

MARINE PRODUCTS CORP  
Form 10-Q  
November 04, 2010

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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, 2010

Commission File No. 1-16263

MARINE PRODUCTS CORPORATION  
(exact name of registrant as specified in its charter)

Delaware 58-2572419  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification  
organization) Number)

2801 Buford Highway, Suite 520, Atlanta, Georgia 30329  
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code -- (404) 321-7910

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes--  No

As of October 29, 2010 Marine Products Corporation had 37,095,105 shares of common stock outstanding.

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Marine Products Corporation

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS, AS RESTATED

CONSOLIDATED BALANCE SHEETS  
AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009  
(In thousands)  
(Unaudited)

	September 30, 2010	December 31, 2009 (Note 1)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,053	\$ 2,573
Marketable securities	18,626	23,328
Accounts receivable, net	1,203	1,265
Inventories	22,472	19,487
Income taxes receivable	-	6,304
Deferred income taxes	1,138	1,008
Prepaid expenses and other current assets	1,187	2,783
Total current assets	53,679	56,748
Property, plant and equipment, net	12,563	13,310
Goodwill	3,308	3,308
Other intangibles, net	465	465
Marketable securities	28,275	16,117
Deferred income taxes	3,248	3,224
Other assets	5,019	5,077
Total assets	\$ 106,557	\$ 98,249
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 5,635	\$ 1,972
Accrued expenses and other liabilities	9,520	8,711
Total current liabilities	15,155	10,683
Pension liabilities	5,185	5,689
Other long-term liabilities	423	365
Total liabilities	20,763	16,737
Common stock	3,709	3,688
Capital in excess of par value	-	-
Retained earnings	82,776	78,690
Accumulated other comprehensive loss	(691 )	(866 )
Total stockholders' equity	85,794	81,512
Total liabilities and stockholders' equity	\$ 106,557	\$ 98,249

The accompanying notes are an integral part of these consolidated statements.



## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(In thousands except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net sales	\$24,027	\$7,011	\$80,197	\$28,449
Cost of goods sold	19,951	7,596	66,079	33,616
Gross profit (loss)	4,076	(585)	14,118	(5,167)
Selling, general and administrative expenses	2,899	2,755	10,812	9,240
Operating income (loss)	1,177	(3,340)	3,306	(14,407)
Interest income	278	420	876	1,257
Income (loss) before income taxes	1,455	(2,920)	4,182	(13,150)
Income tax provision (benefit)	455	(1,312)	797	(5,221)
Net income (loss)	\$1,000	\$(1,608)	\$3,385	\$(7,929)
Earnings (loss) per share				
Basic	\$0.03	\$(0.04)	\$0.09	\$(0.22)
Diluted	\$0.03	\$(0.04)	\$0.09	\$(0.22)
Dividends per share	\$-	\$-	\$-	\$0.010
Average shares outstanding				
Basic	36,190	36,084	36,173	36,059
Diluted	36,586	36,084	36,638	36,059

The accompanying notes are an integral part of these consolidated statements.

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

(In thousands)

(Unaudited)

	Comprehensive Income	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009		36,883	\$ 3,688	\$ —	\$ 78,690	\$ (866 )	\$ 81,512
Stock issued for stock incentive plans, net		247	25	240	701	—	966
Stock purchased and retired		(43 )	(4 )	(240 )	—	—	(244 )
Net income	\$ 3,385	—	—	—	3,385	—	3,385
Other comprehensive income, net of tax:							
Pension adjustment	169	—	—	—	—	169	169
Unrealized gain on securities, net of reclassification adjustment	6	—	—	—	—	6	6
Comprehensive income	\$ 3,560						
Balance, September 30, 2010		37,087	\$ 3,709	\$ —	\$ 82,776	\$ (691 )	\$ 85,794

The accompanying notes are an integral part of this consolidated statement.

