 2016 were:

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Notional Value of Copper Derivatives

October 2016 - December 2016	117 metric tons per month
January 2017 - March 2017	111 metric tons per month
April 2017 - June 2017	103 metric tons per month
July 2017 - September 2017	106 metric tons per month
October 2017 - December 2017	83 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 September 30, 2016		Fair Values of Derivative Instruments as of September 30, 2016	Other Assets (Liabilities)
	Location	Quarter Ended	Nine Months Ended			
Foreign Exchange Contracts						
Contracts not designated as hedging instruments	Other income (expense), net	\$ 29	\$ 29	\$	29	
Copper Derivatives						
Contracts not designated as hedging instruments	Other income (expense), net	\$(94)	\$(163)	\$	490	
(Dollars in thousands)						
(Dollars in thousands)			The Effect of Current Derivative Instruments on the Financial Statements for the period ended September 30, 2015		Fair Values of Derivative Instruments as of September 30, 2015	Other Assets (Liabilities)
	Location	Quarter Ended	Nine Months Ended			
Foreign Exchange Contracts						
Contracts designated as hedging instruments	Other comprehensive income (loss)	\$ 10	\$(87)	\$	106	
Contracts not designated as hedging instruments	Other income (expense), net	\$(315)	\$(123)	\$(	185)
Copper Derivatives						
Contracts not designated as hedging instruments	Other income (expense), net	\$(245)	\$(694)	\$	383	
Interest Rate Swap						

Contracts designated as hedging instruments Other comprehensive income (loss) \$36 \$ 85 \$ (58)

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 September 30, 2015:

(Dollars in thousands, except per share amounts)	Quarter Ended September 30, 2015		
	As Originally Reported Under LIFO	As Adjusted under FIFO	Effect of Change
Cost of sales	\$100,836	\$100,694	\$ (142)
Net income	\$12,455	\$12,546	\$ 91
Basic earnings per share	\$0.68	\$0.68	\$—
Diluted earnings per share	\$0.67	\$0.67	\$—

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

(Dollars in thousands, except per share amounts)	Nine Months Ended September 30, 2015		
	As Originally Reported Under LIFO	As Adjusted under FIFO	Effect of Change
Cost of sales	\$306,041	\$305,757	\$ (284)
Net income	\$39,621	\$39,742	\$ 121
Basic earnings per share	\$2.14	\$2.15	\$ 0.01
Diluted earnings per share	\$2.10	\$2.10	\$—

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)	September 30, 2016	December 31, 2015
Raw materials	\$ 31,814	\$ 35,499
Work-in-process	23,922	22,804
Finished goods	30,538	33,521
Total inventories	\$ 86,274	\$ 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 September 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	(21,317)	—	(179)	(21,496)
Amounts reclassified from accumulated other comprehensive income (loss) (3)	—	808	93	901
Net current-period other comprehensive income (loss)	(21,317)	808	(86)	(20,595)
Ending Balance September 30, 2015	\$ (35,510)	\$ (50,000)	\$ (179)	\$ (85,689)
Beginning Balance December 31, 2015	\$ (41,365)	\$ (47,082)	\$ (11)	\$ (88,458)
Other comprehensive income (loss) before reclassifications	6,605	—	—	6,605
Amounts reclassified from accumulated other comprehensive income (loss) (4)	—	105	11	116
Net current-period other comprehensive income (loss)	6,605	105	11	6,721
Ending Balance September 30, 2016	\$ (34,760)	\$ (46,977)	\$ —	\$ (81,737)

(1) Net of taxes of \$9,821 and \$9,879 as of September 30, 2016 and December 31, 2015, respectively. Net of taxes of \$11,502 and \$11,952 as of September 30, 2015 and December 31, 2014, respectively.

(2) Net of taxes of \$0 and \$5 as of September 30, 2016 and December 31, 2015, respectively. Net of taxes of \$21 and \$50 as of September 30, 2015 and December 31, 2014, respectively.

(3) Net of taxes of \$435 and \$50 for the pension plans and postretirement benefits and unrealized gain (loss) on derivatives, respectively.