## MARINE PRODUCTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 3,385	\$ (7,929 )
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	827	1,056
Gain on sale of equipment and property	-	(15 )
Stock-based compensation expense	1,233	1,214
Excess tax benefits for share-based payments	-	(453 )
Deferred income tax (benefit) provision	(596 )	76
(Increase) decrease in assets:		
Accounts receivable	62	2,853
Inventories	(2,985 )	6,380
Prepaid expenses and other current assets	1,596	483
Income taxes receivable	6,376	(2,670 )
Other non-current assets	58	(652 )
Increase (decrease) in liabilities:		
Accounts payable	1,529	1,677
Income taxes payable	181	-
Accrued expenses and other liabilities	628	(5,344 )
Other long-term liabilities	(183 )	686
Net cash provided by (used for) operating activities	12,111	(2,638 )
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(80 )	(76 )
Proceeds from sale of property and equipment	-	15
Purchases of marketable securities	(21,999 )	(13,556 )
Sales of marketable securities	5,016	7,081
Maturities of marketable securities	11,670	5,954
Net cash used for investing activities	(5,393 )	(582 )
<b>FINANCING ACTIVITIES</b>		
Payment of dividends	-	(369 )
Excess tax benefits for share-based payments	-	453
Cash paid for common stock purchased and retired	(244 )	(537 )
Proceeds received upon exercise of stock options	6	24
Net cash used for financing activities	(238 )	(429 )



Net increase (decrease) in cash and cash equivalents	6,480	(3,649 )
Cash and cash equivalents at beginning of period	2,573	4,622
Cash and cash equivalents at end of period	\$ 9,053	\$ 973

The accompanying notes are an integral part of these consolidated statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

A group that includes the Company's Chairman of the Board, R. Randall Rollins and his brother Gary W. Rollins, who is also director of the Company, and certain companies under their control, controls in excess of fifty percent of the Company's voting power.

2. RECENT ACCOUNTING PRONOUNCEMENTS

During the nine months ended September, 30, 2010, the Financial Accounting Standards Board (FASB) issued the following Accounting Standards Updates (ASU):

Recently Adopted Accounting Pronouncements:

ASU 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments to the Codification in this ASU clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and not a share dividend. The Company adopted these provisions in the first quarter of 2010 and the adoption did not have a material impact on the Company's consolidated financial statements.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. The amendments to the Codification in this ASU now require:

1. the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfer be disclosed separately and
2. in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances and settlements.
3. judgment in determining the appropriate classes of assets and liabilities when reporting fair value measurements for each class
4. disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

The Company complied with these disclosure requirements in its annual report on Form 10-K for the year ended December 31, 2009 and plans to provide the disclosures on an interim basis as necessary. Adoption of these disclosure requirements did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted:

ASU 2010-13, Compensation – Stock Compensation (topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. The amendments to the Codification in this ASU provide guidance on share-based payment awards to employees with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trade. The ASU states that if such awards meet all the criteria for equity they should be classified as such and not as a liability based solely on the currency it is denominated in. The amendments are effective beginning in 2011 with adoption required in the first quarter of that year. Adoption of these provisions is not expected to have a material impact on the Company's consolidated financial statements.

3. EARNINGS PER SHARE

FASB ASC Topic 260-10 "Earnings Per Share- Overall," requires a basic earnings per share and diluted earnings per share presentation. Certain amendments to ASC 260-10 require that all outstanding unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, be considered participating securities and included in the calculation of its basic earnings per share.

The Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and are therefore considered participating securities.

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The basic and diluted calculations differ as a result of the dilutive effect of stock options and time lapse restricted shares included in diluted earnings per share, but excluded from basic earnings per share. Basic and diluted earnings per share are computed by dividing net income (loss) by the weighted average number of shares outstanding during the respective periods.

A reconciliation of weighted average shares outstanding along with the earnings per share attributable to restricted shares of common stock (participating securities) is as follows:

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MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except per share data )	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss) available for stockholders:	\$ 1,000	\$ (1,608 )	\$ 3,385	\$ (7,929 )
Less: Dividends paid				
Common Stock	-	-	-	(361 )
Restricted shares of common stock	-	-	-	(8 )
Undistributed income (loss)	\$ 1,000	\$ (1,608 )	\$ 3,385	\$ (8,298 )
Allocation of undistributed income (loss):				
Common Stock	\$ 976	\$ (1,573 )	\$ 3,303	\$ (8,115 )
Restricted shares of common stock	24	(35 )	82	(183 )
Basic shares outstanding:				
Common Stock	35,293	35,272	35,278	35,205
Restricted shares of common stock	897	812	895	791
	36,190	36,084	36,173	35,996
Diluted shares outstanding:				
Common Stock	35,293	35,272	35,278	35,205
Dilutive effect of stock options	396	-	465	-
	35,689	35,272	35,743	35,205
Restricted shares of common stock	897	812	895	791
	36,586	36,084	36,638	35,996
Basic earnings (loss) per share:				
Common Stock:				
Distributed earnings	\$ -	\$ -	\$ -	\$ 0.01
Undistributed income (loss)	0.03	(0.04 )	0.09	(0.23 )
	\$ 0.03	\$ (0.04 )	\$ 0.09	\$ (0.22 )
Restricted shares of common stock:				
Distributed earnings	\$ -	\$ -	\$ -	\$ 0.01
Undistributed income (loss)	0.03	(0.04 )	0.09	(0.23 )
	\$ 0.03	\$ (0.04 )	\$ 0.09	\$ (0.22 )
Diluted earnings per share:				
Common Stock:				
Distributed earnings	\$ -	\$ -	\$ -	\$ 0.01
Undistributed income (loss)	0.03	(0.04 )	0.09	(0.23 )
	\$ 0.03	\$ (0.04 )	\$ 0.09	\$ (0.22 )

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

During the three and nine months ended September 30, 2009, the Company incurred a net loss from continuing operations and consequently the common stock equivalents were excluded from the computation of the corresponding diluted loss per share because the effect would have been anti-dilutive.

4. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) for the applicable periods are as follows:

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 1,000	\$ (1,608 )	\$ 3,385	\$ (7,929 )
Other comprehensive income (loss), net of taxes:				
Pension adjustment	5	38	169	216
Unrealized gain on securities available for sale, net of reclassification adjustment during the period	62	90	6	175
Total comprehensive income (loss)	\$ 1,067	\$ (1,480 )	\$ 3,560	\$ (7,538 )

5. STOCK-BASED COMPENSATION

The Company reserved 5,250,000 shares of common stock under the 2001 and 2004 Stock Incentive Plans each of which expires ten years from the date of approval. These plans provide for the issuance of various forms of stock incentives, including, among others, incentive and non-qualified stock options and restricted stock. As of September 30, 2010, there were approximately 1,227,000 shares available for grants.

Stock-based compensation for the three and nine months ended September 30, 2010 and 2009 were as follows:

(in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Pre – tax cost	\$ 378	\$ 399	\$ 1,233	\$ 1,214
After tax cost	\$ 244	\$ 257	\$ 795	\$ 793

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Stock Options

Transactions involving Marine Products stock options for the nine months ended September 30, 2010 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2010	687,292	\$ 3.70	2.4 years	
Granted	-	-	N/A	
Exercised	(1,875 )	1.71	N/A	
Forfeited	-	-	N/A	
Expired	-	-	N/A	
Outstanding and exercisable at September 30, 2010	685,417	\$ 3.72	1.7 years	\$1,659,000

The total intrinsic value of share options exercised was approximately \$17,000 during the nine months ended September 30, 2010 and approximately \$994,000 during the nine months ended September 30, 2009. Tax benefits associated with the exercise of non-qualified stock options during the nine months ended September 30, 2009 of approximately \$256,000 were credited to capital in excess of par value and are classified as financing cash flows.

Restricted Stock

The following is a summary of the changes in non-vested restricted shares for the nine months ended September 30, 2010:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at January 1, 2010	797,450	\$ 7.38
Granted	249,000	5.16
Vested		