(4) Net of taxes of \$57 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Numerator:				
Net income	\$ 16,065	\$ 12,546	\$ 36,370	\$ 39,742
Denominator:				
Weighted-average shares outstanding - basic	17,996	18,430	17,990	18,511
Effect of dilutive shares	187	220	227	374
Weighted-average shares outstanding - diluted	18,183	18,650	18,217	18,885
Basic earnings per share	\$ 0.89	\$ 0.68	\$ 2.02	\$ 2.15
Diluted earnings per share	\$ 0.88	\$ 0.67	\$ 2.00	\$ 2.10

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 relevant reporting period. For the quarter ended September 30, 2016, 13,500 shares were excluded. For the quarter ended September 30, 2015, 14,000 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 nine months ended September 30, 2015, we recognized approximately \$0.1 million and \$0.2 million of stock option compensation expense, respectively.

A summary of the activity under our stock option plans as of September 30, 2016 and changes during the three and nine 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 June 30, 2016	156,057	\$ 41.57	3.1	\$3,085,731
Options exercised	—	\$ —		
Options forfeited	—	\$ —		
Options outstanding at September 30, 2016	156,057	\$ 41.57	2.9	\$3,082,880
Options exercisable at September 30, 2016	156,057	\$ 41.57	2.9	\$3,082,880
Options vested at September 30, 2016	156,057	\$ 41.57	2.9	\$3,082,880
			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 September 30, 2016	156,057		\$ 41.57	

During the nine months ended September 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 September 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 these grants employees whose employment terminates during the measurement period due to death or disability, may receive a pro-rata payout based on the number of days they were employed during the vesting period. For the 2015 and 2016 grants, this pro-rata

payout also applies to retirement. 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.

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:

	September 30, 2016	September 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.

The following table summarizes the change in number of non-vested performance-based restricted stock awards outstanding since December 31, 2015:

	Performance-Based Restricted Stock Awards
Non-vested awards outstanding at December 31, 2015	107,229
Awards granted	84,443
Stock issued	(25,397)
Awards forfeited	(10,731)
Non-vested awards outstanding at September 30, 2016	155,544

During the three and nine months ended September 30, 2016, we recognized compensation expense for performance-based restricted stock awards of approximately \$1.1 million and \$3.2 million, respectively. During the three and nine months ended September 30, 2015, we recognized compensation expense for performance-based restricted stock awards of approximately \$1.2 million and \$2.8 million, respectively.

Time-Based Restricted Stock

As of September 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.

The following table summarizes the change in number of non-vested time-based restricted stock awards outstanding since December 31, 2015:

	Time-Based Restricted Stock Awards
Non-vested awards outstanding at December 31, 2015	208,318
Awards granted	117,960
Stock issued	(51,525)
Awards forfeited	(19,027)
Non-vested awards outstanding at September 30, 2016	255,726

During the three and nine months ended September 30, 2016, we recognized compensation expense for time-based restricted stock awards of approximately \$1.6 million and \$4.3 million, respectively. During the three and nine months ended September 30, 2015, we recognized compensation expense for time-based restricted stock awards of approximately \$1.3 million and \$3.8 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. The fair value of the award is determined based on the market value of the underlying stock price at the grant date.

The following table summarizes the change in number of deferred stock units outstanding since December 31, 2015:

	Deferred Stock Units
Awards outstanding at December 31, 2015	23,950
Awards granted	11,900
Stock issued	(22,750)
Awards outstanding at September 30, 2016	13,100

For the nine months ended September 30, 2016 and 2015 we recognized compensation expense for deferred stock units of \$0.7 million and \$0.7 million, respectively. There was no expense associated with the deferred stock units in the third quarter of 2016 or 2015.

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 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 September 30, 2016 and 2015 and approximately \$0.3 million of compensation expense associated with each of the nine months ended September 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 for the periods indicated were:

(Dollars in thousands)	Pension Benefits				Retirement Health and Life Insurance Benefits			
	Quarter Ended		Nine Months Ended		Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Change in benefit obligation:								
Service cost	\$—	\$ —	\$—	\$ —	\$37	\$ 150	\$111	\$ 450
Interest cost	1,872	1,846	5,658	5,523	19	75	57	225
Expected return on plan assets	(2,698)	(2,772)	(8,110)	(8,314)	—	—	—	—
Amortization of prior service cost (credit)	—	—	—	—	(373)	—	(1,119)	—
Amortization of net loss (gain)	445	432	1,339	1,258	(19)	—	(57)	—
Net periodic (benefit) cost	\$(381)	\$ (494)	\$(1,113)	\$ (1,533)	\$(336)	\$ 225	\$(1,008)	\$ 675
Employer Contributions								

In the first nine months of 2016, we did not make any voluntary contributions to our qualified defined benefit pension plans. In the first nine months of 2015, we made voluntary contributions of \$6.5 million to our qualified defined benefit pension plans. The 2015 voluntary contribution was made during the second quarter.

As of December 31, 2015, we had not met the minimum funding requirement for all of our qualified defined benefit pension plans and were therefore required to make a contribution to one of the plans of \$0.1 million and \$0.3 million during the three and nine months ended September 30, 2016. We did not make any contributions during the three and nine months ended September 30, 2015. We estimate that we will be required to make total 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales				
Advanced Connectivity Solutions	\$65,518	\$ 66,160	\$206,115	\$ 203,855
Elastomeric Material Solutions	54,391	46,783	146,476	138,355
Power Electronics Solutions	39,777	36,565	113,391	113,633
Other	5,573	10,858	17,332	32,672
Net sales	\$165,259	\$ 160,366	\$483,314	\$ 488,515
Operating income				
Advanced Connectivity Solutions	\$7,605	\$ 12,010	\$34,334	\$ 36,952
Elastomeric Material Solutions	10,932	8,150	21,584	16,731
Power Electronics Solutions	2,767	1,104	4,540	4,372
Other	1,842	1,933	5,544	5,894
Operating income	23,146	23,197	66,002	63,949
Equity income in unconsolidated joint ventures	898	877	2,220	2,187
Other income (expense), net	676	(756)	) 320	(1,404)
Interest expense, net	(811)	) (1,126)	) (3,047)	) (3,435)
Income before income tax expense	\$23,909	\$ 22,192	\$65,495	\$ 61,297

Note 11 – Joint Ventures

As of September 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 \$0.9 million and \$2.2 million for the three and nine months ended September 30, 2016, respectively. We recognized equity income related to the joint ventures of \$0.9 million and \$2.2 million for the three and nine months ended September 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales	\$12,773	\$ 12,227	\$32,934	\$ 32,708
Gross profit	\$4,119	\$ 3,201	\$10,877	\$ 8,087
Net income	\$1,796	\$ 1,754	\$4,440	\$ 4,374

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 \$1.5 million and \$1.3 million as of September 30, 2016 and December 31, 2015, respectively. We had payables of \$2.1 million and \$1.4 million as of September 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 \$0.5 million and \$2.3 million for the three and nine months ended September 30, 2016, respectively and \$0.9 million and \$2.7 million for the three and nine months ended September 30, 2015, respectively. In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Amended Credit Agreement, we are 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 \$0.3 million for the three and nine months ended September 30, 2016 and \$0.1 million and \$0.2 million for the three and nine months ended September 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), calculated as defined in the Amended Credit Agreement, of no less than 3.00 to 1.00. As of September 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 September 30, 2016, the remaining aggregate mandatory principal payments were as follows:

2016	\$1 million
2017	\$4.1 million
2018	\$4.8 million
2019	\$5.5 million
2020	\$60.8 million

All obligations under the Amended Credit Agreement are guaranteed by each of our 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 September 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 September 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 September 30, 2016, we have \$1.7 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 \$0.2 million and \$0.4 million in the three and nine months ended September 30, 2016, respectively and \$0.1 million and \$0.3 million for the three and nine months ended September 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 nine months of 2016 and 2015, we made principal payments of \$102.4 million and \$5.7 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 September 30, 2016, our outstanding debt balance is comprised of a term loan of \$51.2 million and \$25.0 million borrowed on the revolving line of credit. At September 30, 2016, the rate charged on this debt is the 1 month LIBOR at 0.5625% 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 September 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 September 30, 2016 is \$5.8 million. Depreciation expense related to the capital lease was \$0.1 million for the three months ended September 30, 2016 and 2015 and \$0.3 million for the nine months ended September 30, 2016 and 2015. Accumulated depreciation at September 30, 2016 and December 31, 2015 was \$3.5 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 September 30, 2016 and 2015 and \$0.3 million for the nine months ended September 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 September 30, 2016, by segment, were as follows:

(Dollars in thousands)	Advanced	Elastomeric Power		Other	Total
	Connectivity	Material	Electronics		
	Solutions	Solutions	Solutions		
December 31, 2015	\$ 51,931	\$ 56,269	\$ 65,029	\$ 2,224	\$ 175,453
Foreign currency translation adjustment	—	1,013	1,863	—	2,876
September 30, 2016	\$ 51,931	\$ 57,282	\$ 66,892	\$ 2,224	\$ 178,329

Intangible Assets

(Dollars in thousands)	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and patents	\$2,589	\$ 1,019	\$ 1,570	\$2,543	\$ 718	\$ 1,825
Technology	48,589	24,034	24,555	47,724	19,681	28,043
Covenant-not-to-compete	1,007	1,007	—	943	943	—
Customer relationships	50,620	13,251	37,369	49,948	9,100	40,848

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Total definite lived intangible assets	102,805	39,311	63,494	101,158	30,442	70,716
Indefinite lived intangible assets	4,426	—	4,426	4,303	—	4,303
Total intangible assets	\$107,231	\$ 39,311	\$ 67,920	\$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 nine months ended September 30, 2016 was approximately \$2.7 million and \$8.0 million, respectively. Amortization expense for the three and nine months ended September 30, 2015 was approximately \$2.8 million and \$8 million, respectively. The estimated annual future amortization expense is \$2.7 million, \$10.3 million, \$9.7 million, \$9.2 million and \$5.7 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 September 30, 2016, by intangible asset class, is presented in the table below:

Intangible Asset Class	Weighted Average Amortization Period (Years)
Trademarks and patents	4.2
Technology	4.6
Customer relationships	6.0
Total definite lived intangible assets	5.4

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 time. During the third quarter of 2016, the CT DEEP approved a change to our remediation plan for the site that will reduce our overall expected costs. Accordingly, we reduced the accrual by \$0.9 million as a result of change in the level of remediation that needs to take place. This benefit was recorded as an offset to selling, general, and administrative expenses in the condensed consolidated financial statements. As of September 30, 2016, the remaining accrual for future remediation efforts was \$1.9 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 September 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 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	210
Pending claims concluded	(128)
Claims outstanding at September 30, 2016	570

For the nine months ended September 30, 2016, 119 claims were dismissed and 9 claims were settled. Settlements totaled approximately \$1.9 million for the nine months ended September 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 September 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 September 30, 2016, \$52.0 million remained to repurchase under the Program.

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

(Dollars in thousands)	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2016
Shares of capital stock repurchased	70,857	140,498
Value of capital stock repurchased	\$ 3,997	\$ 7,995

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 32.8% and 43.5% for the three months ended September 30, 2016 and 2015, respectively. The decrease from the third quarter of 2015 is primarily due to a \$0.8 million benefit from a reversal of an uncertain tax position in the current quarter and the prior year being unfavorably impacted by \$1.9 million related to finalization of 2014 income tax year returns. Our effective income tax rate was 44.5% and 35.2% for the nine months ended September 30, 2016 and 2015, respectively. The increase from the nine months ended September 30, 2015 is primarily related 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, offset by benefits associated with an increase in the reversal of reserves for uncertain tax positions. This increase was offset by the prior year being unfavorably impacted by \$1.9 million related to finalization of 2014 income tax year returns. The nine months ended September 30, 2015 also included a benefit due to a change of the state tax rate as a result of a legal reorganization and release of valuation allowance on certain state tax attributes. 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 during the second quarter of 2016. 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 September 30, 2016, we have approximately \$0.5 million of accrued interest related to uncertain tax positions included in the \$10.0 million of unrecognized tax benefits, \$9.8 million of which, if recognized, would impact the effective tax rate. It is possible that up to \$5.1 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 September 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.

Included in the Q3 2016 effective tax rate is a release of reserves for an uncertain tax position for which an indemnity receivable had been recorded. The reversal of the receivable has been recorded in "Other income (expense), net" in our condensed consolidated financial statements.

Note 17 – Restructuring

On August 8, 2016, we announced we will relocate our global headquarters from Rogers, Connecticut to Chandler, Arizona. The move will build upon our presence in Arizona, where we already have major business and manufacturing operations. The decision supports our long-term strategy and is an integral part of our plans for growth and expansion. The new corporate headquarters location will be home to approximately 70 employees who support areas such as human resources, information technology, finance and supply chain, among others. The Rogers, Connecticut location will continue to have manufacturing, research and development and support services. In the third quarter of 2016, we recorded \$0.2 million of expense related to this project.

The fair value of the total severance benefits to be paid is \$1.5 million, of this, \$0.1 million was expensed as of the third quarter of 2016. This total will be expensed ratably over the required service period for the affected employees.

Note 18 – 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 September 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 \$1.3 million and \$1.6 million as of September 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 our 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, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, 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 do not presently expect the application of this accounting standard to have an impact 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.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU amends ASC 230 to address eight cash flow issues with the objective of reducing the existing diversity in practice. The new standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and the provisions are to be applied using a retrospective approach. 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 Third Quarter Executive Summary

In the third quarter of 2016 as compared to the third quarter of 2015, our net sales increased 3.1% to \$165.3 million, gross margin increased 30 basis points to 37.5%, and operating income decreased 0.2% to \$23.1 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 increase in the third quarter of 2016 was attributable to the increase in sales of our EMS and PES segments. Net sales in two of our three strategic business segments, EMS and PES, increased in the third quarter of 2016. These increases were primarily driven by higher demand in the portable electronics and electric and hybrid electric vehicles markets. The ACS strategic business had a slight decline compared to prior year, mostly driven by currency. Total net sales were negatively impacted 3.2% in the third quarter of 2016 as compared to the third 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 30 basis points and our operating margin declined 50 basis points in the third quarter of 2016 as our performance improvements were offset by costs associated with strategic business investments. Our gross margin improved to 37.5% in the third quarter of 2016 as compared to 37.2% in the third 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 \$23.1 million in the third quarter of 2016, as compared to \$23.2 million in the third quarter of 2015, as a result of increased selling, general and administrative costs, principally due to costs associated with strategic business investments.

We are an innovation company, and in the third quarter of 2016 we continued our investment in research and development, with research and development expenses 4.4% of our quarterly net sales. Research and development (R&D) expenses were \$7.3 million in the third quarter of 2016, which is consistent with the third 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.

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Results of Operations

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

	Quarter Ended			Nine Months Ended		
	September 30, 2016	September 30, 2015	Percent Change	September 30, 2016	September 30, 2015	Percent Change
Net sales	100.0 %	100.0 %	%	100.0 %	100.0 %	%
Gross margin	37.5 %	37.2 %	%	37.8 %	37.4 %	%
Selling, general and administrative expenses	19.1 %	18.2 %	%	19.8 %	20.1 %	%
Research and development expenses	4.4 %	4.5 %	%	4.3 %	4.2 %	%
Operating income	14.0 %	14.5 %	%	13.7 %	13.1 %	%
Equity income in unconsolidated joint ventures	0.5 %	0.5 %	%	0.5 %	0.4 %	%
Other income (expense), net	0.4 %	(0.5)%	)%	0.1 %	(0.3)%)%
Interest expense, net	(0.5)%	(0.7)%	)%	(0.6)%	(0.7)%)%
Income before income tax expense	14.5 %	13.8 %	%	13.6 %	12.5 %	%
Income tax expense	4.7 %	6.0 %	%	6.0 %	4.4 %	%
Net income	9.7 %	7.8 %	%	7.6 %	8.1 %	%
Net Sales						

(Dollars in thousands)	Quarter Ended			Nine Months Ended		
	September 30, 2016	September 30, 2015	Percent Change	September 30, 2016	September 30, 2015	Percent Change
Net sales	\$165,259					